

國微技術控股有限公司 SMIT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2239

GLOBAL OFFERING



Sole Sponsor



Sole Global Coordinator and Sole Bookrunner



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

SMIT HOLDINGS LIMITED

國微技術控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 75,000,000 Shares
Number of Hong Kong Offer Shares : 7,500,000 Shares (subject to adjustment)
Number of International Offer Shares : 67,500,000 Shares (subject to adjustment)
Maximum Offer Price : HK\$3.88 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value : US\$0.00002 per Share
Stock Code : 2239

Sole Sponsor



Sole Global Coordinator and Sole Bookrunner



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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or about Monday, 21 March 2016 and, in any event, unless otherwise announced, not later than Thursday, 24 March 2016. The Offer Price will be no more than HK\$3.88 and is currently expected to be no less than HK\$3.10 unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$3.88 for each Offer Share together with a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$3.88.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that which is stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.smit.com.cn not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on or before Thursday, 24 March 2016, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares will be offered and sold only outside the United States in reliance on Regulation S.

16 March 2016

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete **electronic application**

instructions under **White Form eIPO** service

through the designated website at

www.eipo.com.hk⁽²⁾ 11:30 a.m. on Monday, 21 March 2016

Application lists open⁽³⁾ 11:45 a.m. on Monday, 21 March 2016

Latest time to lodge **WHITE** and **YELLOW**

Application Forms⁽⁴⁾ and electronic application

instructions to HKSCC 12:00 noon on Monday, 21 March 2016

Latest time to complete payment of **White Form**

eIPO applications by effecting internet banking

transfer(s) or PPS payment transfer(s) 12:00 noon on Monday, 21 March 2016

Application lists close 12:00 noon on Monday, 21 March 2016

Expected Price Determination Date⁽⁵⁾ Monday, 21 March 2016

Announcement of

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares,

to be published on the websites of the Stock

Exchange at **www.hkexnews.hk** and our Company

at **www.smit.com.cn** on Tuesday, 29 March 2016

Results of allocations of the Hong Kong Public

Offering (including successful applicants’

identification document numbers, where

appropriate) to be available through a variety of

channels (see the section headed “How to Apply

for Hong Kong Offer Shares — Publication of

Results” in this prospectus) from Tuesday, 29 March 2016

Results of allocations in the Hong Kong Public

Offering will be available at

www.iporesults.com.hk, with a “search by ID”

function Tuesday, 29 March 2016

EXPECTED TIMETABLE⁽¹⁾

Dispatch of **White Form e-Refund** payment

instructions/refund cheque(s) on⁽⁶⁾ Tuesday, 29 March 2016

Dispatch of share certificates or deposited into

CCASS on⁽⁶⁾ Tuesday, 29 March 2016

Dealings in Shares on the Stock Exchange expected

to commence at 9:00 a.m. on Wednesday, 30 March 2016

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Monday, 21 March 2016, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) If you apply by giving electronic application instructions to HKSCC, you should refer to the section headed “How to Apply for Hong Kong Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 21 March 2016 and, in any event, not later than Thursday, 24 March 2016. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and us by Thursday, 24 March 2016, the Global Offering will not proceed.
- (6) We will issue refund cheque to you if your application is wholly or partially unsuccessful or if the Offer Price is less than the price per Offer Share payable on application. We will dispatch share certificates and refund cheque(s) by ordinary post to you at your own risk to the address you specified in your Application Form(s). If you have applied for 1,000,000 Hong Kong Offer Shares or more and have provided all information required in your Application Form, you may collect refund cheque(s) and/or share certificates from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 29 March 2016 or any other place and date we announce in the newspapers as the place and date of dispatch of share certificates/e-Refund payment instructions/refund cheque(s). If you are an individual applicant, you may not authorise any other person to collect on your behalf. If you are a corporate applicant, you must attend by your authorised representative with your letter of authorisation stamped with your corporate chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. If you fail to collect within the time specified for collection, we will dispatch uncollected share certificates and refund cheque(s) by ordinary post at your own risk to the address specified in the relevant Application Forms. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

EXPECTED TIMETABLE⁽¹⁾

Share certificates are expected to be issued on Tuesday, 29 March 2016 but will only become valid certificates of title if the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements is terminated in accordance with its terms before 8:00 a.m. on the Listing Date, which is expected to be Wednesday, 30 March 2016.

For details of the structure of the Global Offering, including its conditions, you should refer to the section headed “Structure of the Global Offering” in this prospectus.

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This prospectus is issued by our Company solely for the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction outside Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from the information contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Lead Manager, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading security devices provider for pay TV broadcasting access worldwide and for mobile point-of-sale, or mPOS, payment systems in China. Our conditional access module, or CAM, products are used to provide end users with access to pay TV content. According to Frost & Sullivan, we ranked first in the global CAM market in 2014 with 48.7% of market share by both sales volume and revenue; and for the first half of 2015, we ranked first in the global CAM market, with 48.9% and 49.6% of market share by sales volume and revenue, respectively. In July 2013, we entered the fast-growing hardware-based mobile payment market in the PRC with our mPOS devices. According to Frost & Sullivan, we were the second largest supplier of mPOS devices in China, with 6.6% and 6.8% of market share by sales volume in 2014 and for the first half of 2015, respectively. We are headquartered in Hong Kong, with offices in Shenzhen, China and Munich, Germany. Since our inception in 2002, we have grown quickly to serve more than 400 customers with sales in 46 countries worldwide.

Our Products

Our main product types are CAMs and mPOS devices. We entered the CAM market in western Europe in 2006 and have since then steadily expanded our sales network worldwide. CAMs are electronic devices approximately the size of a credit card, acting as a key for end users to unlock encrypted pay TV content. Sales of CAMs have accounted for the majority of our revenue during the Track Record Period.

In July 2013, we further diversified our product portfolio with the development and sales of mPOS devices to tap into the growing hardware-based mobile payment market in the PRC and to diversify and expand our business by leveraging on our expertise in design and development of security chipsets for the security devices industry. Our mPOS products are secured payment devices which enable users to easily make credit and debit card transactions using their smartphones or other smart devices. Sales of our mPOS products have grown considerably since its inception in 2013. For more information regarding our products, see the section headed “Business — Our Products” in this prospectus.

SUMMARY

The following table sets out the breakdown of our revenue by product type for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>US\$'000</i>	<i>% of total revenue</i>	<i>US\$'000</i>	<i>% of total revenue</i>	<i>US\$'000</i>	<i>% of total revenue</i>
Product type						
CAM	45,710	96.9	43,230	77.2	37,352	57.3
mPOS devices	1,471	3.1	12,777	22.8	27,789	42.7
Total	<u>47,181</u>	<u>100.0</u>	<u>56,007</u>	<u>100.0</u>	<u>65,141</u>	<u>100.0</u>

For more information regarding our revenue from sales of CAMs and mPOS devices, see the section headed “Financial Information — Description of Selected Income Statement Line Items — Revenue — By Product” in this prospectus.

Our five largest customers for the Track Record Period accounted for 44.1%, 59.9% and 73.1% of our total revenue for the year ended 31 December 2013, 2014 and 2015, respectively. Our largest customers for the Track Record Period accounted for 21.6%, 22.4% and 42.3% of our total revenue for the year ended 31 December 2013, 2014 and 2015, respectively.

CAMs

CAMs play a vital part in the pay TV content delivery value chain. Broadcasting operators utilise encryption technology from conditional access providers, or CA providers, to encrypt their pay TV content for secure transmission. TV manufacturers design and produce televisions which are compatible for CAMs to connect with and function. We work with all these types of industry participants in the pay TV content delivery value chain to design and develop CAM products that are interoperable across multiple systems and protocols.

The global CAM supplier market is largely concentrated on a few major participants due to high barriers to entry created by the technical ability and security level required to participate. According to Frost & Sullivan, we were the largest CAM provider globally in 2014 with a sales volume of 2.2 million units out of a total of 4.6 million units sold worldwide, representing a 48.7% market share by sales volume for 2014; and we generated the most CAM product sales in the world for the first half of 2015, with a sales volume of 1.2 million units out of a total of 2.5 million units sold worldwide, representing a 48.9% market share for the first half of 2015. Our two major competitors accounted for 29.3% and 20.0%, respectively, of global CAM product sales by sales volume for both 2014 and the first half of 2015.

SUMMARY

Our CAM customers primarily consist of CA providers, broadcasting operators, TV manufacturers and distributors. Our distributors purchase CAMs from us on a regular basis and we maintain ongoing relationships or arrangements with these distributors to sell our CAMs in designated regions. We also derive some revenue from various one-off customers. For our major customers, we generally enter into framework agreements which set out major terms such as pre-determined price lists, credit terms and after-sales services.

The following table sets out the breakdown of CAM revenue by customer type for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	US\$'000	%	US\$'000	%	US\$'000	%
Customer Type						
CA Providers	6,679	14.6	12,385	28.7	14,375	38.5
Broadcasting Operators	7,300	16.0	4,732	10.9	3,621	9.7
TV Manufacturers	3,901	8.5	1,718	4.0	894	2.4
Distributors	22,452	49.1	19,601	45.3	14,057	37.6
Others ¹	5,378	11.8	4,794	11.1	4,405	11.8
CAM Total	45,710	100.0	43,230	100.0	37,352	100.0

Note:

1. “Others” primarily consists of one-off customers.

For more information regarding our CAM customers, see the section headed “Business — Customers, Sales and Marketing — CAM Customers”.

mPOS

Our mPOS products are designed to be used primarily by business enterprises for secure and convenient payment transactions. We sell our mPOS devices in the PRC to hardware-based mobile payment service providers, which utilise our mPOS devices in conjunction with their own mobile applications to enable end users to make mobile payment transactions.

The mPOS terminal market in China is fragmented and decentralised. According to Frost & Sullivan, we were the second largest mPOS supplier in China, with a market share of 6.6% and 6.8% by sales volume in 2014 and for the first half of 2015, respectively, while Fujian Newland Payment Technology Co., Ltd, a POS terminal supplier mostly focusing on traditional POS terminals, ranked first with a market share of 9.8% and 9.9% by sales volume for the respective periods. Apart from the three to four top players, there are quite a number of companies offering mPOS products in China, who generally focus on traditional POS terminals and their percentage share of the mPOS terminal market is fairly small mostly ranging from 0.1% to 1.0% in terms of sales volume, according to Frost & Sullivan. Less competitive mPOS devices providers are likely to be gradually eliminated as the PRC mPOS terminal market is facing an industry consolidation.

SUMMARY

During the Track Record Period, our largest mPOS customer was iBoxpay, which accounted for almost all of our mPOS revenue. We do not hold any ownership interest in iBoxpay and iBoxpay is not a connected person of our Company under the Listing Rules. However, we and iBoxpay have an overlapping director and some overlapping shareholders to a limited extent. We signed a three-year strategic cooperation agreement with iBoxpay on 1 June 2015 stating the general terms of our relationship with them. This agreement does not stipulate a minimum purchase amount and specific terms regarding pricing, delivery and other requirements which are determined by individual purchase orders. For more information, see the section headed “Business — Customers, Sales and Marketing — mPOS Customers”.

Production

We design and develop our products in-house while we subcontract the majority of the production processes to subcontractors. Our largest expense in cost of sales is the cost of components, such as chipsets, PCBs, flash memory and casings. We source components from our preferred vendors. The production processes for our CAMs and mPOS devices are generally the same. One difference is that, for CAMs, we conduct the process from software burning to final product packing at our own facilities, whereas for mPOS, such processes are outsourced to subcontractors. For details regarding our production process, suppliers and subcontractors, please refer to the section headed “Business — Production” in this prospectus.

COMPETITIVE STRENGTHS AND BUSINESS STRATEGIES

Please see sections headed “Business — Competitive Strengths” and “Business — Business Strategies” in this prospectus.

INDUSTRY GROWTH

According to Frost & Sullivan, the market size for CAMs globally is expected to continue to grow steadily between 2015 and 2019 with a CAGR of 17.9% in terms of sales volume. The key growth drivers and market trends include the transition to digital television, the development of the pay TV industry, support from TV manufacturers and accelerating CI standards. Growth of the CAM market depends on the continuation and pace of development of these trends. As certain countries in the European Market have completed or are near completing the digitisation process, growth of the local CAM market for those countries is expected to slow. However, other countries still in the early or intermediary stages of the digitisation process, such as Russia, China, India and Kazakhstan, are expected to experience a higher rate of growth than the European Market, according to Frost & Sullivan. As such, while we may experience a slowdown of sales from the European Market, which has historically been our primary market, we expect to slightly increase our overall sales volume over the next several years as we expand further into developing CAM markets.

The mPOS market in China, in terms of sales volume, is expected to grow at a CAGR of 39.7% between 2015 and 2019, according to Frost & Sullivan. The key drivers and market trends include increasing demand for mobile payments and secured payments, the need for operational and cost efficiency and increasing availability of value-added services.

SUMMARY

For further information on industry market trends, please see the sections headed “Industry Overview — The Global CAM Market Overview” and “Industry Overview — The China mPOS Market Overview” in this prospectus.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The tables below present select financial information derived from our consolidated financial statements set out in the Accountant’s Report included in Appendix I to this prospectus. The following information should be read in conjunction with our consolidated financial statements and related notes in the Accountant’s Report and the section headed “Financial Information”.

Summary Consolidated Statement of Comprehensive Income Information and Adjusted Net Profit

	Year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Revenue	47,181	56,007	65,141
Cost of sales	(23,733)	(33,250)	(41,017)
Gross profit	23,448	22,756	24,124
Other income	2,404	1,760	1,374
Operating profit	3,033	5,542	3,934
Adjusted net profit (unaudited) ¹	4,921	5,012	7,415

	Year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Profit for the period	2,675	5,460	3,323
Add:			
Share-based compensation expenses	4,410	971	1,902
Listing expenses	—	165	3,358
Subtract:			
Other income (net of tax)	(2,164)	(1,584)	(1,168)
Adjusted net profit (unaudited)¹	<u>4,921</u>	<u>5,012</u>	<u>7,415</u>

Note:

- Adjusted net profit is not a financial measure under the HKFRS and is presented to provide useful information to evaluate and compare our financial results during the Track Record Period.

SUMMARY

Summary Consolidated Statement of Financial Position Information

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Current assets	99,407	109,617	67,169
Current liabilities	52,708	56,893	16,761
Net current assets	46,699	52,724	50,408
Total assets	111,714	121,779	78,937
Total liabilities	52,708	56,893	16,761
Total equity	59,006	64,886	62,177

SELECTED OPERATING DATA

Our selling prices and profit margins are affected by a number of factors, including product mix and regional market differences in currency, economic development, consumer habits, technological advancement and competition. Changes in our selling prices and profit margins impact our results of operations. Our average selling price is calculated by dividing revenue by sales volume and our average unit cost is calculated by dividing cost of sales by sales volume. Our average unit production cost is calculated by dividing cost of sales minus royalties/licensing fees and inventory impairment by sales volume. The table below shows our average selling price, average unit cost, average unit production cost and gross profit margins by product type for the periods indicated.

	Year ended 31 December											
	2013				2014				2015			
	Average				Average				Average			
	Average Selling Price	Average Unit Cost	Unit Production Cost	Gross Profit Margin	Average Selling Price	Average Unit Cost	Unit Production Cost	Gross Profit Margin	Average Selling Price	Average Unit Cost	Unit Production Cost	Gross Profit Margin
	US\$	US\$	US\$	%	US\$	US\$	US\$	%	US\$	US\$	US\$	%
Product type												
CAM	21.13	10.46	7.95	50.5	19.38	10.30	7.60	46.9	17.07	9.20	7.48	46.1
mPOS devices	8.65	6.44	6.44	25.6	13.06	10.51	10.47	19.6	19.56	14.70	14.70	24.8

SUMMARY

The table below shows our average selling price and gross profit margins by geographic market based on final location of delivery for our CAMs during the periods indicated.

	Year ended 31 December					
	2013		2014		2015	
	<i>Average</i>	<i>Gross</i>	<i>Average</i>	<i>Gross</i>	<i>Average</i>	<i>Gross</i>
	<i>Selling</i>	<i>Profit</i>	<i>Selling</i>	<i>Profit</i>	<i>Selling</i>	<i>Profit</i>
	<i>Price US\$</i>	<i>Margin %¹</i>	<i>Price US\$</i>	<i>Margin %¹</i>	<i>Price US\$</i>	<i>Margin %¹</i>
Geographic Market						
European Market	21.43	49.7	20.04	49.7	17.54	48.3
Russia	18.53	45.3	15.78	43.0	13.74	36.0
China	24.67	61.8	25.70	65.4	25.83	63.7
Others	27.16	63.4	19.74	52.6	19.19	53.7

Note:

1. Our cost of sales for CAMs amounted to US\$22.6 million, US\$23.0 million and US\$20.1 million in 2013, 2014 and 2015, which included inventory impairment amounting to US\$0.4 million, US\$1.5 million and US\$0.6 million, respectively. Because inventory impairment cannot be reasonably allocated to a specific geographic market, these amounts are excluded in calculating gross profit margins by geographic market.

For a discussion on our average selling prices and gross profit margins, please see the section headed “Financial Information” in this prospectus.

DIVIDEND POLICY

Please see section headed “Financial Information — Dividends and Dividend Policy” in this prospectus.

USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, are estimated to be approximately HK\$230.8 million, assuming an Offer Price of HK\$3.49 per Share, being the mid-point of the indicative Offer Price range of HK\$3.10 to HK\$3.88 per Share. We intend to use such net proceeds for the following purposes:

- Approximately HK\$92.3 million (approximately 40% of our total estimated net proceeds) for product planning and research and development including product planning and development activities and strengthening our research and development team.
- Approximately HK\$69.2 million (approximately 30% of our total estimated net proceeds) for sales and marketing expenditures including developing our sales network both domestically and overseas and deepening our relationships with key industry participants.

SUMMARY

- Approximately HK\$46.2 million (approximately 20% of our total estimated net proceeds) for possible mergers and acquisitions. As at the Latest Practicable Date, we were not in negotiation with any specific acquisition targets and had not identified any targets.
- Approximately HK\$23.1 million (approximately 10% of our total estimated net proceeds) for working capital and general corporate purposes.

SHAREHOLDER INFORMATION

The Founders and the Founders Companies

Our Founders, Mr. Huang Xueliang (through Infortune International and Statemicroelectronics), Mr. Zhu Changhua (through Statemicroelectronics and Capital Tower) and Mr. Gong Jun (through Junjie International) in aggregate own approximately 24.46% of the issued share capital of our Company after the Reorganisation and immediately prior to the Global Offering. Following the completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the outstanding share options under the Pre-IPO Share Option Scheme), the percentage of issued share capital owned by the Founders in aggregate will be diluted to approximately 18.35%. Apart from the transactions set out in the section headed “Continuing Connected Transaction” in this prospectus, our Directors do not expect that there will be any other significant transactions between our Group and our Founders upon Listing. See the sections headed “History, Reorganisation and Corporate Structure” and “Continuing Connected Transaction” in this prospectus for more information.

The Fund Investors

The remaining 75.54% of the issue share capital of our Company after the Reorganisation immediately prior to the Global Offering is owned by Fund Investors. Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the outstanding share options under the Pre-IPO Share Option Scheme), the percentage of issued share capital owned by the Fund Investors in aggregate will be diluted to approximately 56.65%. The Fund Investors’ interests in our Company are held in the form of ordinary shares and the Fund Investors do not hold any other interests or special rights in our Company. See the section headed “History, Reorganisation and Corporate Structure” in this prospectus for more information.

SUMMARY

GLOBAL OFFERING STATISTICS

The statistics below are based on the assumption that 75,000,000 Offer Shares are issued under the Global Offering:

	Based on the low end of the indicative Offer Price range of HK\$3.10 per Share	Based on the high end of the indicative Offer Price range of HK\$3.88 per Share
Market capitalisation of our Shares ⁽¹⁾	HK\$930,000,000	HK\$1,164,000,000
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$2.10	HK\$2.29

Notes:

- (1) The calculation of market capitalisation is based on 300,000,000 Shares expected to be in issue following the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 300,000,000 Shares expected to be in issue immediately after completion of the Global Offering.

LISTING EXPENSES

Please see section headed “Financial Information — Listing Expenses”.

RISK FACTORS

Our business is subject to a number of risks, including but not limited to risks relating to our business and industry, risks relating to conducting business in the PRC and risks relating to the Global Offering. Some of the major risks we face include risks:

- Growth of the CAM markets depends on the continuation of certain industry trends that are beyond our control. If such trends do not continue at the pace we expect or become otherwise unfavourable to us, our business and growth prospects would be materially and adversely affected.
- We sell our mPOS products to hardware-based mobile payment service providers. If they fail to develop their mobile payment business in the face of the current industry and market trends, our mPOS business and financial condition would, in turn, be materially and adversely affected.
- We sell substantially all of our mPOS products to iBoxpay. Any adverse changes in iBoxpay’s business or financial condition could adversely affect our revenue from iBoxpay, which in turn would materially and adversely affect our business, financial condition and results of operation.

SUMMARY

- Depreciation in local currencies of our overseas CAM customers against the U.S. dollar have in the past and may in the future adversely impact our selling prices and competitiveness in a given market, which would in turn, adversely affect our CAM business in overseas markets.

As different investors may have different interpretations and standards for determining the materiality of a risk, you should read the entire section headed “Risk Factors” carefully before you decide to invest in the Offer Shares. You should not place any reliance on any information contained in press articles, research analysts’ reports or other media regarding us and the Global Offering, certain of which may not be consistent with the information contained in this prospectus.

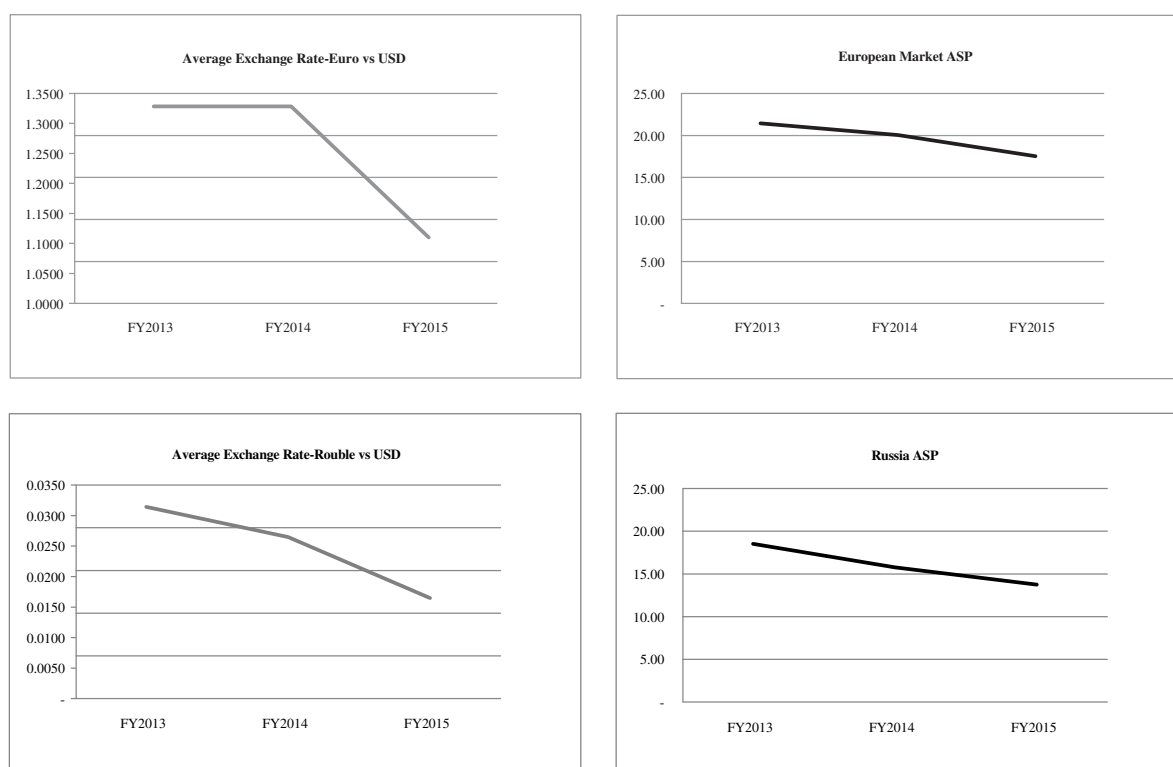
SIGNIFICANT BUSINESS DEVELOPMENTS AND CHANGES IN INDUSTRY LANDSCAPE

- Revenue contribution from sales of mPOS devices increased significantly from 3.1% for the year ended 31 December 2013 to 42.7% for the year ended 31 December 2015. The increased revenue contribution from sales of mPOS devices has led to a decrease in overall gross profit margin from 49.7% in 2013 to 37.0% due to the lower gross profit margin of mPOS devices compared to that of CAMs. However, overall gross profit has increased from US\$23.4 million 2013 to US\$24.1 million in 2015 primarily as a result of the increased sales volume from sales of mPOS devices;
- Sales to the European Market decreased during the Track Record Period as many countries in Europe have substantially completed the digitisation process, reducing the market demand for CAMs. According to Frost & Sullivan, certain European countries such as Germany, Switzerland, Croatia, Spain, Denmark, Norway, Iceland, Czech and the Netherlands have either substantially completed or are near completing the digitisation while several other countries, such as Slovenia, Romania, Bulgaria, the United Kingdom, France and Belgium are still undergoing the digitisation process. We anticipate that our revenue from the European Market will slightly decrease as more countries complete the digitisation process and then stabilise as future sales of CAMs in the European Market will be mainly driven by product upgrades and changes in CI standards;
- The digitisation process in Russia is expected to be substantially completed by 2019, and the Group’s sales to Russia have been impacted by its economic slowdown and the depreciating Rouble relative to the USD starting in 2014; and
- Our Group’s presentation currency is denominated in USD. Our CAM sales are predominantly denominated in USD while our costs are denominated in RMB. The overall average selling prices and gross profit margins of CAMs decreased during the Track Record Period mainly due to the weakening of the Euro and the Rouble against the USD leading us to lower our selling prices to maintain the competitiveness of our CAM products. The US Federal Reserve’s increase of benchmark interest rates in December 2015 and potential increases in 2016 may further strengthen the USD against the Euro and the Rouble, putting downward pressure on the Company’s CAM selling prices in the European Market and Russia. However, the strengthening of the USD against the RMB will likely lead to decreased cost of sales in our consolidated financial statements which is presented in USD

SUMMARY

terms. If the USD strengthened against the Euro, Rouble and RMB at approximately the same rate, and assuming this would have a similar degree of impact in decreasing our revenue and our cost of sales, we would expect our overall profitability to be negatively impacted. The decrease in cost of sales presented in USD terms resulting from the depreciation of the RMB would likely be offset by a greater decrease in revenue due to (i) a decrease in our RMB denominated sales presented in USD terms and (ii) a decrease in our selling prices in Europe and Russia resulting from pricing pressures. Accordingly, we would anticipate that any material strengthening of the USD against the Euro, Rouble and RMB collectively may have a material adverse impact on our business, results of operations and financial position. Please also see the section headed “Risk Factors — Risks Relating to Our Business and Industry — Depreciation in local currencies of our overseas CAM customers against the U.S. dollar have in the past and may in the future adversely impact our selling prices and competitiveness in a given market, which would in turn, adversely affect our CAM business in overseas markets” in this prospectus.

The following charts show our average selling prices of CAMs in the European Market compared to the Euro/USD exchange rate and our average selling prices of CAMs in Russia as compared to the Rouble/USD exchange rate over the Track Record Period.



For further information, please see the “Financial Information — Significant Factors Affecting Our Results of Operations”, “Financial Information — Description of Selected Income Statement Line Items — Revenue — Currency Exchange Rates and Average Selling Prices of CAMs”, and the “Industry Overview” sections of this prospectus.

SUMMARY

Sales to Customers located in Jurisdictions Subject to International Sanctions

We have had product sales in connection with customers located in certain of the Sanctioned Countries, namely, Russia, Ukraine, The Balkans, Egypt, Lebanon and Belarus. Please see the section headed “Business — Customers, Sales and Marketing — Sales to Customers located in Jurisdictions Subject to International Sanctions” in this prospectus for details of our business activities in connection with those countries.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Set forth below are certain developments or expected developments after 31 December 2015 regarding our business:

Post-Track Record Period Operational and Financial Events

- Total revenue for the one month ended 31 January 2016 decreased by around 16% as compared to the same period in 2015.
- Revenue from sales of CAMs decreased approximately 11% for the one month ended 31 January 2016 compared to the same period in 2015, primarily due to a decrease in sales volumes of around 19% resulting primarily from a decrease of sales in Russia combined with a few days of work stoppage in preparation of the Chinese New Year holidays, which occurred earlier in 2016 than in 2015. This was partly offset by an increase in average selling price of around 9% as a greater proportion of our sales came from other geographic markets which have higher average selling prices than Russia. The average selling price of CAMs for the one month ended 31 January 2016 was slightly higher than the average selling price for the year ended 31 December 2015.
- Revenue from sales of mPOS devices decreased by around 22% for the one month ended 31 January 2016 compared to the same period in 2015, mainly driven by a significant decrease in average selling prices of approximately 35% partly offset by an increase in sales volume of approximately 20% despite the work stoppage for Chinese New Year as noted above. The decrease in average selling prices was mainly because in the one month ended 31 January 2015, a higher proportion of our mPOS sales was for a new model released in September 2014 which had a higher selling price, whereas our sales in the one month ended 31 January 2016 included a greater proportion of sales of a different model with a lower selling price. However, average selling prices of mPOS devices for the one month ended 31 January 2016 remained relatively stable when compared to the average selling price for the year ended 31 December 2015.
- Gross profit and gross profit margin increased for the one month ended 31 January 2016 as compared to the same period in 2015. Gross profit for the one month ended 31 January 2016 increased by about 20% as compared to the same period in 2015 primarily due to lower

SUMMARY

average unit costs because a higher proportion of mPOS devices sold in the one month ended 31 January 2015 were for a newly released model as discussed above, which had more expensive components. Gross profit margin also increased, similarly reflecting the lower average unit costs for the one month ended 31 January 2016.

- Our trade receivables as at 31 December 2015 amounted to US\$24.8 million, of which US\$9.1 million, or 36.8%, had been settled as at 31 January 2016. Our trade payables as at 31 December 2015 amounted to US\$7.9 million, of which US\$3.3 million, or 42.4%, had been settled as at 31 January 2016.
- We expect further listing expenses of US\$1.5 million to be charged to our consolidated statement of comprehensive income in 2016.

Our Directors have confirmed that, since 31 December 2015 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements set out in the Accountant's Report included in Appendix I to this prospectus.

Pre-IPO Share Option Scheme

As recognition to the contributions made by certain of its employees, directors and consultants to the growth of SMIT Corporation, SMIT Corporation adopted a share incentive plan on 21 February 2008 (the “**2008 Share Plan**”). As part of the Reorganisation, our Company assumed the 2008 Share Plan as the Pre-IPO Share Option Scheme, and assumed all options granted by SMIT Corporation under the 2008 Share Plan and all share option agreements entered into between SMIT Corporation and the holders of such options. The number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme as at the Latest Practicable Date was 39,610,510 Shares. Immediately following completion of the Capitalisation Issue and the Global Offering, the number of issued Shares will be 300,000,000. Upon completion of the Capitalisation Issue and the Global Offering, the maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme will be 58,470,406 Shares. Accordingly, assuming full exercise of the outstanding options granted under the Pre-IPO Share Option Scheme upon completion of the Capitalisation Issue and Global Offering, the number of issued Shares will be 358,470,406, thus diluting the shareholding of the Shareholders by approximately 16.31%. Assuming that the Company had been listed on the Stock Exchange since 1 January 2015 with 300,000,000 Shares in issue, the earnings per Share for the year ended 31 December 2015 on a pro forma basis would be approximately US\$0.011. Further assuming full exercise of options granted under the Pre-IPO Share Option Scheme with respect to 58,470,406 Shares on 1 January 2015, the earnings per Share for the year ended 31 December 2015 on a pro forma basis would be diluted to approximately US\$0.009.

For more details, please refer to the Note 28 of the Accountant's Report as set out in Appendix I and the section headed “Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme” in Appendix IV of this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

“2008 Share Plan”	the share incentive plan adopted by SMIT Corporation on 21 February 2008. The 2008 Share Plan was assumed by the Company as the Pre-IPO Share Option Scheme on 15 September 2015
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 6 March 2016 with effect from the Listing, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III of this prospectus
“Balkans”	the Balkan Peninsula, a geographical region of Southeast Europe. During the Track Record Period, the Group had conducted an insignificant amount of CAM sales in the Balkans, including Bosnia, Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Slovenia
“Board” or “Board of Directors”	the board of Directors of our Company
“business day(s)”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate, a measurement to assess the growth rate of value over time
“Capital Tower”	Capital Tower Profits Limited, a company incorporated in the British Virgin Islands with limited liabilities on 6 January 2005. Capital Tower is a wholly-owned company of Mr. Zhu Changhai
“Capitalisation Issue”	the issue of new Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information — Information about our Company — 3. Resolutions in writing of the Shareholders passed on 6 March 2016” in Appendix IV to this prospectus

DEFINITIONS

“Cayman Islands Company Law” or “Companies Law”	Companies Law (2013 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Cayman Share Registrar”	Maples Fund Services (Cayman) Limited
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or the “PRC”	the People’s Republic of China, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company” or “the Company”	SMIT Holdings Limited (國微技術控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 29 June 2015
“Director(s)”	the director(s) of our Company
“distributor(s)”	customer(s) that regularly purchase from us and with whom we have an on-going relationship or arrangement to sell our CAMs in designated regions
“EIT” or “Enterprise Income Tax”	the PRC enterprise income tax

DEFINITIONS

“EIT Law”	the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)
“Euro(s)” or “EUR” or “€”	the official currency of the Eurozone, which consists of 19 of the 28 member states of the European Union
“European Market”	CAM market in Europe (excluding Russia)
“Founders”	Mr. Huang Xueliang, Mr. Zhu Changhua and Mr. Gong Jun
“Founders Companies”	Infortune International, Statemicroelectronics, Capital Tower and Junjie International
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company which prepared the Frost & Sullivan Report
“Frost & Sullivan Report”	an independent market research report commissioned by us and prepared by Frost & Sullivan on global CAM market and China mPOS terminal market dated 8 March 2016
“Fund Investors”	Shareholders of our Company, consisting of Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V., Pacven Walden Ventures Parallel V-B C.V., Mayfield XI, a Delaware Limited Partnership, Mayfield XI Qualified, a Delaware Limited Partnership, Mayfield Associates Fund VI, a Delaware Limited Partnership, Mayfield Principals Fund II, a Delaware LLC Including Multiple Series, David Mixer, GSR Ventures I, L.P., GSR Principals Fund I, L.P., Castlewilder, Silverose Enterprises Limited, Oak Investment Partners X, L.P. and Oak Affiliates Fund, L.P.
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group,” “our Group,” or “the Group”	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require) or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

DEFINITIONS

“HKFRS”	Hong Kong Financial Reporting Standards, which includes all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards, Interpretations, and Accounting Guidelines, issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollar(s)” or “HK dollar(s)” or “HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 7,500,000 Shares initially being offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment and reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment and reallocation as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies and Stock Exchange trading fees) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Takeovers Code” or “Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering as listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement, dated 15 March 2016, relating to the Hong Kong Public Offering, entered into among, inter alia, the Sole Global Coordinator, the Hong Kong Underwriters and our Company, as further described in the section headed “Underwriting” in this prospectus
“iBoxpay”	iBoxpay International Inc. and its subsidiaries. iBoxpay International Inc. is a company established in the Cayman Islands on 3 August 2011 and is owned as to 24.85% by the affiliated funds of GSR Ventures I, L.P and GSR Principals Fund I, L.P. and 1.32% by Mr. Huang Xueliang, our Executive Director, and is an Independent Third Party
“iCast”	iCast Corporation and its subsidiaries. iCast Corporation is a company established in the Cayman Islands on 9 July 2014 and is owned as to 18.75% by Better Balance Limited, which in turn is wholly-owned by SMIT Investment, an Independent Third Party separate from the Group
“Independent Third Party(ies)”	any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules
“Infortune International”	Infortune International Limited, a company incorporated in the British Virgin Islands with limited liabilities on 7 January 2005. Infortune International is a wholly-owned company of Mr. Huang Xueliang, our executive Director
“International Offer Shares”	the 67,500,000 Shares being initially offered for subscription and purchased at the Offer Price under the International Offering, subject to adjustment and reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional offering of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S or any other available exemption from the registration requirement under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Sanctions”	sanction-related laws and regulations in the United States, the European Union, the United Nations and Australia
“International Underwriters”	the underwriters of the International Offering

DEFINITIONS

“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering expected to be entered into by, among others, our Company, the Sole Global Coordinator and the International Underwriters on or about 21 March 2016, as described in the section headed “Underwriting — The International Offering” in this prospectus
“Junjie International”	Junjie International Co., Ltd., a company incorporated in the British Virgin Islands with limited liabilities on 18 February 2005. Junjie International is a wholly-owned company of Mr. Gong Jun
“Latest Practicable Date”	8 March 2016, being the latest practicable date for ascertaining certain information in this prospectus before its publication
“Listing”	the listing of the Shares on the main board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on 30 March 2016, on which the Shares are to be listed on the Stock Exchange and on which dealings in the Shares are to be first permitted to take place on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Lock-up Parties”, each a “Lock-up Party”	Each of (i) GSR Ventures I, L.P.; (ii) GSR Principals Fund I, L.P.; (iii) Oak Investment Partners X, L.P.; (iv) Oak Affiliates Fund, L.P.; (v) Pacven Walden Ventures V, L.P.; (vi) Pacven Walden Ventures V Associates Fund, L.P.; (vii) Pacven Walden Ventures V-QP Associates Fund, L.P.; (viii) Pacven Walden Ventures Parallel V-A C.V.; (ix) Pacven Walden Ventures Parallel V-B C.V.; (x) Mayfield XI; (xi) Mayfield XI Qualified; (xii) Mayfield Associates Fund VI; (xiii) Mayfield Principals Fund II.
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on 6 March 2016 with effect from the Listing, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III of this prospectus

DEFINITIONS

“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“OFAC”	the Office of Foreign Assets Control of the United States Department of the Treasury
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage, SFC transaction levies and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and International Offer Shares are to be offered pursuant to the International Offering, to be determined as described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC government”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“PRC Legal Adviser”	Zhonglun Law Firm, the legal adviser to our Company as to the laws of the PRC
“Pre-IPO Share Option(s)”	option(s) granted under the Pre-IPO Share Option Scheme
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme of the Company as assumed from the 2008 Share Plan on 15 September 2015 as referred to in the section headed “Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme”
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator, acting on behalf of the Underwriters, on the Price Determination Date to record and determine the Offer Price

DEFINITIONS

“Price Determination Date”	the date, expected to be on or about 21 March 2016, on which the Offer Price is determined for the purposes of the Global Offering, and in any event no later than 24 March 2016, or such other date as agreed between the parties to the Price Determination Agreement
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of entities comprising our Group for the purposes of the Listing, details of which are set out in the section headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of China
“Rouble”	the official currency of Russia
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Sanctioned Countries”	countries or territories which are targeted with certain economic sanctions under the laws of the United States, the European Union, the United Nations and Australia
“Sanctioned Person(s)”	certain person(s) and entity(ies) listed on OFAC’s sanctions lists including the Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, the European Union, the United Nations or Australia
“SAT”	the State Administration of Taxation (中華人民共和國國家稅務總局)
“Series A Investment”	The subscription of Series A Preference Shares by the Series A Investors

DEFINITIONS

“Series A Investors”	holders of Series A Preference Shares from time to time, consists of Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V., Pacven Walden Ventures Parallel V-B C.V., Mayfield XI, a Delaware Limited Partnership, Mayfield XI Qualified, a Delaware Limited Partnership, Mayfield Associates Fund VI, a Delaware Limited Partnership, Mayfield Principals Fund II, a Delaware LLC Including Multiple Series, David Mixer, GSR Ventures I, L.P., GSR Principals Fund I, L.P., Castlewilder and Silverose Enterprises Limited immediately prior to the Reorganisation
“Series A Preference Shares”	a total of 9,000,000 preference shares issued by SMIT Corporation to the Series A Investors between July 2005 and February 2008
“Series B Investment”	The subscription of Series B Preference Shares by the Series B Investors
“Series B Investors”	holders of Series B Preference Shares from time to time, consists of Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V., Pacven Walden Ventures Parallel V-B C.V., Mayfield XI, a Delaware Limited Partnership, Mayfield XI Qualified, a Delaware Limited Partnership, Mayfield Associates Fund VI, a Delaware Limited Partnership, Mayfield Principals Fund II, a Delaware LLC Including Multiple Series, GSR Ventures I, L.P., GSR Principals Fund I, L.P., Oak Investment Partners X, L.P. and Oak X Affiliates Fund, L.P. immediately prior to the Reorganisation
“Series B Preference Shares”	a total of 12,332,045 preference shares issued by SMIT Corporation to the Series B Investors in February 2008
“Series C Investment”	The subscription of Series C Preference Shares by the Series C Investors

DEFINITIONS

“Series C Investors”	holders of Series C Preference Shares from time to time, consists of Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V., Pacven Walden Ventures Parallel V-B C.V., GSR Ventures I, L.P., GSR Principals Fund I, L.P., Oak Investment Partners X, L.P., Oak X Affiliates Fund, L.P., Master Noble Investments Limited, Banean Holdings Ltd. and The Richard C Barker Revocable Trust 3/16/04 immediately prior to the repurchase of Series C Preference Shares on 21 September 2015
“Series C Preference Shares”	a total of 13,200,528 preference shares issued by SMIT Corporation to the Series C Investors in February 2011 which were entirely repurchased by SMIT Corporation at the original issue price on 21 September 2015
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) in the share capital of our Company with a par value of US\$0.00002 each
“SMIT Beijing”	Beijing State Micro Integration Technology Co. Ltd* (北京國微集成技術有限公司), a company established under the laws of the PRC with limited liability on 10 August 2006 and a wholly-owned subsidiary of SMIT Corporation which was subsequently deregistered on 23 July 2015 prior to completion of the Reorganisation
“SMIT Germany”	SMIT Digital GmbH, a company incorporated under the laws of Germany with limited liability on 11 August 2009 and a wholly-owned subsidiary of our Company
“SMIT Hong Kong”	SMIT (HK) Limited, a company incorporated under the laws of Hong Kong with limited liability on 25 April 2006 and a wholly-owned subsidiary of our Company

DEFINITIONS

“SMIT Investment”	SMIT Investment Limited, a company incorporated in the Cayman Islands on 29 June 2015, which is an entity separate from the Group and is owned by the Founders and the Fund Investors. SMIT Investment Limited holds some investment interests that were previously held by SMIT Corporation prior to the Reorganisation
“SMIT Shenzhen”	Shenzhen State Micro Technology Co., Ltd (深圳國微技術有限公司), a company incorporated under the laws of the PRC with limited liability on 4 January 2002 and a wholly-owned subsidiary of our Company
“SMIT Shenzhen (Beijing Branch)”	Shenzhen State Micro Technology Co., Ltd, Beijing Branch Company* (深圳國微技術有限公司北京分公司), a branch company established by SMIT Shenzhen on 22 August 2012 and which was subsequently deregistered on 27 July 2015 prior to the completion of the Reorganisation
“Sole Bookrunner”, “Sole Global Coordinator” and “Lead Manager”	Haitong International Securities Company Limited
“Sole Sponsor”	Haitong International Capital Limited
“sq. m.”	square metre(s)
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Statemicroelectronics”	Statemicroelectronics International Co., Ltd., a company incorporated in the British Virgin Islands with limited liabilities on 18 February 2005. Statemicroelectronics is owned as to 50% and 50% by Mr. Zhu Changhua and Mr. Huang Xueliang, our executive Director respectively
“Track Record Period”	the years ended 31 December 2013, 2014 and 2015
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.” or “USA”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollar(s)” or “US\$” or “USD”	United States dollars, the lawful currency of the United States

DEFINITIONS

“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“we”, “us” or “our”	our Company and, except where the context otherwise requires, all of its subsidiaries or where the context refers to any time prior to its incorporation, the businesses which its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it pursuant to the Reorganisation
“White Form eIPO”	the application for Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the White Form eIPO Service Provider, www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“%”	per cent

In this prospectus, the terms “associate”, “close associate”, “connected person”, “core connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms under the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to industry standard definitions or usage of these terms.

“Bluetooth”	a wireless technology standard for exchanging data over short distance from fixed and mobile devices and building personal area networks
“CA”	conditional access, a system for protecting access to content in digital televisions, using signal-scrambling, the user electronic key-scrambling to ensure broadcasting services only to be received by authorised users
“CA license(s)”	authorised rights granted by CA providers to CAM suppliers for adopting the CA technologies in CAM products pursuant to CA licensing agreements as a commercial arrangement typical for the CAM industry
“CA provider(s)”	conditional access provider(s) for pay TV operators to provide content security solutions, including a variety of content delivery platforms, such as satellite, cable, terrestrial and internet televisions
“CAM”	conditional access module, an electronic device which equips a digital television with the appropriate hardware facility to view digital pay TV content that has been encrypted using a conditional access system
“CI standards”	standards relating to the common interface technology for digital TV broadcasting which allows a CAM to serve the conditional access functionality for a digital TV. CI standards include DVB-CI standards, DTV-CI standards, CI+ standards and DVB-CI+ standards
“CI+” or “CI+ standards”	common interface plus standards, an updated version of CI standards from the DVB-CI standards
“CI slot(s)”	common interface slot(s), an interface available on DVB-CI compliant digital televisions used to connect with CAMs
“digitisation”	the process of transitioning from an analog broadcasting system to a digital broadcasting system
“DTV-CI” or “DTV-CI standard”	digital TV common interface standard, a common interface standard similar to the DVB-CI standards but only adopted in China

GLOSSARY OF TECHNICAL TERMS

“DVB standards”	Digital Video Broadcasting standards, a suite of internationally accepted open standards for digital television. DVB standards are maintained by the DVB Project, an international industry consortium with more than 270 members, and are published by a Joint Technical Committee (JTC) of the European Telecommunications Standards Institute (ETSI), European Committee for Electrotechnical Standardisation (CENELEC) and European Broadcasting Union (EBU)
“DVB-CI” or “DVB-CI standards”	a set of CI standards defined by the DVB Project establishing the requirements for DVB-CI equipments
“DVB-CI+ standards”	an updated version of the DVB-CI standards released after the CI+ standards
“IC”	integrated circuit, an electronic circuit formed on a small piece of semiconducting material, which performs the same function as a larger circuit made from discrete components
“IPTV”	Internet Protocol television, a system through which television services are delivered using the Internet protocol suite over a packet-switched network such as a local area network or the Internet, instead of being delivered through traditional terrestrial, satellite signal and cable television formats
“mPOS” or “mPOS device”	a dedicated and wireless mobile point-of-sale device which performs similar functions as a cash register, allowing users to conduct financial transactions with mobility
“PCAM”	PCMCIA CAM, an electronic device, usually incorporating a slot for a smart card, which equips a digital television with a CI slot to view conditional access content that has been encrypted using a conditional access system
“PCB”	printed circuit board, a board which mechanically supports and electrically connects electronic components using conductive tracks, pads and other features etched from copper sheets laminated onto a non-conductive substrate
“PCBA”	printed circuit board assembly, a printed circuit board populated with electronic components
“PCMCIA”	Personal Computer Memory Card International Association, a standard used for PC cards, an interface device initially designed as a peripheral for laptops, as well as for PCAMs

GLOSSARY OF TECHNICAL TERMS

“POS”	point-of-sale, the point at which a customer makes a payment to the merchant in exchange for goods or after provision of a service
“PVR”	personal video recorder, a digital, interactive TV function that enables users to record TV programmes
“smart card”	a pocket-sized card with embedded integrated circuits used for security authentication. Smart cards are used with PCAMs and STBs to identify specific end users’ licensing information
“STB”	set-top box, a device that connects with a television with an external source signal to provide access to video content
“UCAM”	USB CAM, a conditional access module utilising a USB interface for access to pay TV content
“UnionPay” or “China UnionPay”	a bank card association in the PRC established under the approval of the State Council and PBOC, which operates an interbank transaction settlement system and a network for electronic funds to be transferred at point of sale, as well as an safety accreditation body for third party payment industry
“USB”	Universal Serial Bus, a standard connection interface for a variety of electronic devices
“VOD”	video-on-demand, a system which allows users to select, view and/or listen to video and/or audio content when they choose to, rather than having to watch or listen at a specific broadcast time

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These statements related to events that involve known and unknown risks, uncertainties and other factors, including those described in the section headed “Risk Factors” in this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business prospects, strategies, plans, objectives and goals;
- the business opportunities that we may pursue;
- the performance of global financial markets, including changes in our ability to access the capital markets and changes in the level of interest rates;
- the impact of currency exchange rates on our business, results of operations and financial position;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business; and
- certain statements in the section headed “Financial Information” in this prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

The words “anticipate”, “believe”, “likely”, “could”, “should”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would”, “assuming” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- changes in global general economic, market and business conditions as well as domestic consumption, trade volumes and industry trends;
- changes in our customers’ business performance;
- introduction and implementation of new or different laws in the areas we operate in;
- changes in interest rates and currency exchange rates;
- our ability to obtain adequate capital resources to fund future expansion plans;
- our ability to successfully implement our business plans, strategies, objectives and goals;

FORWARD-LOOKING STATEMENTS

- our ability to protect our technologies, knowhow, patents, brand, trademarks or other intellectual property rights;
- developments in technology and our ability to successfully keep up with technological improvements;
- our ability to attract and retain qualified employees and key personnel; and
- the other risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section, as well as the risks and uncertainties discussed in the section headed “Risk Factors” in this prospectus.

RISK FACTORS

Investing in the Shares involves certain risks. You should read this prospectus in its entirety and consider carefully each of the risks described below and all of the other information contained in this prospectus before deciding to purchase the Shares. If any of the following risks materialises, our business, prospects, financial condition and results of operations could be materially and adversely affected. In any such case, the trading price of the Shares could decline, and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business and industry; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the Global Offering. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Growth of the CAM markets depends on the continuation of certain industry trends that are beyond our control. If such trends do not continue at the pace we expect or become otherwise unfavourable to us, our business and growth prospects would be materially and adversely affected.

The size of the potential market for our CAM solutions depends to a large extent on the continued digitisation of global television broadcasting. Much of the world is transitioning from analog to digital broadcasting, which drives the adoption of digital televisions and other digital display devices. Such a trend for digitisation is more prominent in emerging CAM markets, such as India and Vietnam, than in the more developed markets like western Europe where the already high digitisation rate leaves less potential for further digital transitions. In the PRC, the television digitisation rates are fragmented across different regions of the country. Though the transition to digital broadcasting is required by government mandate in some of our CAM markets, various factors may cause governments to relax these requirements or broadcasting operators to delay the conversion from analog to digital broadcasting. Any delays in digitisation of the television broadcasting industry in the markets we sell our products could affect the size of the pay TV market, which directly impacts the CAM market and would materially and adversely affect our business and future operating results.

In addition, the potential market for our CAM business also depends on the growth in the number of pay TV content subscribers. Even if markets continue to digitise, the size of the potential market for our CAM solutions may not grow as we expect if consumers do not choose to pay for content. For example, in some less developed markets for pay TV broadcasting, television viewers are accustomed to receiving television programmes for free or for a low subscription fee and may be hesitant to pay the higher subscription charges that are sought by broadcasting operators for premium content. On the other hand, despite a surge of pay TV subscribers in recent years in some emerging CAM markets, such as India and Indonesia, the established pay TV markets in developed markets such as western Europe, however, have reached a stage of saturation where pay TV content providers have to rely on advanced services to stay competitive and boost average revenue per unit.

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Moreover, other platforms, such as IPTV, are emerging which can deliver pay TV content via the Internet or over cellular data networks. Operators of these emerging platforms may prefer a software-based solution as opposed to a hardware-based CAM solution. In addition, even if broadcasting operators favour hardware-based solutions due to the higher security ensured, they may choose other hardware-based solutions, such as STBs, over our CAM products. If alternative pay TV content security solutions become increasingly adopted, our business, market share and growth prospects would be materially and adversely affected.

The digitisation of the global television broadcasting industry, the extent consumers purchase pay TV content and the emergence of alternative pay TV content security solutions are trends that are beyond our control. If these trends develop in any way that is unfavourable to us, our business and growth prospects may be materially and adversely affected.

Future growth of our CAM business depends on the widespread commercial adoption of compatible televisions and our CAM technologies and our business and growth prospects would be materially and adversely affected if government regulators or industry participants fail to support or promote such televisions and our CAM technologies.

Future sales of our CAM solutions are dependent on the availability and sales of digital televisions compatible with our products. The availability of digital televisions for our CAMs is substantially dependent on favourable government regulations. For instance, since 2002, European Union regulations have mandated that all new television sets over 30 centimetres in size be equipped with digital tuning capabilities and at least one CI slot. Such government mandates promoted the sales of PCAMs in European Union countries as PCAMs use the CI slot to connect to TVs. In contrast, similar government mandates are not yet available in our PRC market or emerging CAM markets, such as India and Vietnam. As a result, our future success in these markets for our CAM products depends, to a large extent, on TV manufacturers voluntarily producing digital televisions compatible with our products as a common industry practice.

As such, we must work closely with TV manufacturers to ensure either compliance with government mandates in a specific market or to establish necessary technical, policy and manufacturing specifications and standards with the TV manufacturers so that our CAMs are compatible with their products. These efforts, however, may not be successful. In addition, even if televisions compatible with our CAM products are available in the markets that we serve, consumers may not adopt them over other types of televisions, or other existing or emerging alternatives. For instance, consumers may choose STBs over our CAMs for viewing pay TV content when STBs are bundled with the TV that is purchased. If TV manufacturers do not produce or promote televisions compatible with our products, the commercial adoption of such televisions and our CAM technologies will be hindered and the market for our CAMs will not grow as quickly as we anticipate and our business and growth prospects may be materially and adversely affected.

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Our CAM business relies on commercial relationships with and CA licences granted from a limited number of key CA providers globally. If we fail to maintain relationships with these CA providers or develop such new business relationships, our business will be materially and adversely affected.

As a CAM provider, our business depends on our ability to develop and maintain successful commercial relationships with certain key CA providers globally. We anticipate that a limited number of CA providers will continue to hold significant market share, and the number may shrink further due to industry consolidation or other causes. Due to security concerns over the encryption algorithms that a CA provider licenses to a CAM solutions provider as part of the commercial relationship, many CA providers do not work with more than two CAM providers at any one time. Our CA licences are key to our operations and business without which we would not be able to adopt the CA technologies for our CAMs to decrypt pay TV content. In addition, broadcasting operators usually work with only one or two CA providers which provide tailored CA technologies to meet the broadcasting operators' needs. If we fail to obtain CA licence from designated CA providers for such broadcasting operators, we may subsequently lose our market share with the relevant broadcasting operators in the relevant region. Furthermore, our relationships with our current CA providers may not continue in the future on similar terms or at all. It takes up to two years for us to initially qualify as a new CAM supplier to a CA provider. We also need to continue to pass rigorous certification processes to obtain CA licenses from CA providers, and such subsequent certification process usually takes three to six months. Most of our CA license agreements have fixed terms and our CA providers may elect not to renew them. In addition to our reliance on CA providers for adopting CA technologies in the pay TV content delivery value chain, we also sold our CAMs to CA providers which accounted for 14.6%, 28.7% and 38.5% of our total CAM revenue for the year ended 31 December 2013, 2014 and 2015, respectively. If we fail to maintain or develop relationships with our CA providers, extend existing or obtain new CA licences, our business will be materially and adversely affected.

We sell our mPOS products to hardware-based mobile payment service providers. If they fail to develop their mobile payment business in the face of the current industry and market trends, our mPOS business and financial condition would, in turn, be materially and adversely affected.

We sell our mPOS products in the PRC to hardware-based mobile payment service providers, and primarily, to iBoxpay. Sales of our mPOS products accounted for 3.1%, 22.8% and 42.7% of our revenue for the year ended 31 December 2013, 2014 and 2015, respectively. The mobile payment business is subject to certain industry and market trends that are beyond our and our mPOS customers' control, including:

- Intensified competition among mobile payment market players followed by an industry consolidation when those less competitive are eliminated from the market;
- More stringent industry regulation on financial payment market, transaction security and personal data protection;
- Consumers' growing needs for mobile payment to provide more value-added services, such as customer information collection and inventory management; and

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- Consumers' preference for alternative payment method, including software-based payment solutions without using an mPOS device.

If the above trends continue or become otherwise unfavourable to the mobile payment industry, the business and growth prospects of our mPOS customers would be impacted which would, in turn, adversely and materially affect our business and financial condition.

Mobile payment business is subject to risks relating to transaction and data security which may adversely and materially affect our mPOS sales.

We sell mPOS devices to our mPOS customers who engage in mobile payment market, which is growing significantly in the PRC underpinned by enlarged end-user base and greater transaction value. Consequently, more and more importance will be placed on transaction and data security. As such, we need to produce mPOS devices with sufficient security functions, while our mPOS customers need to possess robust and effective risk control and system management capabilities to utilise our products in compliance with necessary safety accreditation requirements, as well as meeting the ever-growing needs of end-users. While we are unlikely to become liable for security breaches from payment transactions as we are merely the hardware provider, there is no guarantee that we would not be implicated. In addition, if our mPOS customers fail to ensure secured transaction payments, the end-users may suffer economic loss and/or personal data leakage, and our mPOS customers may be subject to third-party claims for product liability. In the event of severe transaction security incidents and data leakage, our mPOS customers may be sanctioned by the local branch of SAIC in accordance with the Law of the People's Republic of China on the Protection of Consumer Rights and Interests or even have their relevant safety accreditation revoked by accreditation bodies. These would all have an adverse and material impact on the business of our mPOS customers, which in turn will adversely impact our mPOS sales.

If we fail to timely respond to evolving technological changes, industry standards and customers' preferences by developing new and enhanced products and solutions, our products may become unattractive or obsolete, which may materially and adversely affect our business, results of operations and market share.

Our business and the markets in which we operate are characterised by continuing technological changes, evolving industry standards and frequent product enhancements. For our CAM business, as digital broadcasting becomes more popular worldwide, industry participants are likely to seek more sophisticated CA technology that offers them greater security, functionality and flexibility in delivering protected content or value-added services to viewers. As methods of distributing information and entertainment evolve, CA technology may also need to evolve to provide content protection for new distribution platforms. Meanwhile, common interface standards for digital televisions have evolved significantly over the years notably with the introduction of CI+ standards in 2009 which added additional security and features to the proven DVB-CI standards. Under the latest upcoming DVB-CI+ 2.0 standard, upgraded software protocols will need to be developed for our CAM products.

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Likewise, our mPOS business relies on our and our mPOS customers' ability to keep up with the technological trends of the mobile payment business which focuses more and more on transaction and data security and compatibility with end-users' customer and inventory management systems to fulfil the more sophisticated needs of business enterprises as their operations grow.

On the other hand, our ability to introduce successful updates and expansion of product portfolios is also dependent on our ability to collect, analyse and respond to our customers' feedback and preferences in a timely manner and to effectively incorporate features into our products that improve their functionality, commercial viability and lifespan.

As such, we will need to invest significant financial and human resources in research and development to keep abreast with technological advances and customers' preferences in industries where we operate. However, research and development activities are inherently uncertain, and our significant expenditures on research and development may not yield corresponding benefits. If we fail to develop and introduce products and solutions that effectively respond to technological changes and evolving market demands, our sales may be significantly reduced and our business, results of operations and market share may be materially and adversely affected.

We derive a substantial portion of our revenue from a small number of major customers and from certain geographic markets. Any decrease in our sales to any of these customers and in any such geographic market, or any adverse changes in these customers and geographic markets could materially and adversely affect our business, financial condition and results of operations.

Our five largest customers for the year ended 31 December 2014 and 2015 collectively accounted for 59.9% and 73.1% of our total revenue, respectively, and our largest customer accounted for 22.4% and 42.3% of our total revenue for the respective periods. One of our largest customers was iBoxpay, which was our key mPOS device customer during the Track Record Period. The other largest customers were CAM customers, such as CA providers and distributors. Because our CAM sales to CA providers and distributors are on a purchase order basis, the customer mix of these largest customers may change from year to year. Please also refer to the sections headed "Business — Customers, Sales and Marketing" and "Financial Information — Significant Factors Affecting our Results of Operations — Our Relationship with Key Customers" in this prospectus for more details. If for any reason any of our major customers discontinues or significantly reduces its purchase orders to us and we are unable to identify new customers on a timely basis and with similar terms, if at all, we may have difficulties in maintaining our profitability at the current levels and our business and results of operations could be materially and adversely affected. Any adverse changes in the business or financial condition of our major customers, including any liquidity problems, restructuring, bankruptcy or liquidation, may also result in a higher level of credit risk to us, which could have a material adverse effect on our financial condition and results of operations.

During the Track Record Period, we had a concentration of CAM sales to the European Market and Russia. Revenue derived from our CAM sales in the European Market accounted for 44.6%, 56.2% and 51.9% of our total CAM revenue for the year ended 31 December 2013, 2014 and 2015, respectively, and our CAM revenue from Russia accounted for 31.5%, 22.7% and 27.7% of our total CAM revenue for the respective periods. Sales to the European Market decreased slightly during the Track Record Period as many of the European countries have substantially completed the digitisation

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process, reducing the market demand for CAMs in those countries. The digitisation process in Russia is expected to be substantially completed by 2019, and the Group's sales to Russia have been impacted by its economic slowdown and the depreciating Rouble relative to the USD starting in 2014. Moreover, the average selling prices and gross profit margins of CAMs decreased during the Track Record Period mainly due to the weakening of Euro and Rouble against the USD leading us to lower our selling prices to maintain competitiveness of our CAM products. If our sales to the European Market and Russia continue to take up a substantial part of our CAM revenues in the future and if the above adverse changes continue or worsen, or any other adverse changes occur in these markets, our business, financial conditions and results of operations could be materially and adversely impacted.

We sell substantially all of our mPOS products to iBoxpay. Any adverse changes in iBoxpay's business or financial condition could adversely affect our revenue from iBoxpay, which in turn would materially and adversely affect our business, financial condition and results of operations.

We derive substantially all of our mPOS sales revenue from iBoxpay, sales revenue from iBoxpay for the year ended 31 December 2015 represented 42.3% of our total revenue for the period. We entered into a strategic cooperation agreement with iBoxpay in June 2015 for a term of three years with automatic renewal. iBoxpay has committed to only purchase from us so long as we provide mPOS products with better performance, quality and prices than any other mPOS suppliers. iBoxpay provides us with annual and quarterly purchase forecast and places orders with us on a quarterly basis. We grant credit terms of 180 days to iBoxpay. For details of our relationships with iBoxpay, please refer to the sections headed "Business — Customers, Sales and Marketing — mPOS Customers" and "History, Reorganisation and Corporate Structure — Excluded Business and Exclusion of Other Investment Interests — Investment Interest in iBoxpay" in this prospectus. If we fail to provide mPOS products to iBoxpay with better terms than other competitors as agreed in the strategic cooperation agreement, or if for any other reason iBoxpay discontinues or significantly reduces its purchase orders to us and we are unable to identify and obtain new customers for our mPOS business on a timely basis and with similar terms, if at all, we may have difficulties in maintaining our profitability at current level for our mPOS sales and our business and results of operations could be materially and adversely affected. In addition, any adverse changes in the business or financial condition of iBoxpay, including any liquidity problems, restructuring, bankruptcy or liquidation, would impair our sales and may result in a higher level of credit risk to us, which may have a material adverse effect on our financial condition and results of operations.

iBoxpay currently depends on safety accreditation from UnionPay for its mobile payment business to operate, if iBoxpay fails to obtain such accreditation, its business and prospects, and consequently our mPOS business from iBoxpay would be materially and adversely affected.

Our mPOS sales are conducted in the PRC primarily with iBoxpay, to whom we currently sell three models of mPOS devices. Each model of product is customised to meet the requirements of iBoxpay as it will have to go through safety accreditation process, renewable every two years, with UnionPay, a third-party payment settlement and accreditation body in the PRC. The accreditation process is rigorous and time-consuming, every renewal for each model takes about six to nine months, with the initial accreditation process taking even longer. Currently, UnionPay is the only official safety accreditation body in the PRC for mobile payment market. Without such accreditation, our mPOS devices sold to iBoxpay will not be accepted for mobile payment activities in the PRC. If

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iBoxpay fails to obtain accreditation from UnionPay, our mPOS business and growth prospects would be materially and adversely affected. In addition, if there is a substantial delay for iBoxpay to obtain or renew accreditation from UnionPay, we may be burdened with additional costs adjusting our mPOS devices to meet the new accreditation requirements, and our mPOS business may be materially and adversely affected.

Shift in product mix and/or changes in geographic sales may adversely impact our overall selling prices, gross profit margins, and liquidity as well as create a higher risk of non-recovery of trade receivables.

The continuing shift in sales contribution from CAMs to mPOS devices may adversely impact our overall gross profit margins. CAMs accounted for 96.9%, 77.2% and 57.3% of our total revenue in 2013, 2014 and 2015, respectively. Starting in July 2013, we commenced the sales of mPOS devices which have increased significantly during the Track Record Period, accounting for 3.1%, 22.8% and 42.7% of our total revenue for 2013, 2014 and 2015, respectively. Because of the increased revenue contribution of sales of mPOS devices, which generally have a lower gross margin (approximately 20%-26%) compared to CAM products (approximately 46%-51%), our overall gross profit margin has decreased from 49.7% in 2013 to 37.0% in 2015. Revenue contribution from mPOS devices is expected to continue to grow, thus our overall gross profit margin is expected to continue to decrease in future periods. Moreover, growing mPOS revenue contribution may impact our working capital usage and liquidity as we grant to our primary mPOS customer iBoxpay a credit term of 180 days, which is longer than the credit term we grant to any of our CAM customers. Because of the 180 day credit term, the growing revenue contribution from sales to iBoxpay has led to an increase in our average trade receivable turnover days and may further increase our average trade receivable turnover days in the future. This may in turn create a higher risk of non-recovery of trade receivables.

Separately, changes in geographic sales mix may adversely impact our selling prices and gross profit margins. CAMs are sold throughout the world and selling prices and gross profit margins are affected by the economic development and technology advancement of the region as well as local competition and our market position. For example, the pricing of CAMs in developing CAM markets such as Kazakhstan and India tend to be lower than the established European Market, reflecting the status of their economic development for consumer electronics. If we expand in the future our CAM sales in the emerging CAM markets that are more price sensitive, our overall selling prices and gross profit margins may be subject to downward pressures.

Depreciation in local currencies of our overseas CAM customers against the U.S. dollar have in the past and may in the future adversely impact our selling prices and competitiveness in a given market, which would in turn, adversely affect our CAM business in overseas markets.

During the Track Record Period, we denominated most of our overseas CAM sales in U.S. dollars which differs from the functional local currencies (such as the Euro and Rouble) that many of our international CAM customers use. According to Bloomberg, the exchange rate of the Euro against the U.S. dollar declined approximately 16.4% from an average of 1.3285 in 2013 to an average of 1.1102 in 2015. As at the Latest Practicable Date, the exchange rate of the Euro against the U.S. dollar was 1.1016. The exchange rate of the Rouble against the U.S. dollar declined approximately 47.5% from an average of 0.0314 in 2013 to an average of 0.0165 in 2015. As at the Latest Practicable Date, the

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exchange rate of the Rouble against the U.S. dollar was 0.01393. Depreciation of such local currencies against the USD has adversely affected our CAM sales in certain overseas markets. For example, despite the growing use of CAM products, our sales in Russia have been impacted by the depreciating Rouble against the U.S. dollar starting in the second half of 2014 coupled with the country's economic slowdown. Our CAM average selling prices in Russia suffered a decrease as we needed to lower our selling prices to maintain market share as the Rouble continued to weaken against the U.S. dollar in 2015. Similarly, the depreciation of the Euro against the U.S. dollar in 2015 has led us to lower our selling prices as sales of our main competitors in the European Market are Euro-denominated. The US Federal Reserve increased the benchmark interest rates by 0.25% in December 2015 and may increase interest rates further in the future. This may strengthen the USD against the Euro and the Rouble, consequently leading to downward pricing pressure on our CAM sales in the European Market and Russia.

Currency fluctuations are affected by a number of macro-economic factors not within our control. If the Rouble or Euro continues depreciating, or any other local currency of our CAM customers experience significant depreciation in the future against the U.S. dollar, we may need to lower our selling prices to remain competitive, which in turn may adversely affect our business, results of operations and financial position.

We face competition for our business. If we fail to compete successfully, our business will suffer and we may lose or be unable to gain market share.

We have two principal competitors in the global CAM markets. One is a CAM provider headquartered in Switzerland which also works with several CA providers associated with its parent group. Another is a CAM manufacturer headquartered in France. According to Frost & Sullivan, we ranked first in global CAM market in terms of both sales revenue and sales volume for the first half of 2015. However, additional competitors may enter the CAM industry in the future. We believe that the most likely potential competitors are current STB manufacturers with strong technical expertise in content security solutions and relationships with certain key market participants. We may also see increasing competition from CAM suppliers partnering exclusively with CA providers who are related companies.

The mPOS market in the PRC is fragmented and decentralised. According to Frost & Sullivan, we were the second largest mPOS supplier in China in terms of sales volume for the first half of 2015. Apart from a few top players, there are quite a number of companies offering mPOS products in China, who generally focus on traditional POS terminals and their percentage share of the mPOS market is fairly small mostly ranging from 0.1% to 1.0% in terms of sales volume. Less competitive mPOS devices providers are likely to be gradually eliminated as the PRC mPOS market is facing an industry consolidation.

Some of our existing and potential competitors may have greater financial, technical, manufacturing and other resources than we do. Our competitors' greater size in some cases provide them with a competitive advantage with respect to manufacturing costs because of their economies of scale and their ability to purchase raw materials at lower prices. Some of our competitors may also have greater brand name recognition, more established distribution networks and larger customer bases. In addition, our competitors may have well-established relationships with our current and

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potential business partners and have extensive knowledge of our target markets. As a result, they may be able to devote more resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can. Our failure to adapt to changing market conditions and to compete successfully with existing or new competitors may materially and adversely affect our financial condition and results of operations.

Our business will be adversely affected if there are bugs or defects in our products and solutions or if the security provided by our products and solutions is compromised.

We face risks relating to defects in our products and solutions that may lead to failures for our CAM products to provide secured access to encrypted pay TV content or for our mPOS products to enable iBoxpay to carry out mobile payment business safely and smoothly. Our products and solutions are connected into either the television transmission infrastructure or the mobile payment infrastructure. Accordingly, a defect, error or performance problem with our products could interfere with or result in the failure of digital TV broadcasting systems or mobile payment systems.

Occurrence of any such incidents could result in claims for damages against us, regardless of whether we are responsible for such interference or failure. Furthermore, system hackers may be able to bypass the security features of our products and solutions and gain unauthorised access to the encrypted content, decryption algorithm, or the secured transactions or personal data of mPOS users. Any significant security breach would require us to develop and implement solutions that could be costly and time consuming and which we may not be able to do on a timely basis or at all. In addition, we may face legal claims or other similar claims from broadcasting operators, content providers, mobile payment service providers or end-users, or any third parties whose rights have been infringed as the result of our products' failure. Any such claims brought against us could be expensive to defend and they divert our management's attention from our day-to-day business and damage our reputations. Accordingly, any defects in our products and solutions or security breach could result in substantial monetary damages, require considerable amount of resources to remedy, damage our relationships with business partners or even result in loss of licenses from CA providers or revocation of safety accreditation related to our mPOS business. Any of these may materially and adversely affect our business and results of operations.

We depend on third parties to manufacture and assemble most of our products and product components. The failure of these third parties to meet our manufacturing specifications or otherwise perform to our requirements may disrupt our business and adversely affect our revenues.

We outsource most of the manufacturing of product components and assembly of our products to third-party subcontractors in the PRC. Such outsourcing arrangements may at times expose us to manufacturing risks not within our control. We typically do not have long-term contracts with our subcontractors, and they are not obligated to provide us with a minimum quantity of products on a specified schedule or at a set price except as provided in a specific purchase order. As such, especially in times of high demand, our subcontractors could choose to prioritise the orders of other customers, reduce or eliminate deliveries to us, or increase their prices for manufacturing and assembly on the schedule we demand. In addition, because our products and product components are complex to manufacture and we require our subcontractors to adopt stringent security and quality control

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measures, we may not be able to develop or contract for additional or alternative manufacturing capacity on a timely basis or on acceptable terms, if at all. If we experience a shortage of our subcontractors or the products that they deliver, we may not meet customer demand for our products on time and/or at a reasonable cost, which would adversely affect our revenues and our reputation.

Additionally, the fabrication of components such as chipsets is a complex and technically demanding process. Our subcontractors may from time to time experience manufacturing defects and reduced manufacturing yields as a result. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our subcontractors could result in lower than anticipated yields of products or unacceptable product performance. If these or other quality control problems arise, the quality of our products and solutions would be compromised and our business and results of operations may be adversely affected.

Certain disruptions in the supply of and changes in the competitive environment for components integral to our products may adversely affect our profitability.

A broad range of components are used for the assembly of our products, including chipsets, PCBs, flash memory and casings. We source certain components necessary for the assembly of our products from a limited number of suppliers. For example, we rely on a manufacturer of electronic components in Germany, for the supply of all the casings of the CAMs that we sell to the European Union countries. In addition, we source from Semiconductor Manufacturing International Corporation (“SMIC”), one of the leading semiconductors foundries in the PRC, all of the wafers that we need for the manufacturing of the proprietary chipsets of our CAM products. A significant disruption in the supply of components could decrease production and shipping levels, delay our delivery schedule, increase our operating costs and affect our profit margins. Shortages of materials or interruptions in transportation systems, labour strikes, work stoppages, war, acts of terrorism or other interruptions to or difficulties in the employment of labour or transportation in the markets in which we purchase for the production of our products may adversely affect our ability to maintain production of our products and sustain profitability.

If we fail to maintain an effective distribution network for our products, our business and sales of the relevant products could be adversely affected.

In addition to sales to customers such as CA providers, broadcasting operators and TV manufacturers for our CAM products, we also rely on distribution of our CAM products through third-party distributors, who regularly purchase from us and with whom we have an on-going relationship or arrangement to sell our CAMs in designated regions. For the year ended 31 December 2013, 2014 and 2015, revenue derived from sales through third-party distributors accounted for 49.1%, 45.3% and 37.6% of our CAM revenue, respectively, and represented 47.6%, 35.0% and 21.6% of our total revenue, respectively. Our ability to maintain and grow our business will depend, in part, on our ability to maintain and manage an effective distribution network that timely delivers our products in the markets we serve. However, our distributors are third parties over whom we have relatively limited control. Our distributors may fail to distribute our products in the manner we contemplate, impairing the effectiveness of our distribution network. We sell to distributors on a final sale basis and we take measures to mitigate the risks of excess inventory build-up at the distributor level such as communicating with major distributors on an on-going basis to understand their

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inventory levels. However, if such measures were not effectively adopted, our distribution network in certain markets may be impacted. For more details on our measures to prevent excess inventory build-up at the distributor level, please refer to the section headed “Business — Customers, Sales and Marketing — CAM Customers — Distributors” in this prospectus. Moreover, since our distributors do not sell our products on an exclusive basis, our products may compete with products from our competitors sold by our distributors.

The framework agreements we enter into with our distributors usually have a term of two years subject to renewal. Our distributors might elect not to renew such agreements with us or otherwise terminate their business relationships with us for various reasons, including: (i) cease of business of any distributor in one specific market; (ii) breach of contract on our part; (iii) disputes and/or legal proceedings arising thereof; (iv) failure to reach an agreement on key commercial terms, such as fee arrangements; and (v) our distributors entering into business competing with us or alliances with our competitors. If any of our major distributors (or a significant number of our distributors) voluntarily or involuntarily suspend or terminate their relationships with us, or we are otherwise unable to maintain and expand our distribution network in certain markets effectively, our results of operations and business prospects could be materially and adversely affected.

Our patents and other intellectual property rights are important assets to us, and if we are unable to protect them, our business, financial condition and results of operations may be adversely affected.

Our ability to compete depends, in part, upon the successful protection of our intellectual property rights, including our ability to obtain and enforce, amongst others, trade secret and patent protection for our technologies, know-how, processes and products against third-party challenges and infringements. We will only be able to protect our technologies, know-how, processes and products from unauthorised use by third parties to the extent that we obtain valid and enforceable intellectual property rights. Even when we are able to obtain such intellectual property rights, existing intellectual property laws may afford only limited or no practical protection, particularly in certain countries where we conduct business. As a result, unauthorised third parties may copy and distribute our technologies, know-how, processes and products, which may have a material adverse effect on our business, financial condition and results of operations.

As at the Latest Practicable Date, we had 78 registered patents and 55 patents pending registration in China, one patent registered in the United States, three patents pending registration in Europe and 15 international patents pending registration. As a result, we have little or no protection for our patents in most of the jurisdictions outside the PRC. Moreover, in the PRC, implementation and enforcement of intellectual property-related laws has historically been limited and inadequate. Accordingly, PRC patent and trade secret protections may not be as effective as in the United States or other countries and intellectual property infringements present a serious risk of doing business in the PRC.

Because most of our technologies and production methods or processes involve unpatented proprietary know-how, we rely, to a large extent, on trade secrets protection and contractual restrictions to safeguard our intellectual property interests. For instance, we rely on confidentiality

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agreements to protect the knowhow contained in “data tapers”, being the “source code” of a chipset, that we provide to suppliers for producing chipset wafers. If we fail to protect such key technologies and they are infringed by third parties in any way, our business, competitiveness and growth prospects may be materially and adversely affected.

However, trade secrets are difficult to protect. While we use reasonable efforts to protect our trade secrets, including requiring our employees, consultants, subcontractors or other counterparties to enter into confidentiality agreements with us and endeavouring to induce the parties with whom we collaborate on research projects to enter into confidentiality agreements, such parties may still disclose our information to competitors in violation of their agreements. In addition, confidentiality agreements may not be enforceable or provide an adequate remedy in the event of unauthorised use or disclosure. It may be difficult to prove or enforce a claim that a third party had illegally obtained and used our trade secrets. Our enforcement efforts would be expensive and time-consuming and the outcome would be unpredictable, if not detrimental to our business. In addition, our competitors may independently develop technologies that are equivalent to our trade secrets, in which case we would not be entitled to enforce our trade secrets and our business and prospects could be adversely affected.

We may face intellectual property infringement claims that could be time-consuming and costly to defend and which may result in our loss of significant rights and inability to continue providing our existing products.

Our success depends, in part, on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. We may be unaware of filed patent applications that relate to our products. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and diversion of resources in defending against them, which could adversely affect our business, results of operations or financial condition. If any claims or actions are asserted against us, we may seek to settle such claim by obtaining a license covering the disputed intellectual property rights. A license or any other form of settlement may not be available on reasonable terms or at all. Furthermore, an adverse outcome of a dispute may require us to pay substantial damages to the party claiming infringement, develop non-infringing technology or enter into royalty or license agreements that may not be available on acceptable or otherwise economically viable terms or at all. Our failure to develop non-infringing technologies or license the proprietary rights on a timely basis could harm our business. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation or could result in the permanent loss of such business. Parties making infringement claims may be able to obtain an injunction, which could prevent us from selling our products or using technology that contains the allegedly infringing intellectual property. Any intellectual property litigation could have a material adverse effect on our business, operating results and financial condition.

Discontinuation of any of the PRC preferential tax treatment or the imposition of any additional PRC taxes on us could adversely affect our financial condition and results of operations.

As a foreign invested enterprise, our PRC subsidiary, SMIT Shenzhen, was entitled to receive a two-year exemption and three-year 50% reduction starting in 2008, so for the year ended 31 December 2012, the tax provision for SMIT Shenzhen was made at 12.5%, being 50% of the statutory EIT rate

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of 25%. In 2013, SMIT Shenzhen was approved as a key software enterprise included in the national plan from 2011 to 2014, thus it was entitled to a reduced tax rate of 10% for that period. Hence, an EIT rate of 10% was retrospectively applied for the year ended 31 December 2011 and 2012, tax credit as a result of the retrospective application of the 10% EIT rate was reflected in our financial statements in 2013, and SMIT Shenzhen was subject to an EIT rate of 10% for the year ended 31 December 2013 and 2014.

The Policies on Encouraging the Development of the Software and the Integrated Circuit Industries was abrogated according to the Decision of the State Council on Issues Concerning Removing or Adjusting a Batch of Administrative Approval Items (《關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2015] No. 11) promulgated by the State Council on 13 March 2015. The relevant PRC authority has accordingly suspended the recognition of key software enterprises under the national plan. As such, SMIT Shenzhen had not been able to apply for the renewed qualification as a key software enterprise to enjoy the 10% EIT rate. As SMIT Shenzhen was recognised by the local tax authorities as a high and new technology enterprise for the period from 2014 to 2016, SMIT Shenzhen was entitled to the EIT rate of 15% accordingly. For more details, please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Income Tax Expense” in this prospectus. The continued qualification as a high and new technology enterprise is subject to a three-year review by the relevant PRC government authorities. If SMIT Shenzhen fails to renew such qualification upon expiry, its current applicable EIT rate of 15% may increase to the statutory EIT rate of 25%, which may have a material adverse effect on our financial condition and results of operations. Preferential tax treatment granted by the PRC local government authorities is subject to review and may be adjusted or revoked at any time. The discontinuation of any preferential tax treatment currently available to us will cause our effective tax rate to increase, which could have a material adverse effect on our financial condition and results of operations. We may not be able to maintain our current effective tax rate in the future.

In addition, the current or future preferential tax treatment applicable to us may be further changed, terminated, or otherwise become unavailable due to many factors, including changes in government policy or administrative decisions by relevant government authorities. Our financial condition and results of operations may be adversely affected as a result of one or more of these factors.

We had negative net operating cash flow for the year ended 31 December 2014. A negative net cash flow position for operating activities may adversely affect our business, prospects, financial condition and results of operations.

We had negative net cash flow from operating activities of US\$0.8 million for the year ended 31 December 2014, primarily due to increased sales of mPOS devices to iBoxpay, to whom we grant a credit term of 180 days, longer than the credit terms we generally give to our customers. For details of the changes on our cash flow from operating activities during the Track Record Period, please refer to the section headed “Financial Information — Liquidity and Capital Resources” in this prospectus. We cannot assure you that we will not experience negative net cash flow from our operating activities in the future due to further growth in our mPOS sales to iBoxpay or for any other reasons. A negative net cash flow position for operating activities could impair our ability to make necessary capital expenditures, constrain our operational flexibility and adversely affect our ability to expand our

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business and enhance our liquidity. For example, if we do not have sufficient net cash flow to fund our future liquidity, pay our trade and bills payables and repay the outstanding debt obligations, if any, when they become due, we may need to significantly increase external borrowings or secure other external financing. If adequate funds are not available from external borrowings, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans, and our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our failure to comply with current or future laws and regulations may affect our business, results of operations and prospects.

The industries relevant to our operations are subject to comprehensive laws and regulations in each of the markets in which we do business, including regulations relating to the delivery, security and encryption of television broadcasting and regulations related to the mPOS business, for details, please refer to the section headed “Regulatory Overview” in this prospectus. If we fail to comply with the current and any new laws and regulations, we may be subject to heavy penalties and may bear even criminal liabilities. Additionally, CA providers, broadcasting operators, television manufacturers and mobile payment service providers with whom we do business are subject to these laws and regulations established by various government agencies and standards bodies which vary in each geographic market.

Because our products and solutions interoperate with CA providers, broadcasting operators, television manufacturers and mobile payment service providers, any failure by any of these industry participants to comply with applicable laws and regulations could adversely affect the market for our products and solutions. We have little or no ability to require, monitor or enforce our business partners to comply with rules and regulations relating to their business. Any failure by our business partners to comply with applicable laws and regulations could, in one way or another, subject us to substantial losses, or require us to redesign or readjust our products and solutions. Taking such remedial steps may result in substantial delay and costs or prohibit us from selling our products in certain markets successfully, if at all. Any of these effects would adversely impact our business, financial condition and results of operations.

Our business depends substantially on the continuing efforts of our management and other key personnel. If we lose their services, we could incur significant costs in finding suitable replacements and our business may be severely disrupted.

Our future success heavily depends upon the continued services of our management and other key personnel. In particular, we rely on the expertise and experience of Mr. Huang Xueliang, our chairman and chief executive officer, Mr. Shuai Hongyu, our president and chief operating officer, and Mr. Loong, Manfred Man-tsun, our executive vice president and chief financial officer. If one or more of our senior management or key personnel were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all. Our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain new personnel. If any of our management or key personnel joins a competitor or forms a competing business, we may lose, amongst others, customers, third-party manufacturers, distributors, know-how, key professionals and staff

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members. Each of our executive officers and key research and development personnel has entered into employment agreements, confidentiality agreements and non-competition agreements with us. Pursuant to relevant PRC regulations, we need to provide adequate compensation to these executive officers and key personnel for performing their obligations under the non-competition agreements. Failing to do so may render such non-competition agreements unenforceable, which in turn may affect our business and competitiveness adversely.

We may fail to attract and retain qualified personnel and our business and results of operations could be negatively impacted.

We may hire and retain additional qualified employees to support our existing operations and planned expansion. Our ability to anticipate and effectively respond to evolving market needs and technological advancements depends in part on our ability to attract and retain a sizeable workforce of technically competent and experienced employees to design and develop our products and provide service support. Since our industries are characterised by high demand and competition for talent, we may need to offer higher compensation and other benefits in order to retain qualified personnel in the future. We may not be able to attract or retain the qualified personnel that we will need to achieve our business objectives. In addition, as our business has grown rapidly, our ability to train and integrate new employees into our operations may not meet the increasing demands of our business.

We may be unable to manage risks associated with our potential expansion into new international markets.

We may expand our business into new international markets in the future. In our expansion, we may face economic, regulatory, legal and political risks inherent in having relationships, operations and sales in overseas markets, including challenges caused by distance and linguistic and cultural differences, the potential of longer collection periods and more difficulties in collecting accounts receivable from customers and enforcing contractual obligations, fluctuations in currency exchange rates, foreign tax consequences, unanticipated changes in laws or regulatory requirements and related compliance costs, tariffs or other barriers to trade, and the potential for political, legal, economic and social instability. Any of these or other factors may have an adverse effect on our sales or costs, the market acceptance of our products or our ability to compete in one or more jurisdictions, which may have a material and adverse effect on our business, results of operations and financial condition.

Moreover, our ability to expand successfully overseas depends in part on our establishing sufficient operational resources and infrastructure in our target markets. Our sales and marketing efforts in a new geographic market may fail to establish a viable distribution network or recruit and retain talented local personnel, or our products may not gain market acceptance sufficient to offset the costs of geographic expansion. If we fail to properly manage these risks, we may incur higher expenses and lower revenues, and any geographic expansion we undertake could have a material adverse effect on our business, results of operations and financial condition.

Future acquisitions or strategic investments may not confer upon us the benefits we expect and may materially and adversely affect our ability to manage our business.

Our strategy includes plans to grow both organically and through acquisitions and making strategic investments. If we are presented with appropriate or attractive opportunities in the future, we

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may acquire or strategically invest in complementary companies, technologies, businesses or assets. We may not be able to identify suitable future acquisition candidates or investment targets. Even if we identify suitable candidates or targets, we may be unable to complete acquisitions or investments on terms commercially acceptable to us. If we fail to identify appropriate candidates or targets, or complete desired acquisitions or investments, we may not be able to implement our strategies effectively or efficiently.

In addition, our ability to successfully integrate acquired businesses may be adversely affected by a number of factors, including:

- diversion of management's attention;
- difficulties in retaining personnel of the acquired businesses;
- unanticipated legal liabilities; and
- tax and accounting issues in association with acquisition and business combination.

If we fail to integrate acquired businesses efficiently, our business, results of operations and growth prospects could be adversely affected.

Furthermore, the acquired businesses may not perform to our expectations for various reasons, including legislative or regulatory changes that affect the products in which the acquired businesses specialise, and the loss of personnel. If we are not able to realise the benefits envisioned for such acquisitions, our business and results of operations could be materially and adversely affect.

Fluctuations in the value of the Renminbi may have a material adverse impact on your investment.

The net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. A majority of our revenues are denominated in foreign currencies, such as U.S. dollar, while a significant portion of our costs, including personnel and some marketing and facilities expenses, are incurred in Renminbi. Fluctuations in the exchange rates between the Renminbi and the Hong Kong dollar or U.S. dollar will affect the relative purchasing power in Renminbi terms of the proceeds from the Global Offering. Fluctuations in the exchange rates may also cause us to incur foreign exchange losses and affect the relative value of any dividend declared and settled by our PRC subsidiary. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business. During the Track Record Period, we recorded a positive translation difference of US\$1.6 million in 2013 under other comprehensive income but recorded negative translation differences of US\$0.1 million in 2014 and US\$3.5 million in 2015, under other comprehensive income, mainly due to the depreciation of RMB against USD. Fluctuations in RMB against the Hong Kong dollar or U.S. dollar going forward may continue to have a negative impact on our other comprehensive income through translation differences upon translating the financial statements of our subsidiaries from their respective functional currencies to our presentation currency, USD, upon consolidation.

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Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and PRC foreign exchange regime and policy. Since July 2005, the Renminbi has been pegged against a basket of several currencies. Despite PBOC's regular past intervention in the foreign exchange market to limit fluctuations in Renminbi exchange rate, the Renminbi may appreciate or depreciate significantly, depending on the fluctuation of the basket of currencies against which it is currently valued. Conversely, if the PRC government lifts restrictions on fluctuations in Renminbi exchange rates and lessens intervention in the foreign exchange market in the future, the Renminbi will be permitted to enter into a full float which may result in a significant appreciation or depreciation of the Renminbi against U.S. dollar and other foreign currencies. Fluctuations in the exchange rate will also affect the relative value of any earnings from and the value of any foreign currency denominated investments we make in the future.

There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. As at the Latest Practicable Date, we have not engaged in any hedging transaction to reduce our exposure to foreign currency exchange risks. In any event, while we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure, or at all, and our financial condition and results of operations may be adversely affected.

We may recognise impairment of goodwill in the future.

Goodwill of US\$6.6 million is recorded as a non-current asset on our consolidated statement of financial position as of 31 December 2015, which originally arose from our acquisition of SMIT Shenzhen in April 2005 and relates to the value of the expected future economic benefits of the business operated by SMIT Shenzhen.

Under HKFRS, goodwill has an indefinite useful life. Goodwill impairment reviews are undertaken annually, or when events or changes in circumstances indicate a potential impairment. For the purpose of impairment-testing, goodwill is allocated to the cash-generating unit ("CGU") that is expected to benefit from the acquisition. In a goodwill impairment review, the carrying amount of the CGU is compared to its recoverable amount, which is determined based on a value-in-use calculation. No impairment of goodwill is recognised if the recoverable amount exceeds the carrying amount.

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate which reflects specific risks related to the relevant operation. The revenue growth CAGR (i.e. compound annual growth rate over the five-year projection period) used were 30.3%, 29.9% and 26.8%, respectively, as at year ended 31 December 2013, 2014 and 2015. The growth in revenue and the relevant costs are estimated based on past performance and management's expectations for the market development. Please see note 22 of the Accountant's Report in Appendix I to this prospectus for further details.

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Based on this calculation, there were no impairment of goodwill for the years ended 31 December 2013, 2014 and 2015. If the forecasted CAGR of revenue as at the year ended 31 December 2013, 2014 and 2015 had been lowered by two percentage points, the recoverable amounts would be lowered by 7.0%, 4.8%, and 12.1%, respectively, but would still exceed its carrying amount.

In future goodwill impairment reviews, as there are inherent uncertainties related to the above factors and to our judgment in applying these factors to the assessment of goodwill recoverability, any negative changes to the CAGR of revenue may have a significant impact on the recoverable amounts, and may in turn lead to an impairment of goodwill. Any impairment is recognised as a loss and will not be subsequently reversed. Such an impairment loss may adversely affect our results of operations.

If we become a party to litigations, legal disputes, claims or administrative proceedings, such involvement may divert our management's attention and result in costs and liabilities.

We may from time to time become a party to various litigations, legal disputes, claims or administrative proceedings arising in the ordinary course of our business. On-going litigations, legal disputes, claims or administrative proceedings may divert our management's attention and consume their time and our other resources. Furthermore, any litigations, legal disputes, claims or administrative proceedings which are initially not of material importance may escalate and become important to us, due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake and the parties involved.

Negative publicity arising from litigations, legal disputes, claims or administrative proceedings may damage our reputation and adversely affect the image of our brands and products. In addition, if any verdict or award is rendered against us, we could be required to pay significant monetary damages, assume other liabilities and even to suspend or terminate the related business ventures or projects. Consequently, our business, financial condition and results of operations may be materially and adversely affected.

If we suffer failure or disruption in our information systems, our ability to effectively manage our business operations could be adversely affected.

We make use of information systems to obtain, process, analyse and manage data crucial to our business such as our enterprise resource planning system. We use these systems to, among other things, monitor the daily operations of our business, maintain operating and financial data, manage our distribution network as well as manage our research and development activities, production operations and quality control systems. Any system damage or failure that interrupts data input, retrieval or transmission or increases service time could disrupt our normal operations. In particular, such damage or failure includes any security breach caused by hackings, which involve efforts to gain unauthorised access to our information or systems, or to cause intentional malfunctions, loss or corruption of data, software or hardware, the intentional or inadvertent transmission of computer viruses and similar events or third-party actions. There can be no assurance that we will be able to effectively handle a failure of our information systems, or that we will be able to restore our operational capacity in a

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timely manner to avoid disruption to our business. The occurrence of any of these events could adversely affect our ability to effectively manage our business operations. In addition, if the capacity of our information systems fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained.

We may not have adequate commercial insurance coverage and this could expose us to significant costs and business disruptions.

The commercial insurance products offered in the PRC do not provide as much coverage as those offered in other countries and regions. We do not have any business and product liability or disruption insurance to cover our operations in the PRC, which we believe is in line with customary industry practices in industries we operate in the PRC. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. In addition, we do not maintain any insurance policies covering risks including loss and theft of and damages to our inventories, equipment or facilities other than for our marine cargo and motor vehicles. We obtain a limited amount of insurance coverage that we may be exposed to the risk of uninsured financial or other losses, damages and liabilities, litigation costs, and losses arising from business or operation disruptions and from natural disasters, adverse weather, power disruptions, war, terrorist attacks or other similar events that are out of our control. If our business operations were disrupted, we may incur material costs and losses that may materially and adversely affect our business, financial condition and results of our operations.

We may be adversely affected by our sales to customers located in certain jurisdictions that are subject to International Sanctions.

During the Track Record Period, we conducted CAM sales to customers located in Russia, which represented 10.6% of our total revenue for the year ended 31 December 2015, and an insignificant amount of CAM sales to customers in Ukraine, the Balkans, Egypt, Lebanon and Belarus (the “**Relevant Sales**”), which jurisdictions are subject to some form of International Sanctions. As advised by DLA Piper Hong Kong, our International Sanctions legal adviser, the Relevant Sales do not implicate the application of any International Sanctions or any wider trade restrictions administered and enforced by the United States, the European Union, the United Nations or Australia, on our Group, or any person or entity, including our Group’s investors, the Stock Exchange, HKSCC or HKSCC Nominees. For details, please refer to the section headed “Business — Customers, Sales and Marketing — Sales to Customers located in Jurisdictions subject to International Sanctions” in this prospectus. Restrictions also apply to exports by U.S. persons and non-U.S. persons of certain U.S. origin goods, software and technology to Sanctioned Countries, Sanctioned Persons and other destinations (“**U.S. Export Controls**”). We use some U.S. origin goods, technology or software in our products, and we are committed to complying with U.S. Export Controls to the extent applicable. For more information, please see the section headed “Business — Internal Control and Risk Management — Sanctions Related Undertakings and Risk Management” in this prospectus.

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We cannot predict the interpretation or implementation of International Sanctions by any government with respect to any current or future activities by us or our affiliates in the Sanctioned Countries or with Sanctioned Persons. New sanction restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. We have no present intention to undertake any future activities that would cause us, the Stock Exchange, the Listing Committee, HKSCC, HKSCC Nominees, or our investors to violate or to become a target of International Sanctions. We undertake to the Stock Exchange that (i) we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate any activities or business, directly or indirectly, relating to or with any Sanctioned Person or any other person or entity that is a target of any International Sanctions, and (ii) we will not undertake any sanctionable transactions that would expose our Group, or any person or entity, including our Group's investors, the Stock Exchange, the Listing Committee, the HKSCC and the HKSCC Nominees, to the risk of being sanctioned. If we breach any of these undertakings to the Stock Exchange after the Global Offering, it is possible that the Stock Exchange may delist our Shares. However, we can provide no assurances that our future business will be free of risk under sanctions implemented in any jurisdictions or that we will conform our business to the requirements of any government that may not have jurisdiction over our business but nevertheless asserts the right to impose sanctions on an extraterritorial basis. Accordingly, our business and reputation would be adversely affected if any government were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

In addition, certain institutional investors, universities or government entities have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain Sanctioned Countries and with Sanctioned Persons. As a result, concern about potential legal or reputational risk associated with our historical and on-going sales in the Sanctioned Countries could also reduce the marketability of the Offer Shares to particular investors, which could affect the price of our Offer Shares and Shareholders' interests in us, despite our commitment not to direct the proceeds from the Global Offering to dealings with sanctioned parties. Before investing in our Shares, you should consider if such investment would expose you to any of the United States, the European Union, the United Nations and Australian or other sanctions law risks arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

We face risks of natural disasters, acts of God and occurrence of epidemics, which could severely disrupt our business operations.

Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in places where we operate. Our products are mainly manufactured and assembled in facilities located in the PRC. Material damage to, or the loss of, such facilities due to fire, severe weather, flood, earthquake, or other acts of God or cause may not be adequately covered by proceeds of our insurance coverage and could materially and adversely affect our business and operating results. Any outbreaks of contagious disease, acts of war or terrorist attacks may cause damage or disruption to our business, our employees and our markets, any of which could adversely impact our business and operating results.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The economic, political and social conditions and government policies of the PRC could affect our business.

Our business and results of operations are, to a significant degree, subject to the economic, political and social developments of the PRC, as our business is substantially conducted in the PRC. The PRC economy has historically been a planned economy and has been in a transitional stage to a more market-oriented economy and it differs from the economies of most other countries in many respects, including its political structure, the amount and degree of government involvement and control, the general economic development level and growth rates, level and control of capital investment and reinvestment, government control of foreign exchange and the allocation of resources. The PRC economy has grown significantly over the past few decades and the PRC government has implemented measures in recent years emphasising the use of market forces for economic reform. However, such growth has remained uneven across different periods, regions and economic sectors. We cannot assure you that changes in the PRC economic, political and social conditions and policies will not have any adverse effect on our current or future business, financial condition or results of operations. In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past periodically implemented a number of measures intended to slow down certain segments of the economy which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activities in the PRC and, in turn, have an adverse impact on our business and financial condition.

PRC laws and regulations, and the uncertainty surrounding their interpretation and implementation, could materially and adversely affect our business operations and may limit available legal protections.

Our business is substantially conducted in the PRC and is governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in the PRC. These laws and regulations may change frequently and are not fully developed, and due to the limited volume of published cases and the non-binding nature of prior court decisions, interpretation and enforcement of such laws and regulations involve considerable uncertainties. Depending on the government authorities or how or by who an application or case is presented to such authorities, we may receive less favourable interpretation of laws and regulations than our competitors. PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. In addition, any litigation in the PRC may be protracted and result in

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substantial costs and diversion of resources and management attention. These uncertainties may also impede our ability to enforce the contracts we have entered into. As a result, these uncertainties could materially adversely affect our business and operations, and may limit the legal protections available to investors, including you.

The enforcement of labour contract laws and regulations and increase in labour costs in the PRC may adversely affect our business and our profitability.

The PRC Labour Contract Law became effective on 1 January 2008 and was subsequently amended and became effective on 1 July 2013. Implementation regulations of the PRC Labour Contract Law became effective on 18 September 2008. These PRC labour contract laws and related implementation regulations impose more stringent requirements on employers with regard to, among others, minimum wages, severance payment upon permitted termination of the employment by an employer and non-fixed term employment contracts, time limits for probation period, the duration and the times that an employee can be placed on a fixed term employment contract as well as specific requirements for labour dispatch. Compliance with such laws and regulations may increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labour practices, the labour contract laws and its implementation regulations may also limit our ability to effect those changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

We principally rely on dividends and other distributions on equity paid by our PRC subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to make payments to us or the tax implications of making payments to us could have a material adverse effect on our ability to conduct our business.

We are a Cayman Islands holding company, and we rely principally on dividends and other distributions on equity from our wholly-owned PRC subsidiary, SMIT Shenzhen, for our cash requirements, including the funds necessary to service any debt we may incur. Current PRC regulations permit SMIT Shenzhen to pay dividends to us only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. SMIT Shenzhen is also required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. These reserves are not distributable as cash dividends, loans or advances. In addition, if SMIT Shenzhen incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us. Furthermore, under the EIT Law and its implementation rules, dividends generated from SMIT Shenzhen's business in the PRC and payable to our Company generally will be subject to a withholding tax rate of 10%.

As a result of these and other restrictions under PRC laws and regulations, SMIT Shenzhen is restricted from transferring a portion of its assets to us as dividends, loans or advances. We cannot assure you that SMIT Shenzhen will generate sufficient earnings and cash flows in the near future to pay dividends or otherwise distribute sufficient funds to enable us to meet our obligations, pay interest

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and expenses or declare dividends. Any limitation on SMIT Shenzhen's ability to transfer funds to us as dividends, loans or advances could materially and adversely limit our ability to grow, make investments or acquisitions that could benefit our businesses, repay debts, pay dividends, or otherwise fund and conduct our business.

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require prior approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to Shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain SAFE approval to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiary.

Any funds we transfer to our PRC subsidiary, SMIT Shenzhen, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant PRC government authorities. Under the PRC regulations on foreign-invested enterprises, capital contributions to SMIT Shenzhen are subject to the approval of MOFCOM or its local branches and registration with other PRC government authorities. In addition, any foreign loan procured by SMIT Shenzhen is required to be registered with SAFE or its local branches, and SMIT Shenzhen may not procure loans which exceed the difference between its registered capital and its total investment amount as approved by MOFCOM or its local branches. Any medium or long term loan to be provided by us to our consolidated affiliated entity must be approved by SAFE or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to SMIT Shenzhen. If we fail to receive such approvals or complete such registration, our ability to use the proceeds of the Global Offering and to capitalise our PRC operations may be negatively affected, which could adversely affect SMIT Shenzhen's liquidity and our ability to fund and expand our business.

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We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our global income.

Under the EIT Law, enterprises established offshore whose “*de facto* management bodies” are located in the PRC are considered “resident enterprises” and their global income will generally be subject to the uniform statutory EIT rate of 25%. Under the Regulations on the Implementation of the EIT Law, “*de facto* management bodies” is defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. On 22 April 2009, SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82. Circular 82 was further amended in January 2014 by the SAT Circular 9 (《關於依據實際管理機構標準實施居民企業認定有關問題的公告》), which, together with Circular 82, provide certain specific criteria for determining whether the “*de facto* management body” of a Chinese-controlled offshore incorporated enterprise is located in the PRC. In addition, on 27 July 2011, SAT issued Administrative Measures on Income Taxes of Resident Enterprises Incorporated outside Mainland China and are Controlled by Chinese Enterprises (Trial Implementation) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》), or the Resident Enterprise Administrative Measures, which became effective from 1 September 2011 and was amended on 17 April 2015. The Resident Enterprise Administrative Measures provide clarification for resident status determination, post-determination administration, as well as competent tax authorities. However, Circular 82, SAT Circular 9 and the Resident Enterprise Administrative Measures apply only to offshore enterprises controlled by PRC enterprises, not those invested in or controlled by PRC individuals, like our Company. Currently there are no further detailed rules or precedents applicable to us regarding the procedures and specific criteria for determining “*de facto* management body” for the company of our type. We do not believe we are a resident enterprise defined and regulated by the aforesaid regulation, as none of our shareholders is a PRC company or PRC corporate group. However, it remains unclear how PRC tax authorities will determine the tax residency status of companies like us. If the PRC authorities were to subsequently determine, or any future regulation provides, that we should be treated as a PRC resident enterprise, we would be subject to a 25% EIT rate on our global income, which will significantly increase our tax burden and could materially and adversely affect our financial condition and results of operations.

Dividends paid by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under PRC tax laws, and our Hong Kong subsidiary is subject to PRC withholding tax under the EIT Law and we may not be able to enjoy the preferential tax rate of 5%.

Under the EIT Law and its implementation regulations, PRC income tax at the rate of 10% is withheld from dividends paid by a PRC “resident enterprise” to investors that are “non-resident enterprises” to the extent such dividends have their source within the PRC. Such “non-resident enterprises” refer to enterprises that do not have an establishment or place of business in the PRC, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business. Similarly, any gain realised on the transfer of shares by such enterprises is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If the dividends we pay to our shareholders are

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regarded as income derived from sources within the PRC, we may be required to withhold a 10% PRC withholding tax for the dividends we pay to our investors who are non-PRC enterprise shareholders, or a 20% withholding tax for the dividends we pay to our investors who are non-PRC individual shareholders, including the holders of our Shares. In addition, our non-PRC shareholders may be subject to PRC tax on gains realised on the sale or other disposition of our Shares, if such income is deemed as sourced from within the PRC. It is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their tax residence and the PRC in the event that we are considered as a PRC “resident enterprise” for PRC withholding taxes purposes. If we are required under the EIT Law and its implementation regulations to withhold PRC income taxes on dividends paid to our non-PRC shareholders, or if gains from transfers or other disposition of our Shares will be subject to PRC taxes, your investment in our Shares may be materially and adversely affected.

Under an arrangement between the PRC and Hong Kong, which became effective on 1 January 2007, such dividend withholding tax rate is reduced to 5% for dividends paid by a PRC company to a Hong Kong resident enterprise if such Hong Kong entity is a “beneficial owner” and such entity directly owns at least 25% of the equity interest of the PRC company. The Notice of the State Administration of Taxation on How to Comprehend and Determine the “Beneficial Owners” in Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中「受益所有人」的通知》), effective from 27 October 2009, provides certain conditions under which a company cannot be defined as a “beneficial owner” under the treaty, and further provides that an agent or “conduit company” (defined as a company usually established for purposes of evading or reducing taxes, and transferring or accumulating profits, and registered in the country of domicile to satisfy the organisational form as required by law, but it does not engage in such substantial business operations as manufacturing, distribution and management) shall not be deemed a “beneficial owner”. If the PRC tax authorities determine that our Hong Kong subsidiary is a “conduit company”, we may not be able to enjoy a preferential withholding tax rate of 5%.

Regulations relating to offshore investment activities by PRC residents may subject us or our PRC resident beneficial owners to fines or sanctions imposed by the PRC government, including restrictions on our PRC subsidiary’s abilities to pay dividends or make distributions to us and our ability to increase our investment in our PRC subsidiary.

On 4 July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37, which replaced the former SAFE Circular 75 promulgated on 21 October 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE with regards to their direct establishment or indirect control of an offshore entity established for the purpose of overseas investment and financing and holding such PRC residents’ legally owned assets or equity investments in domestic enterprises or offshore assets or interests (referred to as a “special purpose vehicle” in SAFE Circular 37). SAFE Circular 37 further requires amendments to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfil the required SAFE registration, the PRC

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subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted to contribute additional capital into its PRC subsidiary. Failure to comply with various SAFE registration requirements could result in liability under PRC law for foreign exchange evasion. According to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which was promulgated on 13 February 2015 by SAFE and became effective on 1 June 2015, SAFE shall conduct indirect regulation on the foreign exchange registration of direct investment whereby verification and approval of foreign exchange registration under overseas direct investment including the registration relating to SAFE Circular 37 shall be directly examined and handled by banks instead of SAFE and its branches.

All of our individual PRC resident Shareholders had completed the formalities in respect of the foreign exchange registration of overseas investment of PRC resident according to the then effective SAFE Circular 75. As confirmed by the Shenzhen branch of China Merchants Bank (“CMB”), one of the banks in charge of the registration relating to SAFE Circular 37, our individual PRC resident Shareholders are not required to complete the change of the foreign exchange registration under SAFE Circular 37, given that (i) individual PRC residents who had completed the formalities in respect of the foreign exchange registration of overseas investment of PRC resident according to the then effective SAFE Circular 75 do not need to go through the formalities in respect of the foreign exchange registration pursuant to SAFE Circular 37; (ii) only the special purpose vehicles that are directly held by the individual PRC residents are subject to the registration in practice, and the special purpose vehicles that our individual PRC resident Shareholders directly hold have not changed due to the Reorganisation.

Failure to comply with PRC regulations regarding the registration requirements for employee equity incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company (《境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or SAFE Circular 7, issued on 15 February 2012, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in the PRC for a continuous period of not less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. After our Company becomes an overseas listed company upon the completion of the Global Offering, we and our directors, executive officers and other employees who are PRC citizens or who are foreigners residing in the PRC for a continuous period of not less than one year and who have participated in the employee equity incentive plan(s) of our Company will be subject to SAFE Circular 7. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit the ability to make payment under our equity incentive plans or receive dividends or sales proceeds

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related thereto, or our ability to contribute additional capital into our PRC subsidiary and limit our PRC subsidiary's ability to distribute dividends to us. We may also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our directors and employees under PRC law.

In addition, SAT has also issued certain circulars with respect to the employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiary has the obligation to file documents relating to the employee share options with the relevant tax authorities and to withhold individual income tax for those employees. If our employees fail to pay or we fail to withhold such income taxes in accordance with relevant laws and regulations, we may face sanctions imposed by government authorities.

The strengthened scrutiny by the PRC tax authorities over acquisition and disposition transactions of shares may have an adverse impact on us or your disposition of our Shares.

On 10 December 2009, the SAT issued the Notice on Strengthening the Administration of Enterprise Income Tax on Gain Derived from Equity Transfer Made by Non-Resident Enterprise (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (“**Circular 698**”), which was retroactively effective from 1 January 2008. Pursuant to the Circular 698, if we dispose of any direct or indirect equity interest in our PRC subsidiary, we may be subject to income tax on capital gains generated from such disposal of equity interest. The PRC tax authorities have the discretion under the Circular 698 to make adjustments to the taxable capital gains based on the differences between the fair value of the equity interest transferred and the cost of investment. If the PRC tax authorities make such adjustments, our income tax costs would be increased.

On 3 February 2015, the Announcement of the State Administration of Taxation on Certain Issues Concerning the Enterprise Income Tax on the Indirect Transfer of Properties by Non-resident Enterprises (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“**Circular 7**”) issued by the SAT came into effect. The promulgation of Circular 7 further strengthened PRC tax authorities' scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-resident enterprise by stipulating that if a non-resident enterprise indirectly transfers its equity interest in the PRC resident enterprises and other properties by implementing arrangements such as transfer of shares in an overseas enterprise, without reasonable commercial purposes but to evade the enterprise income tax, the nature of this indirect transfer shall be re-defined and recognised as a direct transfer of equity interest in a PRC resident enterprise and other properties, thus subject to relevant EIT obligations in the PRC.

Transferring shareholders may become subject to PRC tax reporting obligations or tax liabilities under Circular 7 if (i) the transferring shareholders are non-resident enterprises; and (ii) the transfer of our Shares by such shareholders is determined as not having any reasonable commercial purpose by competent tax authorities.

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If any future transfer of our Shares constitute an indirect transfer of the PRC taxable properties and is subject to the EIT obligation under Circular 7, the amount of the EIT shall be calculated based on the “income from the transfer” and applicable tax rate. Circular 698 stipulates that income from transfer of equity interest means the difference between the consideration for transfer and costs of equity interest. In respect of tax rate, a withholding tax rate of 10% shall be applicable, unless otherwise provided in the relevant tax treaty. However, as advised by our PRC Legal Adviser, since the circumstances for indirect transfer of the PRC Taxable Properties are generally more complicated, the tax payable in connection with such transfers is subject to the final decision of relevant taxation authorities.

No implementing rules relating to Circular 7 have been released yet, it is not clear how the relevant taxation authorities would determine whether the transfer of our Shares by shareholders may have a reasonable commercial purpose or not. As stated in the section headed “Information about this Prospectus and the Global Offering”, potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of and dealing in the Offer Shares (or exercising rights attached to them).

It may be difficult to effect service of process upon us or some of our Directors or senior management who reside in the PRC or to enforce against them in the PRC any judgements obtained from non-PRC courts.

We have principal place of business in the PRC. Some of our Directors and senior management reside within the PRC. Substantially all of our assets and substantially all of the assets of those persons are located in the PRC. Therefore, it may be difficult for investors to effect service of process upon us or those persons inside the PRC or to enforce against us or them in the PRC any judgements obtained from non-PRC courts.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts of the Cayman Islands and many other jurisdictions. Therefore, recognition and enforcement in the PRC of judgements of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

RISKS RELATING TO THE GLOBAL OFFERING

There has not been a public market for our Shares prior to the Global Offering; the market price of our Shares may be volatile and an active trading market for our shares may not develop.

Prior to the Global Offering, there has not been a public market for our Shares. The initial issue price range for our Shares to the public will be the result of negotiations between our Company and the Sole Global Coordinator (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of the Shares following the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market

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for our Shares will develop, or if it does, that it will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering. Furthermore, the liquidity, trading price and trading volume of our Shares may be volatile, which may be subject to various factors, including but not limited to:

- actual or anticipated fluctuations in our operating results;
- changes in financial estimates or recommendations by securities analysts;
- announcements made by us or our competitors;
- release of new and popular products or services by us or our competitors;
- regulatory developments in the PRC affecting us, our business partners or our competitors, in particular, restrictive regulations or limitations imposed on our industries by relevant authorities;
- investors' perception of us and of the investment environment in Asia, including Hong Kong and the PRC;
- developments in the industries/sectors where we operate or intend to enter;
- changes in pricing made by us or our competitors;
- announcements of competitive developments, material acquisitions, strategic alliances or capital commitments by us or our competitors;
- recruitments or losses of key personnel by us or our competitors;
- actual or potential litigation or regulatory investigations and proceedings;
- fluctuations of exchange rates between Renminbi and other currencies;
- the depth and liquidity of the market for our Shares;
- release or expiry of lock-up or other transfer restrictions on our Shares;
- sales or anticipated sales of additional Shares; and
- the general economic and market conditions, regional or global, or other developments or factors affecting us and our industries.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have from time to time experienced price volatility and trading volume fluctuations in the past that may not necessarily be related or in proportion to the operating performance of such companies. These broad market fluctuations may also materially and adversely affect the market price of our Shares.

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Any exercise of options granted under the Pre-IPO Share Option Scheme will have a dilutive effect on your shareholding.

On 15 September 2015, we assumed the 2008 Share Plan of SMIT Corporation as our Pre-IPO Share Option Scheme. The number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme as at the Latest Practicable Date was 39,610,510 Shares, which will be adjusted proportionally to 58,470,406 Shares upon completion of the Capitalisation Issue. The 58,470,406 Shares subject to the options granted under the Pre-IPO Share Option Scheme represents 19.49% of the issued share capital of our Company immediately upon the completion of the Capitalisation Issue and the Global Offering. For more information, please refer to the section headed “Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

In addition, if any grantees exercise their options under the Pre-IPO Share Option Scheme, such additional Shares may be issued at a price that is lower than the trading price or fair market value of our Shares at the relevant time. Therefore, your shareholding in our Company is subject to dilution in terms of both your ownership percentage in our Company and the fair value of the Shares you hold. Immediately following completion of the Capitalisation Issue and the Global Offering, the number of issued Shares will be 300,000,000. Upon completion of the Capitalisation Issue and the Global Offering, the maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme will be 58,470,406 Shares as discussed above. Accordingly, assuming full exercise of the outstanding options granted under the Pre-IPO Share Option Scheme upon completion of the Capitalisation Issue and Global Offering, the number of issued Shares will be 358,470,406, thus diluting the shareholding of the Shareholders by approximately 16.31%. Assuming that the Company had been listed on the Stock Exchange since 1 January 2015 with 300,000,000 Shares in issue, the earnings per Share for the year ended 31 December 2015 on a pro forma basis would be approximately US\$0.011. Further assuming full exercise of options granted under the Pre-IPO Share Option Scheme with respect to 58,470,406 Shares on 1 January 2015, the earnings per Share for the year ended 31 December 2015 on a pro forma basis would be diluted to approximately US\$0.009. For further information on the basis and calculation of the dilution effect of the Pre-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus. As at the Latest Practicable Date, none of the options granted under the Pre-IPO Share Option Scheme had been exercised by the grantees.

You will incur immediate dilution in pro forma net tangible asset value per Share and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of the Shares in the Global Offering will experience an immediate dilution in pro forma net tangible asset value to HK\$2.2 per Share, based on the mid-point of the Offer Price range of HK\$3.49. To expand our business, we may consider offering and issuing additional Shares or equity-linked securities in the future. Purchasers of the Shares in the Global Offering may experience further dilution in the net tangible asset value per Share of their Shares if we issue additional Shares or equity-linked securities in the future at a price which is lower than the net tangible asset value per Share at that time.

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Future sales or perceived sales of our Shares in the public market by any of our Fund Investors following the Global Offering could materially and adversely affect the prevailing market price of our Shares.

Future sales of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sales, by our Fund Investors, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. None of our Fund Investors is a controlling shareholder of the Company that are required to be subject to a lock-up undertaking for disposing their Shares in our Company upon the Listing pursuant to the Listing Rules. Certain of our Fund Investors have, however, agreed to lock-up of their Shares upon the Listing. Any major disposal of our Shares by any of our Fund Investors upon the Listing or upon expiration of the relevant lock-up periods, as the case may be, or the perception that such disposals may occur, may cause the prevailing market price of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

There will be a gap of several days between pricing and trading of our Shares, and the price of our Shares when trading begins could be lower than the Offer Price.

The initial price to the public of our Shares sold in the Global Offering is expected to be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be not more than five business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of pricing and the time trading begins.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ from the laws of Hong Kong and other jurisdictions.

We are an exempted company incorporated in the Cayman Islands with limited liability, and the law of the Cayman Islands differs in some respects from that of Hong Kong or other jurisdictions where investors may be located.

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Company Law and the common law of the Cayman Islands, all as amended from time to time. The rights of shareholders to take legal action against us and our Directors, actions by minority shareholders and the fiduciary duties of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

For further details, please also refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus.

RISK FACTORS

There can be no assurance of the accuracy of certain facts, forecasts and other statistics obtained from various third-party sources contained in this prospectus.

We have derived certain facts, forecasts and other statistics in this prospectus relating to the PRC, other countries and regions and the industries in which we operate from various third-party sources that we believe to be reliable and appropriate. While we have taken reasonable care in the reproduction of the information and our Directors have no reason to believe that any of the information is false or misleading or that any fact has been omitted that would render it false or misleading, such facts, forecasts and statistics have not been prepared or independently verified by us, the Sole Sponsor, the Sole Global Coordinator or any of our or their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Global Offering. Therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC or available from other sources. Due to possibly flawed or ineffective sampling or discrepancies between published information and market practices or other reasons, such facts, forecasts and statistics may be inaccurate and may not be comparable to official statistics and you should not place undue reliance on them. Accordingly, you should consider carefully how much weight or importance you should attach to or place on such facts, forecasts or statistics as basis for investing in our Shares.

You should only rely on the information included in this prospectus to make your investment decision, and we strongly caution you not to rely on any information contained in press articles or other media coverage relating to us, our Shares or the Global Offering.

There may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. We have not authorised the disclosure of any information concerning the Global Offering in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In preparation of the Listing, the Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from the relevant provisions of the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

WAIVER AND EXEMPTION IN RELATION TO THE PRE-IPO SHARE OPTION SCHEME

Under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this prospectus is required to include, among other things, details regarding the number, description and amount of any of our Shares which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given, full details of all outstanding options and their potential dilution effect on the shareholdings upon Listing, as well as the impact on the earnings per Share arising from the exercise of such outstanding options under the Pre-IPO Share Option Scheme.

The Company granted the Pre-IPO Share Options to 138 persons (“**Grantees**”) to subscribe for an aggregate of 39,610,510 Shares on the terms set forth in the section headed “Appendix IV — Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme” in Appendix IV. Upon completion of the Capitalisation Issue, the number of Outstanding Shares subject to the Pre-IPO Share Option Scheme will, pursuant to the Pre-IPO Share Option Scheme, be adjusted proportionally to 58,470,406 Shares. These persons include three Grantees who are Directors, two Grantees who are the Company’s senior management members, five Grantees who are connected persons of the Company (other than the Directors), 15 Grantees who are consultants of the Group and the remaining 113 Grantees who are other employees or former employees of the Group (“**Other Grantees**”).

The Company has applied for (i) a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules and (ii) an exemption from strict compliance with paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the disclosure of certain details relating to the Pre-IPO Share Options and certain Grantees under the Pre-IPO Share Option Scheme on the grounds that full compliance with such disclosure requirements would be unduly burdensome for the Company and that the interest of public investors will not be prejudiced if a waiver and exemption from strict compliance of such disclosure requirements are granted to the Company. In light of the requirements under the relevant regulations described above, the Company has made the following submissions to the Stock Exchange and the SFC:

- i. the Pre-IPO Share Options are granted to a total of three Grantees who are Directors, two Grantees who are the Company’s senior management members, five Grantees who are connected persons of the Company (other than the Directors), 15 Grantees who are consultants of the Group and 113 Other Grantees. The disclosure of full details of all the

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Pre-IPO Share Options granted by the Company in the Prospectus, would involve an additional 30 pages of content to be inserted into the Prospectus, which would significantly increase the cost and timing for information compilation, prospectus preparation and printing; and

- ii. disclosure of key information of the Pre-IPO Share Options granted to Directors, the Company's senior management members, connected persons of the Company, consultants of the Group and the nine Other Grantees who have each been granted Pre-IPO Share Options to subscribe for 700,000 or more Shares (immediately following completion of the Capitalisation Issue and the Global Offering) would be included in the section headed "Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme" in Appendix IV. Carving out the 34 grantees as mentioned above, the remaining 104 grantees (the "**Remaining Grantees**"), being employees or former employees of the Group, have been granted options to subscribe for an aggregate of 8,595,714 Shares under the Pre-IPO Share Option Scheme immediately following completion of the Capitalisation Issue and the Global Offering, collectively representing only 2.87% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme. In addition, full disclosure on all Pre-IPO Share Options granted to the Remaining Grantees on an aggregate basis, including (a) the aggregate number of Remaining Grantees; (b) the number of Shares underlying the Pre-IPO Share Options; (c) the consideration paid for the Pre-IPO Share Options or an appropriate negative statement; (d) the exercise period of each Pre-IPO Share Option; and (e) the exercise price of the Pre-IPO Share Options would be included in the section headed "Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme" in Appendix IV. As such, a waiver and exemption from the applicable disclosure requirements under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions Ordinance) would not hinder potential investors from making an informed assessment of our activities, assets and liabilities, financial position, management and prospects.

The Stock Exchange has granted the Company a waiver, subject to the conditions that:

- the grant of a certificate of exemption from strict compliance with the relevant Companies (Winding Up and Miscellaneous Provisions) Ordinance requirements by the SFC and the particulars of the exemption be disclosed in this prospectus;
- on an individual basis, the full details of the Pre-IPO Share Options granted by the Company to the Directors, the Company's senior management members, connected persons of the Company, consultants of the Group and the nine Other Grantees who have each been granted the Pre-IPO Share Options to subscribe for 700,000 or more Shares (immediately following completion of the Capitalisation Issue and the Global Offering), including all the particulars required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be disclosed in this prospectus;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- in respect of the Pre-IPO Share Options granted by our Company to the Remaining Grantees, the following details be fully disclosed in this prospectus:
 - (i) the aggregate number of the Remaining Grantees;
 - (ii) the number of Shares subject to such Pre-IPO Share Options and the percentage of our Company's total issued share capital represented by such Shares;
 - (iii) the consideration paid for the grant of such Pre-IPO Share Options or an appropriate negative statement;
 - (iv) the exercise period of the Pre-IPO Share Options; and
 - (v) the exercise price range for the Pre-IPO Share Options;
- the dilution effect and impact on earnings per Share upon full exercise of the Pre-IPO Share Options be disclosed in this prospectus;
- the aggregate number of Shares subject to the outstanding Pre-IPO Share Options and the percentage of our Company's issued share capital of which such number represents be disclosed in this prospectus;
- a summary of the Pre-IPO Share Option Scheme be disclosed in this prospectus; and
- a full list of all the Grantees (including the Remaining Grantees) who have been granted Pre-IPO Share Options, containing all details as required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with "Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Available for Inspection".

The SFC has granted a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting the Company from strict compliance with paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, subject to the conditions that:

- on an individual basis, the full details of the Pre-IPO Share Options granted by the Company to the Directors, the Company's senior management members, connected persons of the Company, consultants of the Group and the nine Other Grantees who have each been granted the Pre-IPO Share Options to subscribe for 700,000 or more Shares (immediately following completion of the Capitalisation Issue and the Global Offering), including all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be disclosed in this prospectus;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- in respect of the Pre-IPO Share Options granted by the Company to the Remaining Grantees, the following details be disclosed in this prospectus:
 - (i) the aggregate number of the Remaining Grantees;
 - (ii) the number of Shares subject to such Pre-IPO Share Options;
 - (iii) the consideration paid for the grant of such Pre-IPO Share Options or an appropriate negative statement;
 - (iv) the exercise period of the Pre-IPO Share Options; and
 - (v) the exercise price range for the Pre-IPO Share Options;
- a full list of all the Grantees (including the Remaining Grantees), containing all the details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be made available for public inspection in accordance with “Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents available for inspection”; and
- the particulars of such exemption be disclosed in this prospectus.

Further details of the Pre-IPO Share Option Scheme are set forth in the section headed “Appendix IV — Statutory and General Information — Pre-IPO Share Option Scheme”.

MANAGEMENT PRESENCE IN HONG KONG

Under Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that our principal business operations are located, managed and conducted in the PRC and our senior management predominately resides in the PRC (save for Mr. Huang Xueliang who ordinarily resides in Hong Kong), our Company do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, subject to the following conditions:

- (a) Our Company will appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our Company’s principal channel of communication with the Stock Exchange and ensure that our Company will comply with the Listing Rules at all times. The two authorised representatives are Mr. Huang Xueliang (the executive Director) and Mr. Loong, Manfred Man-Tsun (the chief financial officer and executive vice

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president). The authorised representatives will be available to meet with the Stock Exchange on reasonable notice as and when required and will be able to contact the Directors promptly at all times by telephone, facsimile or email as and when the Stock Exchange wishes to contact the Directors on any matters;

- (b) Each of the Directors (including the non-executive Directors and the independent non-executive Directors) holds valid travel documents and will be available to travel to Hong Kong to meet with the Stock Exchange within a reasonable timeframe upon request. Each of them will be readily contactable by telephone, facsimile and email, and is authorised to communicate on our Company's behalf with the Stock Exchange;
- (c) Mr. Huang Xueliang and Mr. Loong, Manfred Man-Tsun, who are ordinarily resident in Hong Kong, will (i) provide their office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the Stock Exchange; and (ii) will be able to contact the Directors and the other authorised representative promptly by telephone, facsimile and email at all times as and when the Stock Exchange wishes to contact the Directors on any matters;
- (d) Our Company has appointed Haitong International Capital Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will have access at all times to the authorised representatives, the Directors and the other senior management members and will act as the principal channel of communication with the Stock Exchange when the authorised representatives are not available. The compliance adviser has been appointed for a period commencing on the Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules. The compliance adviser will act as an additional channel of communication with the Stock Exchange;
- (e) To further enhance communication between the Stock Exchange, the authorised representatives and the Directors, our Company has implemented a policy whereby (i) each Director will have to provide his mobile phone number, residential phone number, facsimile number and email address to the authorised representatives; (ii) in the event that a Director expects to travel and be out of office, he will have to provide the phone number of the place of his accommodation or other means of communications to the authorized representatives; and (iii) all Directors will provide their mobile phone numbers, office phone numbers, facsimile numbers and email addresses to the Stock Exchange; and
- (f) Meetings between the Stock Exchange and the Directors could be arranged through the authorised representatives or the compliance adviser, or directly with the Directors within a reasonable timeframe.

Our Company will inform the Stock Exchange promptly in respect of any change in our authorised representatives and/or compliance adviser.

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CONTINUING CONNECTED TRANSACTION

The Company has entered into, and are expected to continue to carry on transaction which would constitute continuing connected transaction under the Listing Rules upon the Listing. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirements under Chapter 14A of the Listing Rules. Further details of such non-exempt continuing connected transaction and the waiver are set out in the section headed “Continuing Connected Transaction” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus 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 prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Hong Kong Public Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Lead Manager, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as at any date subsequent to the date of this prospectus.

UNDERWRITING

The Global Offering comprises the Hong Kong Public Offering of initially 7,500,000 Hong Kong Offer Shares and the International Offering of initially 67,500,000 International Offer Shares (subject, in each case, to reallocation on the basis as set out in the section headed “Structure of the Global Offering” in this prospectus).

The application for listing of our Shares is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Sole Global Coordinator (on behalf of the Underwriters) and our Company. The International Offering is managed by the Sole Global Coordinator and is expected to be underwritten by the International Underwriters. The International Underwriting Agreement is expected to be entered

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

into on or about Monday, 21 March 2016, subject to agreement on the Offer Price between the Company and the Sole Global Coordinator (on behalf of the Underwriters). Further details of the Underwriters and the underwriting arrangements are set forth in the section headed “Underwriting” in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Sole Global Coordinator (on behalf of the Underwriters) and us on or around Monday, 21 March 2016, and in any event no later than Thursday, 24 March 2016.

If, for any reason, the Sole Global Coordinator (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price on or before Thursday, 24 March 2016 or such later date or time as may be agreed between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON OFFER AND SALE OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or deemed by his acquisition of the Hong Kong Offer Shares to, confirm that he is aware of the restrictions on offers and sales of the Shares described in this prospectus, where applicable.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to any registration made with or authorisation by the relevant securities regulatory authorities or an exemption from applicable securities laws.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of listing of, and permission to deal in, our Shares in issue prior to the Global Offering and to be issued pursuant to the Capitalisation Issue and the Global Offering (including any additional Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme).

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Wednesday, 30 March 2016. Save as disclosed in this prospectus, no part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Lead Manager, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

STAMP DUTY

Dealings in our Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. If you are unsure about the taxation implications of subscribing for the Offer Shares, or about purchasing, holding or disposing of or dealing in them, you should consult an expert.

PROCEDURES FOR APPLICATION FOR THE HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set forth under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and in the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this prospectus.

REGISTER OF MEMBERS

Our Company’s principal register of members will be maintained by its Cayman Share Registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands and our Company’s Hong Kong register of members will be maintained by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. All Shares to be issued pursuant to the Global Offering, and any Shares to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme will be registered on our Company’s Hong Kong register of members maintained in Hong Kong. Only Shares registered on our Company’s Hong Kong register of members maintained in Hong Kong may be traded on the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, our Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Hong Kong dollars have been translated, for the purpose of illustration only, into Renminbi and U.S. dollars, and vice versa, in this prospectus at the following rate:

HKD1.19: RMB1.00

HKD7.75: US\$1.00

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred, or hundred thousand, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding. Accordingly, the total of each column of figures as presented may not be equal to the sum of the individual items.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Director		
Huang Xueliang (黃學良)	Flat H, 10/F Nam Tien Mansion 18C Taikoo Shing Road Hong Kong	Chinese
Non-executive Directors		
Zeng Zhijie (曾之傑)	1273B You Shan Mei Di Yuyang Road Hou Sha Yu Town Shunyi District Beijing PRC	Chinese
Kwan, Allan Chung-yuen (關重遠)	Flat A, 15/F, Block T44 Pak Hoi Mansion 1 Tai Koo Wan Road Quarry Bay Hong Kong	Chinese
Independent non-executive Directors		
Zhang Junjie (張俊傑)	Room 11D, Building 31 Yangguang Zonglv Garden Nanshan District Shenzhen, PRC	Chinese
Woo Kar Tung, Raymond (胡家棟)	Room B, Floor 1, Braemar Hill Mansions No. 37 Braemar Hill Road Hong Kong	Chinese
Jin Yufeng (金玉豐)	Room 706, Building 4 Shenzhen Campus for Post-graduates of Peking University Nanshan District Shenzhen PRC	Chinese

Please refer to the section headed “Directors and Senior Management” in this prospectus for further details.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Haitong International Capital Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

**Sole Global Coordinator,
Sole Bookrunner and
Lead Manager**

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

**Co-lead Managers (*in alphabetical
order*)**

Alliance Capital Partners Limited

Unit 318, 3/F, Shui On Centre
6-8 Harbour Road, Wanchai
Hong Kong

Convoy Investment Services Limited

Room C, 24/F, @CONVOY
169 Electric Road, North Point
Hong Kong

RHB Securities Hong Kong Limited

12/F, World-Wide House
19 Des Voeux Road Central
Hong Kong

Legal Advisers to our Company

As to Hong Kong law:

Norton Rose Fulbright Hong Kong

38/F, Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC law:

Zhong Lun Law Firm

9-10/F, Tower A
Rongchao Tower
6003 Yitian Road
Futian District, Shenzhen
PRC

As to Cayman Islands law:

Maples and Calder

53/F, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<i>As to sanctions law:</i> DLA Piper Hong Kong 17/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
Legal Advisers to the Sole Sponsor and Underwriters	<i>As to Hong Kong law:</i> Kirkland & Ellis 26/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong <i>As to PRC law:</i> Grandall Law Firm (Shenzhen) 22 & 24/F Shenzhen Special Zone Press Tower 6008 Shennan Blvd Shenzhen PRC
Reporting Accountant	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building Central Hong Kong
Industry Consultant	Frost & Sullivan 28/F, Tower A Dawning Centre 500 Hongbaoshi Road Shanghai PRC
Receiving Bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered Office in the Cayman Islands	Maples Corporate Services Limited PO Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands
Principal Place of Business in the PRC	SSMEC Building Gao Xin Nan First Avenue High-Tech Park South Nanshan District, Shenzhen, PRC
Headquarters and Principal Place of Business in Hong Kong	Flat/Rm 4801, 48/F Central Plaza 18 Harbour Road Wanchai Hong Kong
Company's Website	www.smit.com.cn <i>(The information on the website does not form part of this prospectus)</i>
Company Secretary	Mr. Cheng Kai Pui, Eric (CPA) Room 5, 19/F Hin Tsui House Kai Tsui Court Siu Sai Wan Hong Kong
Authorised Representatives	Mr. Huang Xueliang Mr. Loong, Manfred Man-tsun
Audit Committee	Mr. Woo Kar Tung, Raymond (Chairman) Mr. Zeng Zhijie Mr. Kwan, Allan Chung-yuen
Remuneration Committee	Mr. Zhang Junjie (Chairman) Mr. Jin Yufeng Mr. Zeng Zhijie
Nomination Committee	Mr. Huang Xueliang (Chairman) Mr. Jin Yufeng Mr. Woo Kar Tung, Raymond

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Certain information contained in this section and elsewhere in this prospectus has been derived from various public sources or extracted from a commissioned market research report prepared by Frost & Sullivan for the purposes of this prospectus. We believe that the sources of the information in this section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or that any fact has been omitted that would render such information misleading. In addition, we believe there is no adverse change in market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on such information. However, such information has not been independently verified by us or any of our Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Lead Manager or the Underwriters and no representation is given as to its accuracy. Such information may not be consistent with the information compiled by other sources.

THE GLOBAL CAM MARKET OVERVIEW

Overview

A conditional access module, or CAM, is an electronic device which generally equips a digital television with the appropriate hardware facility to view pay TV content that has been encrypted using a conditional access system.

The pay TV content value chain for the CAM market includes four main players:

- *Broadcasting Operators.* Broadcasting operators receive pay TV content from content providers and then typically choose one or two CA providers to encrypt the pay TV content using CA encryption technology.
- *CA Providers.* CA providers develop and provide the technology for encrypting pay TV content from TV operators and perform technology upgrades every one or two years to ensure the TV content remains securely encrypted.
- *CAM Suppliers.* CAM suppliers work with CA providers to produce CAMs which serve as a key to decrypt and access the pay TV content that has been encrypted by incorporating an exclusive conditional access system from the CA providers.
- *TV Manufacturers.* CAMs can then be paired up with digital TVs that have compatible interfaces to view the pay TV content.

CAMs are about the size of a credit card and primarily utilise a PCMCIA interface. CAMs are used with digital televisions to provide access to pay TV content. In addition to decrypting digital broadcasting signals, latest versions of CAMs include additional functions such as personal video recorder, or PVR, and video-on-demand, or VOD.

CAMs are only used with digital televisions. As countries gradually transition from analog TV broadcasting to digital TV broadcasting, a process known as digitisation, the market for CAMs will steadily grow. Most of Europe have already completed or are close to completing the digitisation process and most other countries around the world have begun the process.

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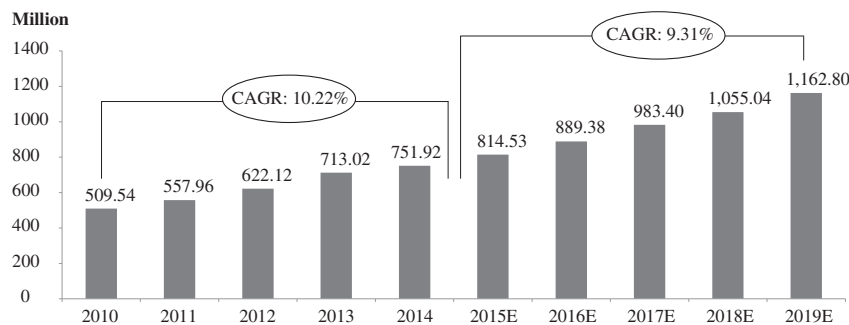
Although the digitisation process is accelerating worldwide, the technology standards for digital signal broadcasting differ across regions. A variety of digital television broadcasting systems are in use around the world. DVB standards are the most commonly used digital broadcasting standards in the world, covering a lot of regions including Europe, China, Africa, Australia and India. Japan and North America each has its own digital broadcasting standards. CAMs are primarily used in regions that adhere to the DVB standards.

Global Digital TV Overview

Because of the digitisation process around the world, the global digital TV household market size increased at a CAGR of 10.2% from 2010 to 2014, reaching 751.9 million households in 2014. According to Frost & Sullivan, the global digital TV household market size is expected to grow steadily from 2015 to 2019 at a CAGR of 9.3%, reaching 1,162.8 million households by 2019.

The following chart illustrates the historical and projected changes in global digital TV households from 2010 to 2019:

Global digital TV Households, 2010-2019E



Source: Frost & Sullivan

CAM Market Overview

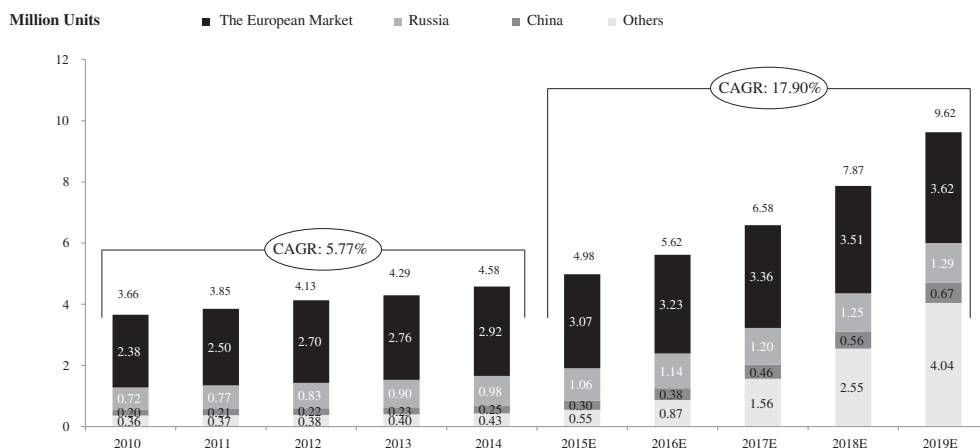
We entered the CAM market in western Europe in 2006 and have been steadily expanding our geographic markets and product portfolio since. The global CAM market has been growing steadily due to the digitisation process, as digital TVs with compatible CAM interfaces such as PCMCIA slots have become increasingly available and in use. The global CAM market sales volume increased at a CAGR of 5.8% between 2010 and 2014, reaching 4.6 million units in 2014, according to Frost & Sullivan. The European Market has been a major market as (i) its digitisation rate (digital TV households as a percentage of total TV households) had reached approximately 92% as at 30 June 2015 and (ii) the mandated common interface standards in European Union countries for digital TVs allowed for industry standardisation. Frost & Sullivan estimates that increasing digitisation worldwide will further develop the CAM market with the market size by sales volume expected to increase at a CAGR of 17.9% between 2015 and 2019, reaching 9.6 million units in 2019, outpacing the growth from 2010 to 2014. According to Frost & Sullivan, the most significant driving force for the forecasted higher growth of global CAM market by sales volume is the significant market demand arising from

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emerging CAM markets such as Asian Pacific countries including India, Indonesia, Vietnam, Malaysia, Thailand, as well as African and Middle East countries which are mostly in the early stages of digitisation. In addition, CAM markets such as Russia and China are still undergoing digitisation with higher technical standards and compatibility to cater to the evolving and ever-diversifying demands of the customers, which will help to drive the market demand in these regions to contribute to the global CAM market size growth for the coming years. Moreover, despite its high digitisation rate, the European Market still constitutes a substantial part of the global CAM market size by sales volume and is expected to be further driven primarily by market demands from European countries still undergoing digitisation, in particular, Eastern European countries such as Romania, Slovenia and Bulgaria, as well as by the updates of CI standards in the whole European Market, including countries that already have or almost have completed the digitisation process.

The following chart illustrates the historical and projected changes in global CAM market size by sales volume from 2010 to 2019:

Global CAM Market Size (by Sales Volume), 2010-2019E



Source: Frost & Sullivan

As at 30 June 2015, the digitisation rate in the European Market reached approximately 92%. Generally, the digitisation rate of Northern Europe and Central Europe is higher than elsewhere in Europe. Certain European countries such as Germany, Switzerland, Croatia, Spain, Denmark, Norway, Iceland, Czech and the Netherlands have either substantially completed or are near completing the digitisation process. Moreover, European Union countries have mandated that the common interface standard be used by TV manufacturers. As such, all digital TVs sold in these countries are compatible with CAMs. The European Market by sales volume grew at a CAGR of 5.2% from 2010 to 2014, reaching 2.9 million units in 2014. According to Frost & Sullivan, the CAM sales volume for the European Market is expected to grow at a CAGR of 4.2% between 2015 and 2019, reaching 3.6 million units by 2019. Future growth is expected to be primarily driven not only by rest of the European Market countries still undergoing digitisation, such as Slovenia, Romania, Bulgaria, the United Kingdom, France and Belgium, but also by the accelerating upgrade of CI standards in the European

INDUSTRY OVERVIEW

Market including for countries which have completed or substantially completed the digitisation process as discussed above. For instance, the DVB-CI+ 1.4 standard, which is expected to be released in 2016 and more prevalently used by 2017, is likely to stimulate CAM product upgrades especially in the established European Market in the years to come.

Russia is currently undergoing digitisation, which is expected to be substantially completed by 2019. Between 2010 and 2014, Russian CAM market size by sales volume grew at a CAGR of 8.0%, reaching 1.0 million units in 2014. As the digitisation process continues to mature, sales volume from the Russian CAM market is expected to grow at a CAGR of 5.0%, reaching 1.3 million units by 2019 despite the effect of the economic slowdown in Russia starting in 2014.

In China, the CAM market has grown steadily since the PCMCIA interface standard was issued as a recommended industry standard by the Ministry of Industry and Information Technology of the PRC in 2006. The digitisation process has developed rapidly, creating further demands for CAMs in China and the market is expected to continue to expand. The China CAM market size by sales volume grew at a CAGR of 6.0% between 2010 and 2014, reaching 0.3 million units in 2014. According to Frost & Sullivan, the China CAM market size by sales volume is expected to increase at a CAGR of 22.4% between 2015 and 2019, reaching 0.7 million units in 2019.

According to Frost & Sullivan, the sales volume of CAMs in the rest of the world grew at a CAGR of 4.5% between 2010 and 2014, reaching 0.4 million units in 2014 and are expected to grow at a CAGR of 64.6% between 2015 and 2019, reaching 4.0 million units by 2019, which is the primary factor contributing to the forecasted higher CAGR growth of 17.9% from 2015 to 2019 compared to the historical CAGR growth of 5.8% from 2010 to 2014 for the global CAM sales volume. According to Frost & Sullivan, such forecasts are made mainly based on the following reasons and assumptions:

- (1) the number of digital TV households in the rest of the world (i.e. outside the European Market, Russia and China) is expected to grow from 60.9 million in 2014 to 202.0 million in 2019 at a CAGR of 27.1%, assuming: (a) growing purchasing power of the local consumers with more affordable prices of the digital TVs in those regions; and (b) increasing government investment in the infrastructure to promote the analog-to-digital switch and favourable government policies for the local TV industries to accelerate the commercial adoption of compatible digital TVs;
- (2) the penetration rate of CAM in the rest of world is expected to increase from 0.7% in 2014 to 2.0% in 2019, assuming: (a) CAMs are a more favourable option than STBs for decrypting paid TV contents in emerging CAM markets as CAMs are more cost-efficient, compact and convenient to use; and (b) the DVB-CI+ 2.0 standard to be rolled out in 2018 is expected to standardize USB interface for CAMs to be more flexibly used in emerging CAM markets which generally do not have CI standards widely or mandatorily adopted, thus driving CAM demand in those regions from 2018 onward.

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Key Drivers and Market Trends for the CAM Market

The market size for CAMs globally is expected to continue to grow steadily between 2015 to 2019, according to Frost & Sullivan. The key drivers and markets trends for the CAM market are:

- *Transition to digital television.* From 2010 to 2014, the number of global digital TV households increased from 509.5 million to 751.9 million. The European Market is in the final stage of completing the transition from analog to digital TVs. In China, Russia and other emerging CAM market, the television digitisation process is also developing rapidly and will expand the market potential for CAMs.
- *Development of the pay TV industry.* The global pay TV industry has been growing, evidenced by a surge of pay TV subscribers in recent years especially in some emerging CAM markets, such as India and Indonesia. Although the established pay TV markets in Europe has reached a stage of saturation in terms of the number of subscribers, the market has been growing in terms of the availability of more advanced pay TV programing services, thus increasing the need for security solution products like CAMs.
- *Support from TV manufacturers.* TV manufacturers are cooperating with digital broadcasting operators to produce digital TVs tailored for regional needs. Major TV manufacturers are increasingly producing digital TVs compatible with CAMs, thus driving the development of both the digital TV and CAM markets.
- *Accelerating CI standards.* In 2002, DVB-CI standards became mandatory for all digital televisions in the European Union countries. In China, a similar standard was issued as an industry recommendation by the Ministry of Industry and Information Technology in 2006. The adoption of a widespread CI standards allows for CAMs to be standardised as they become widely compatible with most digital TVs, thus increasing the market for CAMs. To further optimise the digital TV market, the European Union is expected to continue to raise the CI standards for European Union countries and other regions around the world may be expected to adopt similar standards. CAM manufacturers will need to adapt quickly to meet ever-increasing industry standards and requirements for product updates.
- *Rising demands from the emerging CAM markets.* Over the past decade, the global CAM market has been dominated by the European Market, which has accounted for over half of the market size by sales volume. As the tide of digitisation moves forward worldwide, more emerging CAM markets will join the market and the percentage share of the emerging CAM markets in the global CAM market will increase steadily as the major driving force of the global CAM market in the next decade.

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CAM Competitive Landscape

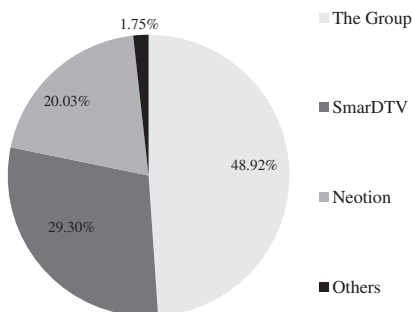
Global CAM Supplier Market Competitive Landscape

The global CAM supplier market is largely concentrated on a few major participants. According to Frost & Sullivan, we were the largest CAM provider globally in 2014 with a sales volume of 2.2 million units out of a total of 4.6 million units sold worldwide, representing a 48.7% market share by sales volume for 2014, and we generated the most CAM product sales in the world for the first half of 2015, with a sales volume of 1.2 million units out of a total 2.5 million units sold worldwide, representing a 48.9% market share. Our two major competitors accounted for 29.3% and 20.0%, respectively, of global CAM product sales by sales volume for both 2014 and the first half of 2015.

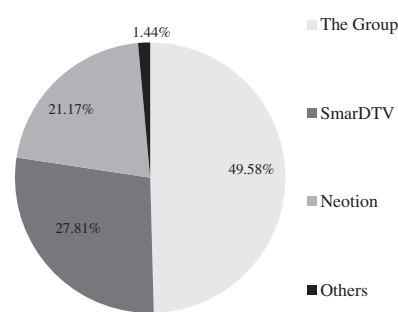
According to Frost & Sullivan, we accounted for 48.7% of the global CAM market revenue in 2014, with sales revenue of US\$43.2 million out of total global CAM sales revenue of US\$88.8 million and we accounted for 49.6% of the global CAM market revenue for the first half of 2015, with sales revenue of US\$20.4 million out of total global CAM sales revenue of US\$41.1 million. Our two major CAM competitors accounted for 27.6% and 21.3%, respectively, of the global CAM market sales revenue in 2014 and accounted for 27.8% and 21.2%, respectively, for the first half of 2015.

The following charts show the breakdown of global CAM sales volume and global CAM market revenue by key CAM suppliers for the first half of 2015:

**Global CAM Market Ranking Analysis by
Sales Volume, 2015 H1**



**Global CAM Market Ranking Analysis by
Revenue, 2015 H1**



Source: Frost & Sullivan

According to Frost & Sullivan, we were the first company to take advantage of the TV digitisation trend in China and began offering CAMs in China in 2006, thereby achieving the largest CAM market share in China with 88.0% by sales volume and 88.7% by revenue in 2014 and 89.7% by sales volume and 89.6% by revenue, respectively, for the first half of 2015.

Our principal competitors in the global CAM market are SmarDTV and Neotion. SmarDTV, a subsidiary of the Kudelski Group, is headquartered in Switzerland and designs and manufactures CAMs and STBs which enable access to pay TV content. SmarDTV works with several CA providers

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associated with the Kudelski Group and it has offices in France, Germany, USA, China and Singapore. Neotion is a CAM provider headquartered in France whose main products include both consumer CAMs and professional CAMs. The company has more than 100 employees with an emphasis on research and development.

Pay TV Security Solutions Competitive Landscape

In the pay TV industry, different security solutions are available for decrypting pay TV content. In particular, CAM suppliers compete primarily with STB suppliers. STBs are predominantly used worldwide as devices which enable end users to access pay TV content primarily from broadcasting operators. According to Frost & Sullivan, the penetration rates of CAMs and STBs for the global Pay TV industry were about 15.9% and 82.1% as at 30 June 2015 in terms of instalment volume by users. Major STB manufacturers in the world include Skyworth and Jezetek, which are both in China.

Compared with STBs, CAMs have the following strengths:

- CAMs are small in size, and are easier to install without any complex wiring.
- CAMs are much more cost efficient and energy saving than STBs especially in receiving high definition TV content.

STBs, on the other hand, possess the following merits:

- CI slots are not required in TVs for STBs to function unlike PCAMs, and thus, STBs are more widely used especially in regions where CI standards are not widely adopted.
- value-added functions such as PVR and VOD are more widely available in STBs than in CAMs.

As opposed to CAMs and STBs, software-based solutions, such as security software used to protect content transmissions for TV operating systems, are a less common form of pay TV content decryption due to their lack of hardware authentication resulting in a much lower security level. According to Frost & Sullivan, the penetration rate of software-based solutions for the global pay TV industry was about only 2.9% as at 30 June 2015 in terms of instalment volume by users. Therefore, the competition posed by software-based solutions to CAMs in the pay TV industry is fairly limited.

Competition faced by the Pay TV Industry

With the rapid development of technologies and changes in consumer preferences, the pay TV industry is facing increasing competition from other newer platforms, such as internet video platforms.

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The popularity of such internet video platforms has been primarily driven by the increasing popularity and availability of the computers, tablets, smart phones and other internet based terminals due to convenience and mobility of usage. Moreover, shifts in viewers' habits, such as growing emphasis on the video-on-demand function and personalised content options, also promote the acceptance and popularity of the internet video platform. As a result, the demand for pay TV industry security solutions, such as CAMs, would be affected by the trend and popularities of such online channels on the Internet.

However, content providers are expanding viewer coverage by pursuing a variety of distribution channels, such as utilising both pay TV as well as internet video platforms, thus facilitating an overall growth in the global expenditure for all entertainment platforms. Furthermore, in the face of the growing popularity of the internet video platform, the pay TV industry remains competitive with its own distinct advantages compared to internet video platform, including the greater availability of live broadcasting and premium higher-resolution content, more stability of transmission and stronger security and content protection. Pay TV transmission is also evolving to create hybrid solutions integrating internet video platforms with its existing broadcasting systems.

CAM Entry Barriers

The global CAM market is concentrated within a few major participants because of high barriers to entry. Some of the key entry barriers are:

- *Cooperation with broadcasting operators and CA providers.* Broadcasting operators generally will choose only one or two CA providers to provide encryption technology for their pay TV content. Due to the strict requirements on quality and security, as well as the needs for flexible customisation, broadcasting operators generally only work with larger, more experienced CA providers with an established reputation. CA providers in turn will generally only authorise one or two CAM suppliers to utilise their encryption technology. As such, it is difficult for new participants to enter the market as they are unlikely to be chosen by CA providers over already established participants.
- *Compatibility with digital TVs.* CAMs are only used with digital TVs that have compatible interfaces. While digital TVs in most of the European Market already incorporate the required interface as a mandatory standard, digital TVs in China and elsewhere are still developing and do not have government mandated standards regarding TV interfaces. As such, collaboration between CAM suppliers and TV manufacturers to produce digital TVs compatible with CAMs is necessary to drive the digital TV market in these markets. Collaboration with major TV manufacturers can be difficult for new entrants, thus creating a barrier to entry.
- *Vertical integration.* As requirements for security become increasingly stringent, broadcasting operators and CA providers now consider vertical integration capabilities essential for CAM suppliers. CAM suppliers must be able to possess chipset, algorithm, software and hardware design capabilities in order to provide comprehensive security solutions to broadcasting operators and CA providers.

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THE CHINA MPOS MARKET OVERVIEW

Overview

Mobile point-of-sale (mPOS) terminals are dedicated wireless devices that perform similar functions as a cash register, allowing users to conduct payment transactions with mobility. mPOS devices have several merits compared to traditional stationary POS terminals. Stationary POS terminals are non-portable, heavy and space consuming, and are established with complex wirings with data transmission through fixed landlines. In contrast, mPOS devices are portable, light-weight and compact devices that are easy to set up for with wireless operation. Starting in July 2013, we began developing and selling mPOS devices for smartphones and tablets to be used in conjunction with mobile applications to process payment transactions. The mPOS devices possess card reading systems which can read information from a variety of credit and debit cards.

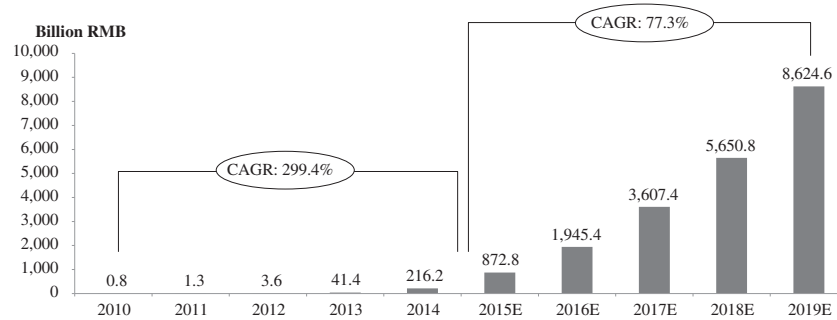
The mobile payment market includes software-based payment platforms such as Alipay or Tenpay, as well as hardware-based platforms in which mPOS devices play a part.

According to Frost & Sullivan, the transaction value generated by mPOS terminals in China has increased considerably over the past few years, reaching RMB216.2 billion in 2014, representing a CAGR of 299.4% since 2010. According to Frost & Sullivan, the transaction value generated by mPOS terminals in China is expected to further grow at a CAGR of 77.3% between 2015 and 2019, reaching RMB8,624.6 billion by 2019, which is mainly driven by the accelerating demand from physical small and micro businesses in China. According to Frost & Sullivan, as at 30 June 2015, there were over 58 million physical small and micro businesses in China most of which have not installed traditional POS terminals out of cost concerns and are in need of a suitable and convenient way of payment collection for their daily business. mPOS devices are used with well-established banking infrastructure, namely credit and debit cards, which are widely available and accepted. As such, solutions that are compatible with this infrastructure, such as mPOS devices, are able to serve a large pre-existing user base. This large population of physical small and micro businesses presents a great growth potential for the mPOS terminal market in China as mPOS devices are more cost efficient and flexible to use than traditional POS terminals and are more secure than software-based payment solutions, and are therefore, more likely to be chosen by physical small and micro businesses, resulting in the expected significant growth in the mPOS terminal market by transaction value for the next five years.

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The following chart illustrates the historical and projected changes in China mPOS terminal market size by transaction value from 2010 to 2019:

China mPOS Terminal Market Size (By Transaction Value), 2010-2019E

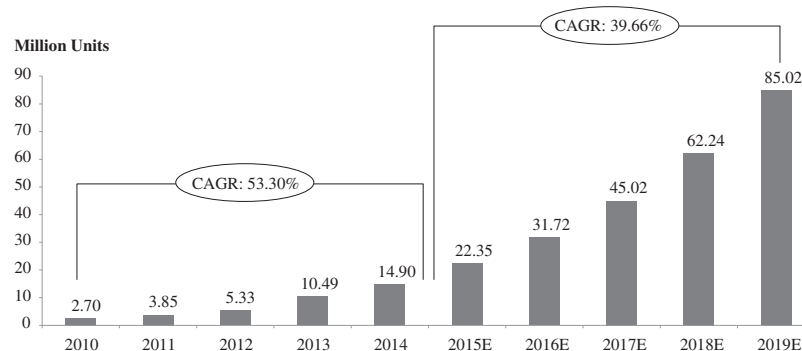


Source: Frost & Sullivan

According to Frost & Sullivan, due to the lower costs of mPOS terminal compared to traditional POS terminals and the convenience and operational flexibility of a mobile payment system, sales of mPOS device units have grown considerably at a CAGR of 53.3% between 2010 and 2014, reaching 14.9 million units in 2014. The mPOS terminal market in China is forecasted to further grow at a CAGR of 39.7% between 2015 and 2019 by sales volume, reaching 85.0 million units by 2019, according to Frost & Sullivan.

The following chart illustrates the historical and projected changes in China mPOS terminal market size by sales volume from 2010 to 2019:

China mPOS Terminal Market Size (By Sales Volume), 2010-2019E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Key Drivers and Market Trends for the mPOS Market

The key drivers and market trends for the mPOS terminal market growth are:

- *Ever increasing mobile payment demand.* With the fast development of mobile internet networks and the changes in consumer purchasing habits, mobile payment is being adopted in an increasing number of countries. The market for mobile payments is expected to expand in the future due to the increased popularity of wireless network combined with the decreased cost of mobile devices, driving more businesses to adopt mobile solutions for more efficient payments.
- *Increased demands on secure payment.* There has been increasing demands on mobile payment market players to implement effective mechanisms to ensure transaction security and protection of end users' personal information. mPOS devices utilised by hardware-based mobile payment service providers need to pass stringent safety accreditation to be accepted for mobile payment activities in the PRC.
- *Operational and cost efficiency.* Compared to traditional stationary POS terminals, mPOS devices are easier to implement and operate without the need for any additional wiring. mPOS devices are also cheaper than traditional POS terminals, making it an ideal and more affordable option for small businesses. The market potential for mPOS devices is expected to grow in the near future as consumers have eschewed landlines and wired infrastructures for mobile connections.
- *More Value-added services available.* Compared with traditional POS terminals which can only be used for payment settlement, mPOS terminals have the ability to provide users with a variety of other value-added services such as customer information management, purchasing behaviour recording and analyses and inventory management. These services help users to more efficiently conduct their marketing activities and allocate resources.

mPOS Competitive Landscape

mPOS and Competing Payment Methods

In the third-party payment market in China, mPOS primarily competes with traditional POS terminals and software-based payment solutions, such as Alipay.

Stationary POS terminals, as a more traditional third-party payment method, are currently more widely adopted in China especially for large scale retailers and with higher transaction limit than mPOS payment. Nevertheless, mPOS devices have the following merits which especially appeal to physical small and micro businesses:

- mPOS devices are much more cost efficient with an average unit price of US\$19.0 for 2015 compared to that of US\$325.0 per unit for traditional POS terminals.

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- mPOS devices are portable, light-weight and compact in size while traditional POS terminals are non-portable, heavy and space-consuming.
- mPOS devices are easier to set up for with wireless operation while traditional POS terminals need to be installed with complex wiring for data transmission through fixed landlines.
- mPOS devices may possess additional value-added functions, such as customer relationship management and inventory control, while traditional POS terminals are generally only used for payment transactions.

Software-based payment solutions for third-party payment require the software installation on devices such as computers, smartphones and tablets for payment transactions to be conducted, and are mainly used in online payment and personal account transfer. Software-based payment solutions are more convenient to use than mPOS payment because they have a simpler user identification and transaction approval process and are more cost efficient as business users do not need a hardware device for payment collection.

Compared to software-based payment solutions, mPOS products are more secure as they require in-person interaction with physical card usage. In addition, mPOS devices need to undergo stringent safety accreditation with third-party payment accreditation bodies, such as UnionPay, for such devices to be used for mobile payment activities in the PRC. As mPOS payment affords more protection to end users' transaction security, mPOS payment has less stringent transaction limit while software-based payment solutions have daily transaction limit and limit for every single transaction. Additionally, because credit and debit cards are already widely available and well-established, mPOS devices can interact with this pre-existing wide user base without the need for additional registration or set-up steps that software-based solutions require. Because of these advantages, mPOS devices are favoured by payment-collecting merchants and business enterprises who are the target end users for our mPOS devices. On the other hand, the growth of software-based payment solutions is mainly driven by their target end users which are individuals conducting online payment and personal account transfers.

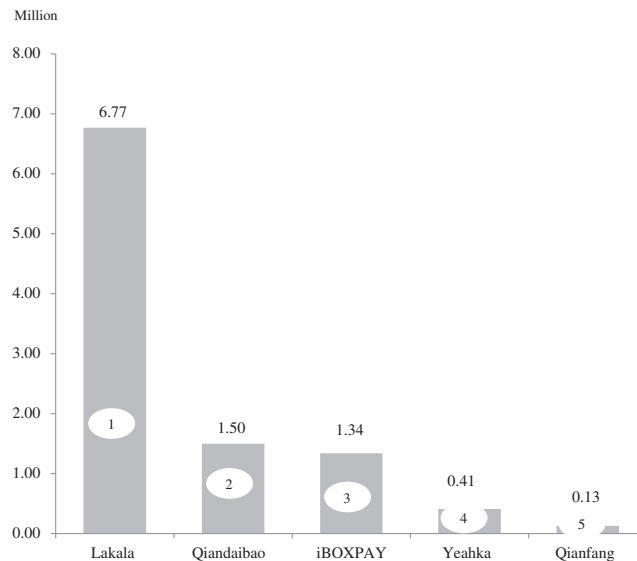
Competitive Landscape of Hardware-based Mobile Payment Market in China

The mPOS terminal suppliers provide mPOS devices to hardware-based mobile payment service providers. The hardware-based mobile payment market in China is led by Lakala, whose number of accumulated business users of 6.8 million ranked first as at 30 June 2015, with the second largest participant having 1.5 million. iBoxpay, the Group's primary mPOS customer, is the third largest hardware-based mobile payment service provider in China with an accumulated business users base of 1.3 million as at 30 June 2015. Other competitors in the hardware-based mobile payment market in China only each had fewer than 0.5 million accumulated business users as at 30 June 2015.

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The following chart illustrates the ranking of key players in hardware-based mobile payment market in China by the number of accumulated business users as at 30 June 2015. According to Frost & Sullivan, accumulated business users refer to the business users of mPOS products who have set up an account in the mobile payment platform of the hardware-based mobile payment service providers.

**Market Ranking Analysis of China Hardware-based Mobile Payment Market
by the Number of Accumulated Business Users, as at 30 June 2015**



Source: Frost & Sullivan

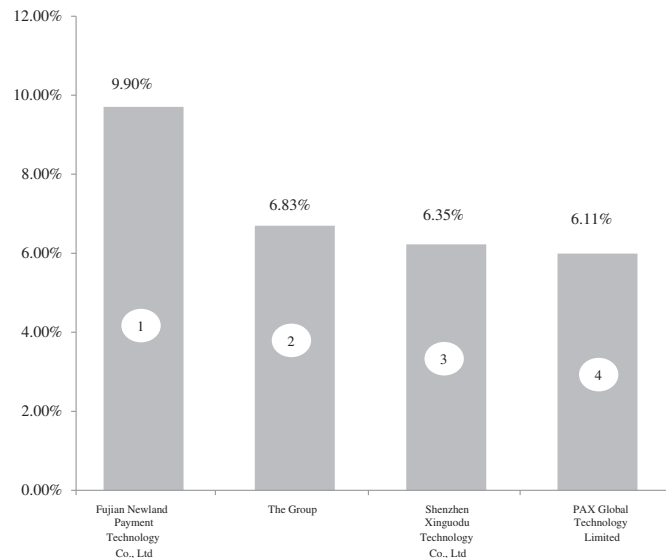
Competitive Landscape of mPOS Terminal Market in China

The mPOS terminal market in China is fragmented and decentralised. According to Frost & Sullivan, we were the second largest mPOS supplier in China, with 6.6% and 6.8% of the market share by sales volume in 2014 and for the first half of 2015, while Fujian Newland Payment Technology Co., Ltd, a POS terminal supplier mostly focusing on traditional POS terminals, ranked first with a market share of 9.8% and 9.9% for the respective periods. Apart from the three to four top players, there are quite a number of companies offering mPOS products in China, who generally focus on traditional POS terminals and their percentage share of the mPOS terminal market is fairly small mostly ranging from 0.1% to 1.0% in terms of sales volume, according to Frost & Sullivan. Less competitive mPOS devices providers are likely to be gradually eliminated as the PRC mPOS terminal market is facing an industry consolidation.

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The following chart illustrates the ranking analysis of mPOS terminal suppliers in China by sales volume of mPOS devices for the first half of 2015:

**Market Ranking Analysis of China mPOS Terminal Market
by Sales Volume, 2015 H1**



Source: Frost & Sullivan

Moreover, our hardware-based mPOS technology may also face competition from related sectors, including software-based payment solutions, such as Tenpay and Alipay.

mPOS Entry Barriers

Entry barriers in the mPOS terminal market prevent most participants from gaining considerable market share. Some of the key entry barriers include:

- *Technology requirements.* mPOS entrants need to have the ability to conduct security systems design for developing mPOS products. New entrants need to be equipped with sufficiently advanced technologies and possess extensive research and development capabilities to develop necessary systems design expertise.
- *Increasing industry regulation on mobile payment.* The mobile payment market is subject to more and more stringent industry regulations for transaction security and personal information protection. For instance, mPOS entrants need to develop products that can pass the UnionPay safety accreditations for such mPOS devices to be accepted for mobile payment in China.

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- *Relationship with hardware-based mobile payment service providers.* Instead of selling to end-users, mPOS terminal suppliers mostly sell their products to hardware-based mobile payment service providers who utilise such mPOS devices to develop their mobile payment business. mPOS suppliers need to establish stable relationships with and cooperate closely with hardware-based mobile payment service providers to ensure not only a constant need on their products but also a synergy of resources for developing more commercially viable products.

COMPONENT COSTS AND SELLING PRICES

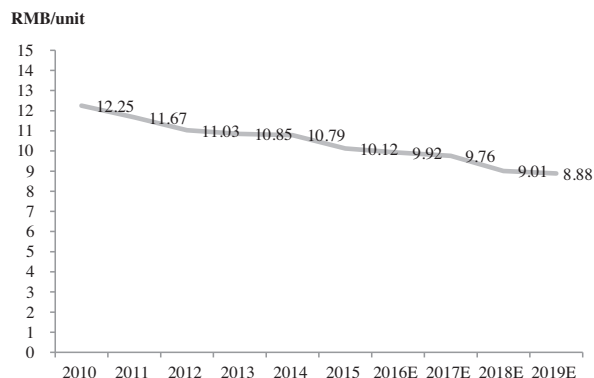
Component Costs

Components, in particular, electronics such as chipsets and PCBs, are the major raw materials for CAMs and mPOS devices, which together accounted for about 57% to 75% of our total cost of sales over the Track Record Period. Such components have experienced a decrease in prices over the last several years and are expected to undergo continued steady decrease over the next few years, according to Frost & Sullivan.

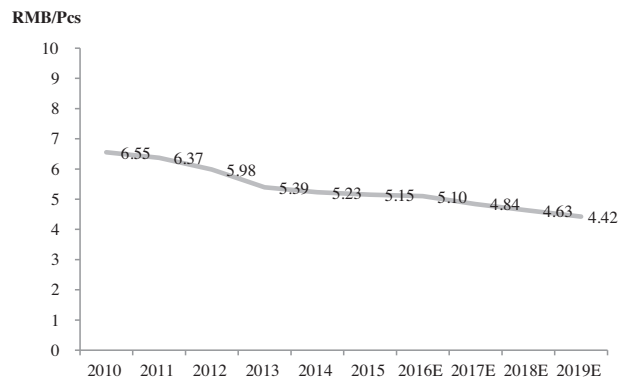
CAMs

The below charts set out the actual price trends of the SM1670S chipset, one of the most used CAM chipset models, and the PCBs for CAMs between 2010 and 2015 and their expected price trends between 2016 and 2019:

Price Trend of SM1670S, 2010-2019E



Price Trend of PCB Panel, 2010-2019E



Source: Frost & Sullivan

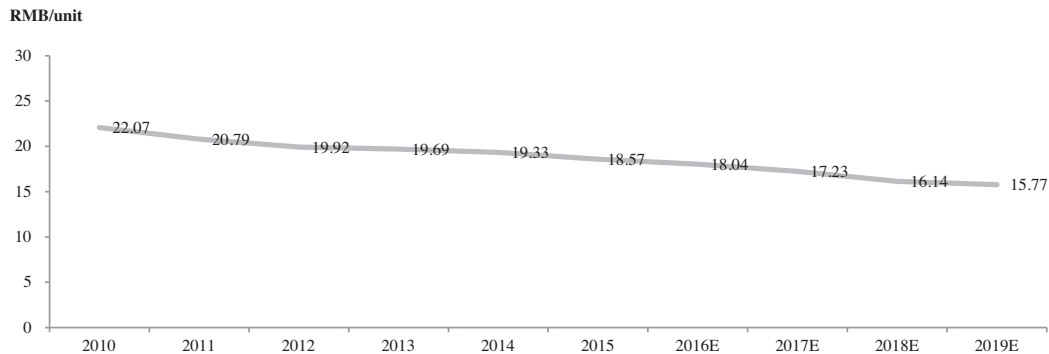
The prices of components for CAM products, such as those in the above charts, have decreased over the past few years and are expected to experience a further decrease by 2019 due to advances in production technology and mass production in the relevant industry.

INDUSTRY OVERVIEW

mPOS

Chipsets are the major components for mPOS products. The chart below sets out the actual price trend of the K21DN512 chipset, one of the most used mPOS chipset models, between 2010 and 2015 and the expected price trend between 2016 and 2019:

Price Trend of K21DN512, 2010-2019E

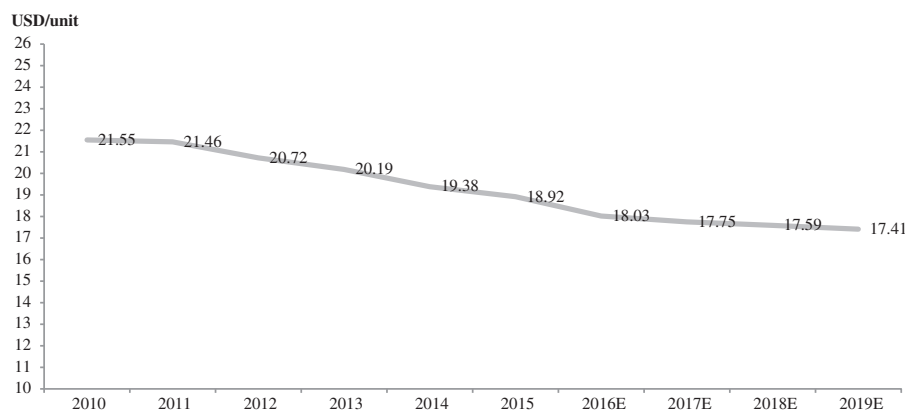


The prices of chipsets used for mPOS production, such as the K21DN512 chipset, have generally decreased over the past few years and are expected to continue to decrease by 2019 due to technology advances and mass production in the relevant industry.

Selling Prices

The average price for CAMs globally has been steadily decreasing between 2010 and 2015, dropping to US\$18.9 per unit in 2015, from US\$21.6 per unit in 2010. According to Frost & Sullivan, CAM pricing is expected to continue to decrease between 2016 and 2019. The global average price for CAMs is forecasted to decrease to US\$17.4 per unit by 2019 due to increased manufacturing scale as well as price sensitivity of the emerging CAM markets.

Global CAM Average Price Trend, 2010-2019E



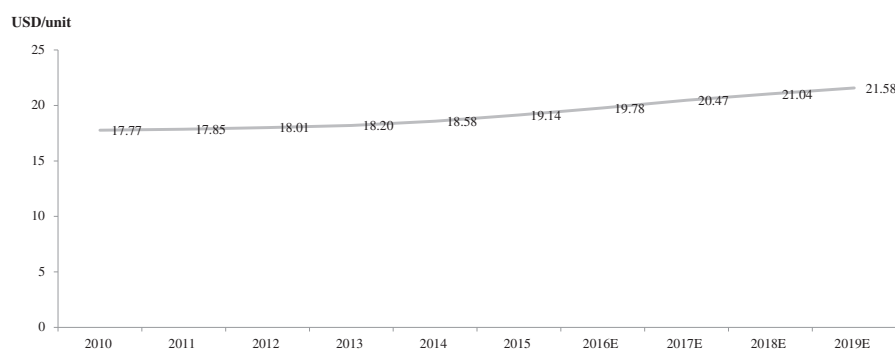
Source: Frost & Sullivan

INDUSTRY OVERVIEW

As the Group expands its geographic presence for CAM sales in the emerging and developing markets where CAMs are priced relatively lower, there may be a downward pressure on the Group's overall selling prices and gross profit margin in the future.

According to Frost & Sullivan, the average selling prices offered by mPOS suppliers to hardware-based mobile payment service providers in China had experienced a steady increase from US\$17.8 per unit in 2010 to US\$19.1 per unit in 2015. The average selling prices offered by mPOS suppliers to hardware-based mobile payment service providers in China are expected to further increase between 2016 and 2019 due to the introduction of technologically evolving products with more functionality, according to Frost & Sullivan.

Trend of China mPOS terminal Average Selling Price to Hardware-based Mobile Payment Service Providers, 2010-2019E



Source: Frost & Sullivan

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to conduct market research and analysis of our industries and prepare a report entitled *Independent Market Research on Global CAM Industry and China mPOS Terminal Industry*. The market research was completed in March 2016. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training.

In preparing the report described above, Frost & Sullivan conducted detailed primary research which involved discussions of the status of the selected industries with certain leading industry participants. Frost & Sullivan also conducted secondary research which involved reviewing company reports, independent research reports and data based on its own research database.

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Frost & Sullivan obtained the figures for various market size estimates from historical data analysis plotted against macroeconomic data, as well as considered the industry key drivers discussed in the report. Its forecasting methodology integrates several forecasting techniques with its internal analysis of critical market elements investigated in connection with its market research work. These elements include expert-opinion forecasting methodology, integration of market drivers and restraints, integration with the market challenges, integration of market trends, and integration of econometric variables. In preparing the Frost & Sullivan Report, Frost & Sullivan adopted the assumptions that the social, economic and political conditions of China are likely to remain stable and related industry growth drivers are likely to drive the market in the forecast period.

We were charged approximately RMB750,000 by Frost & Sullivan in connection with its preparation of the report. Our payment of such fee is not contingent upon the results of its research and analysis.

REGULATORY OVERVIEW

We are primarily subject to the laws and regulations in the PRC and to lesser extent, the European Union and Russia due to CAM sales there. Set out below is a summary of the types of PRC, EU and Russian laws and regulations that have a significant impact on our operations, which is prepared with the objective to provide investors with a brief overview of the key laws and regulations applicable to us. This summary does not purport to be a complete description of all the laws and regulations which are applicable to our business and operations or which may be important to potential investors. Investors should note that the following summary is based on laws and regulations in force as of the date of this prospectus, which may be subject to change.

APPLICABLE LAWS AND REGULATIONS IN THE PRC

This section summarises the PRC laws and regulations pertaining to our Group's operation and business.

Provisions on Radio and Television Facilities and Equipment

According to Measures on Administration of Satellite Access Verification of Radio and Television Facilities and Equipment (廣播電視設備器材入網認定管理辦法) promulgated by the State Administration of Radio Film and Television (the “**SARFT**”) on 18 June 2004 and effective as of 1 August 2004, satellite access verification shall follow the principle of voluntary application by an enterprise. For operating entities of coverage network and monitoring or control network of radio stations, television stations or radio and television transmission, such entities shall use the radio and television facilities and equipment for which the SARFT has issued the valid satellite access verification certificate.

Codes of Practice on Financial POS Terminal Payment

The PBOC promulgated the technical standards and regulations including Standards of POS Terminal for Bank Card (銀行卡銷售點 (POS) 終端規範) and Standards of Financial IC Card of PRC (中國金融集成電路 (IC) 卡規範), authorising the Bank Card Test Center to test and verify the terminal machines as an independent third party testing institute. China UnionPay also issued a series of codes of practice including Standards of China UnionPay POS Terminal (中國銀聯POS終端規範) comprehensively regulating hardware, software, safety and application of financial POS terminal.

Regulations on the Computer Software Industry

Layout-designs of Integrated Circuits

On April 2, 2001, the State Council promulgated the Rules for Protecting Layout-designs of Integrated Circuits, and the State Intellectual Property Office of the PRC, (the “**SIPO**”), issued the Implementation Regulations Protecting Layout-designs of Integrated Circuits on September 18, 2001 (collectively the “**Integrated Circuits Rules**”). According to the Integrated Circuits Rules, integrated circuits layout designers are protected upon completion of registration with the SIPO pursuant to the

REGULATORY OVERVIEW

Integrated Circuit Rules. The term of the exclusive right of the registered layout-designs of integrated circuits is ten years, starting from the date on which the registration of layout-designs of integrated circuits is applied or the layout-designs of integrated circuits is put into commercial use, whichever is earlier.

Software Products Registration

According to Measures for the Administration of Software Products (軟件產品管理辦法) promulgated by the Ministry of Industry and Information Technology of the PRC on 4 February 2009 and effective as of 10 April 2009, software products shall be subject to registration and filing. The entity that develops or produces a domestically-made software product shall be responsible for application for the registration and filing of such software product to the software industry authorities of the provinces, autonomous regions, municipalities directly under the Central Government or city specifically designated in the State plan. Domestically-made software products that meet the requirements of Measures for the Administration of Software Products and have undergone due registration and filing formalities may be entitled to the incentive policies provided in the Several Policies on Encouraging the Development of the Software Industry and the Integrated Circuit Industry (鼓勵軟件產業和集成電路產業發展的若干政策).

Intellectual Property

Patents

According to the Patent Law of the PRC (中華人民共和國專利法) promulgated on March 12, 1984 and amended on September 4, 1992, August 25, 2000 and December 27, 2008 respectively, there are three types of patents, i.e. invention patents, design patents and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. After the grant of the patent right for an invention or utility model, except where otherwise provided for in such law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. In addition, after a patent right is granted for a design, no entity or individual may, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is established, the infringer must, in accordance with the applicable regulations, undertake to cease the infringement, take remedial action, and/or pay damages.

Trademarks

The Trademark Law of the PRC (中華人民共和國商標法) was promulgated on August 23, 1982 and amended on February 22, 1993, October 27, 2001 and August 30, 2013 respectively. This law requires natural persons, legal persons, or other organisations that wish to obtain the exclusive right to use trademarks for the goods they produce, manufacture, process, select or distribute to apply to the Trademark Office of the PRC for trademark registration. A trademark registrant shall be entitled to the exclusive right to use a registered trademark. A registered trademark is valid for ten years,

REGULATORY OVERVIEW

commencing from the date when the registration is approved. If a trademark registrant wishes to use a trademark after the expiration of the ten-year period, a registration renewal application should be filed within twelve months prior to the expiration of the trademark's term. Each registration renewal is valid for a period of ten years. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Persons or entities who use trademarks without the consent of the trademark registrants, make imitated trademarks, or engage in activities that infringe upon trademarks shall be held liable to the trademark registrants for compensation and may be subject to fines or even criminal punishment.

Copyright

The Copyright Law, as amended in 2001 and 2010, extends copyright protection to Internet activities, products disseminated over the Internet and software products. The Rules of Protection on Information Network Dissemination Rights address copyright issues relating to the Internet. In addition, the Interpretations on Some Issues Concerning Applicable Laws for Trial of Disputes Over Internet Copyright, or the Interpretations, establish joint liability for ICPs who knowingly infringe upon other's copyright or refuse to remove the infringing content after receiving notice from the holder of the copyright. The Interpretations also provides that any act to circumvent the technologies designed to protect copyrights constitutes copyright infringement.

Establishment, Operation and Management of a Wholly Foreign-owned Enterprise

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was promulgated by the Standing Committee of the National People's Congress on 29 December 1993 and was effective as of 1 July 1994, which was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively. The Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. The Company Law also applies to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of wholly foreign-owned enterprises are governed by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulation under the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which was promulgated on 12 December 1990 and amended on 12 April 2001, 8 January 2011 and 19 February 2014 respectively.

Foreign investors and foreign-owned enterprises that conduct any investments in the PRC must comply with the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “**Catalogue**”), which was amended and promulgated by MOFCOM and NDRC on 10 March 2015.

REGULATORY OVERVIEW

The Catalogue, as amended, became effective on 10 April 2015 and contains in detail categories of industries in which foreign investment is encouraged, restricted or prohibited. Any industry that is not listed in the Catalogue is a permitted industry. The Catalogue is subject to review and update by the Chinese Government from time to time.

Laws and Regulations in relation to Import and Export of Goods

Pursuant to the Regulations of the PRC on the Administration of Import and Export of Goods (中華人民共和國貨物進出口管理條例) promulgated on 10 December 2001, the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) amended on 6 April 2004, the Customs Law of the PRC (中華人民共和國海關法) amended on 28 December 2013, the Measures for Record Filing and Registration by Foreign Trade Dealer (對外貿易經營者備案登記辦法) promulgated on 25 June 2004 by the MOFCOM, and the Administrative Provisions of the Customs of the PRC Registration of Declaring Entities (中華人民共和國海關報關單位註冊登記管理規定) promulgated on 13 March 2014 by General Administration of Customs of the PRC, foreign trade business operators engaging in the import or export of goods or technology must go through the record filing and registration formalities with the MOFCOM or the agency entrusted by the MOFCOM. Unless otherwise provided by laws and regulations, the PRC government allows free export and import of goods and technologies, and protects the intellectual property rights associated with international trade. Unless otherwise provided for, the declaration of import or export goods and the payment of duties may be made by the consignees or consignors themselves, or by entrusted customs brokers that have been registered with the customs. The consignor and consignee refer to the legal person, any other organisations or individuals that are directly engaged in the import or export of goods within the territory of the PRC. A consignee or consignor of imported or exported goods must handle registration as a declaring entity at the local customs. After registration, they may make a customs declaration for themselves at all ports within the territory of the PRC.

Taxation

Enterprise Income Tax

On 16 March 2007, the NPC passed the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**Enterprise Income Tax Law**”), and on 6 December 2007, the State Council issued the Implementation Rules of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (the “**Implementation Rules of the Enterprise Income Tax Law**”), both of which became effective on 1 January 2008, and apply a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises.

The Enterprise Income Tax Law provides that enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” of the PRC. Under the Implementation Rules of the Enterprise Income Tax Law, “de facto management body” is defined as a body that has material and overall management and control over the business operations, personnel, accounts and properties.

REGULATORY OVERVIEW

Under the Enterprise Income Tax Law and the Implementation Rules of the Enterprise Income Tax Law, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises”. Non-resident enterprises refer to enterprises which are established according to the law of a foreign country (region) and whose de facto management body is not in China, but which have established agencies or offices in China, or which haven’t established agencies or offices in China but have income earned in China. Any gain realised on the transfer of ordinary shares by such investors is also subject to 10% PRC income tax if such gain is considered as income derived from sources within the PRC. Under the Implementation Rules of the Enterprise Income Tax Law, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realised from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income.

Moreover, non-resident individual investors could be required to pay PRC individual income tax on interests or dividends payable to the investors or any capital gains realised from the transfer of ordinary shares if such gains are deemed income derived from sources within the PRC. Under the Individual Income Tax Law (2011 amendment) of the PRC (中華人民共和國個人所得稅法), non-resident individual refers to an individual who has no domicile in the PRC and does not stay in the territory of the PRC or who has no domicile in the PRC and has stayed in the territory of the PRC for less than one year. Pursuant to the Individual Income Tax Law of the PRC and its implementation rules, for purposes of the PRC capital gains tax, the taxable income will be the balance of the total income obtained from the transfer of ordinary shares minus all the costs and expenses that are permitted under PRC tax laws to be deducted from the income.

Enterprise Income Tax for Transfer of Properties by Non-resident Enterprise

Pursuant to the Announcement of the State Administration of Taxation on Certain Issues Concerning the Enterprise Income Tax on the Indirect Transfer of Properties by Non-resident Enterprises (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“**Circular No. 7**”) issued by the State Administration of Taxation and came into effect on February 3, 2015, an indirect transfer by a non-resident enterprise of its properties in establishment or place in China, real estate in China, equity investment in a PRC resident enterprise and other properties directly held by such non-resident enterprise, the proceeds of which shall be subject to an enterprise income tax in China as specified by the PRC tax laws (hereinafter referred to as the “**PRC Taxable Properties**”) by implementing arrangements without reasonable commercial purposes to evade the enterprise income tax, shall be re-defined of its nature and recognised as a direct transfer of equity interest in a PRC resident enterprise and other properties. An indirect transfer of the PRC Taxable Properties refers to transactions with the same or similar substantive results as a direct transfer of the PRC Taxable Properties arising from a transfer by a non-resident enterprise of equity interest or other similar interest in an overseas enterprise (excluding the PRC resident enterprises registered overseas) that directly or indirectly holds the PRC Taxable Properties, including a change in overseas enterprise’s shareholders as a result of reorganisation of such non-resident enterprise.

REGULATORY OVERVIEW

Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) (the “**Provisional Regulations on VAT**”), which became effective from 1 January 1994 and were amended on 5 November 2008 and its implementation rules, which were promulgated on 25 December 1993 and amended in 2008 and 2011, all entities or individuals in the PRC engaged in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (“**VAT**”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% or in certain limited circumstances, 13%, depending on the product nature.

Market Competition

Competitions among the business operators in the PRC are generally governed by the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法), which was promulgated on 2 September 1993 and came into effect on 1 December 1993. According to the Anti-Unfair Competition Law, corporations, other economic organisations and individuals who are engaging in the trading of goods or profit-making services shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Business operators shall not conduct acts that damage the lawful rights and interests of other operators or that disturb the socio-economic order. Such acts include, but do not limit to counterfeit, libel, malicious exclusion, commercial bribery and trade secret infringement.

Product Liability

The quality of the products manufactured by the Chinese companies is subject to the Product Quality Law (中華人民共和國產品質量法) which was promulgated on 22 February 1993 and amended on 8 July 2000. According to this law, manufacturers shall be liable for the quality of products produced by them and sellers shall take measures to ensure the quality of the products sold by them. A manufacturer shall be liable to compensate for any bodily injuries or damage to property other than the defective product itself resulting from the defects in the product unless the manufacturer is able to prove that: (1) the product has never been circulated; (2) the defects causing injuries or damage did not exist at the time when the product was circulated; or (3) the science and technology at the time when the product was circulated were at a level incapable of detecting the defects. A seller shall be liable to compensate for any bodily injuries or damage to property of others caused by the defects in the product if such defects are attributable to the seller. A seller shall pay compensation if it fails to indicate neither the manufacturer nor the supplier of the defective product. A person who is injured or whose property is damaged by the defects in the product may claim for compensation from the manufacturer or the seller.

Pursuant to the General Principles of the Civil Law of the PRC (中華人民共和國民法通則), promulgated by the National People’s Congress on 12 April 1986, amended and became effective on 27 August 2009, both manufacturers and sellers shall be held liable where relevant substandard products result in damage to property of others or bodily injuries.

REGULATORY OVERVIEW

Pursuant to the Tort Liability Law of the PRC (中華人民共和國侵權責任法), promulgated by the Standing Committee of the NPC on 26 December 2009 and became effective on 1 July 2010, manufacturers shall assume tort liability where the defects in relevant products cause damage to others. Sellers shall assume tort liability where the defects in relevant products causing damage to others are attributable to the sellers. The aggrieved party may claim for compensation from the manufacturer or the seller of the relevant product in which the defects have caused damage.

Consumer Protection

The principal legal provisions for the protection of consumer interests are set out in the Consumers Protection Law (中華人民共和國消費者權益保護法), which was promulgated on 31 October 1993 and came into effect on 1 January 1994. It was subsequently revised on 27 August 2009 and 25 October 2013 respectively. According to the Consumers Protection Law, the rights and interests of the consumers who buy or use commodities or receive services for the purposes of daily consumption are protected and all producers, service providers and distributors involved must ensure that the products and services will not cause damage to persons and properties. Violations of the Consumer Protection Law may result in the imposition of fines. In addition, if the circumstances are serious, the operator will be ordered to suspend operations and its business license will be revoked. Criminal liability may be incurred in some serious cases in accordance with the relevant PRC law.

Laws and Regulations in relation to Labour and Social Security

PRC companies are mainly subject to the following labour laws and regulations: the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the PRC Social Insurance Law (中華人民共和國社會保險法), the Regulations of Insurance for Employment Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulations on the Collection of Social Insurance Premium (社會保險費徵繳暫行條例), Regulations on Management of Housing Provident Fund (住房公積金管理條例) and other relevant regulations, rules and circulars issued by the competent governmental authorities.

Pursuant to the PRC Labor Law and the PRC Labor Contract Law, when an employer hires an employee, it should sign a written labour contract with the employee, and the employees' salary must not be lower than the local minimum wage standard.

As required under the PRC Social Insurance Law, the Regulations of Insurance for Employment Injury, Regulations on Unemployment Insurance, the Provisional Measures on Insurance for Maternity of Employees the Interim Provisions on Registration of Social Insurance, the Interim Regulations on the Collection of Social Insurance Premium, the employer in the PRC are obligated to contribute to pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance for its employees.

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In accordance with the Regulations on Management of Housing Provident Fund promulgated on 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the relevant Housing Provident Fund Management Center, open a special housing provident fund account at a commissioned bank and pay housing provident fund contributions for their employees.

Work safety

The Law of the PRC on the Work Safety (中華人民共和國安全生產法) was promulgated by the Standing Committee of the National People's Congress on 29 June 2002 and amended for the first time on 27 August 2009 and for the second time 31 August 2014. Pursuant to the law, enterprises shall meet with the conditions for work safety as required by relevant laws and regulations, and national standards or industrial specifications. Enterprises having more than 100 employees shall establish a department to carry out work safety management or have personnel solely responsible for work safety management. Enterprises shall provide their employees with education and training on the work safety so as to ensure that the employees have necessary knowledge regarding work safety, are familiar with the relevant work safety rules and operating procedures, possess safe operation skills required for their respective positions, understand the emergency handling measures for accidents and are aware of their rights and obligations in respect of work safety. The employees performing special functions as defined by the work safety supervision department of the State Council must receive special training on the work safety and hold the relevant qualification certificate for performing the special functions.

Environmental Protection

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”), which was promulgated on 26 December 1989, amended on 24 April 2014 and became effective on 1 January 2015:

- environmental assessment must be conducted on a construction project and such environmental impact statement must be approved by the environmental authority before the construction project can be approved;
- any entity that discharges pollutants must establish a responsibility system for environmental protection to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- in a construction project, environmental pollution prevention and treatment facilities must be designed, constructed and put into operation at the same time with the principal part of the construction project; facilities for the prevention and control of pollution shall conform to the requirements of the approved document of environment impact assessment and shall not be dismantled or left idle without permission;
- a construction project can only be put into operation after the related environmental pollution prevention and treatment facilities have been approved and accepted by the environmental protection authorities;

REGULATORY OVERVIEW

- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities, and shall discharge pollutants according to pollutant emission license and shall not discharge pollutants without obtaining the pollutant emission license; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee for the excessive discharge.

Violation of the Environmental Protection Law may result in fines, suspension of operations, closure of operations or even criminal liabilities.

Enterprises in the PRC must comply with the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) effective from 1 June 2008, the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) effective from 1 September 2000 and the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法) effective from 1 March 1997. These laws regulate extensive issues in relation to the environment protection including waste water discharge, air pollution control and noise emission. Pursuant to these laws, all the enterprises that may cause environmental pollution in the course of their production and business operation shall introduce environmental protection measures in their plants and establish a reliable system for environmental protection. Enterprises are required to adopt effective measures to prevent and control the level of environmental pollution and hazards produced during the process of production, construction or other activities. Enterprises must obtain the license for discharge of waste water and atmospheric pollutants and the discharged waste water and atmospheric pollutants shall meet with the applicable State and local standards.

Law on hazardous waste management

The Law of the PRC on Prevention and Control of Environmental Pollution from Solid Waste (中華人民共和國固體廢物污染環境防治法) was adopted by the Standing Committee of the National People's Congress on 30 October 1995, revised on 29 December 2004, amended for the first time on 29 June 2013 and amended for the second time on 24 April 2015. As authorised by the law, the Ministry of Environmental Protection and National Development and Reform Commission jointly issued the National Catalogue of Hazardous Wastes (國家危險廢物名錄) (2008), which took effect as of 1 August 2008.

Pursuant to the law, the enterprises generating hazardous waste must formulate hazardous waste management plans. The plans shall set forth the measures for mitigating the quantity and level of hazard of the generated hazardous waste and be filed with the competent environmental protection administration department for record. The enterprises shall also report to the competent environmental protection administration department in respect of the type, quantity, flow direction, storage and treatment of the hazardous waste and other relevant information. The enterprise shall not dump or pile

REGULATORY OVERVIEW

up the hazardous waste without authorisation, and may entrust an enterprise which holds a business license for collection, storage, utilisation and treatment of hazardous waste to dispose of the hazardous waste. The enterprises that intend to transfer hazardous waste to another place shall fill in duplicate forms for transfer of hazardous waste and submit an application to the local environmental protection administration department at the place where the hazardous waste is to be moved out. The hazardous waste may be transferred only with such authority's approval.

Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “**Foreign Exchange Administration Rules**”), promulgated by the State Council on 29 January 1996, effective on 1 April 1996 and amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital account items, such as direct investment, loans or investment in securities outside China, unless prior approval of the State Administration of Foreign Exchange (“SAFE”) is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside China are subject to limitations and require approvals from SAFE.

On 30 March 2015, the SAFE promulgated the Notice of the SAFE on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (“**SAFE Circular 19**”) regulating the conversion by a foreign-invested enterprise of its foreign currency registered capital into Renminbi. The SAFE Circular 19 provides that the Renminbi fund converted from foreign currency registered capital of a foreign-invested enterprise is permitted to be used only for purposes within the business scope approved by the applicable governmental authority and is not permitted to be used for any of the following purposes: (1) It shall not, directly or indirectly, use the foregoing funds for expenditure beyond its business scope or expenditure prohibited by State laws and regulations; (2) It shall not, directly or indirectly, use the foregoing funds for investment in securities, unless otherwise prescribed by laws and regulations; (3) It shall not, directly or indirectly, use the foregoing funds for disbursing RMB entrusted loans (unless permitted under its business scope), repaying inter-corporate borrowings (including third-party advances) and repaying RMB bank loans that have been sub-lent to third parties; or (4) It shall not use the foregoing funds to pay for the expenses related to the purchase of real estate not for self-use, unless it is a foreign-invested real estate enterprise. Ordinary foreign-invested enterprises other than the ones whose main business is investment shall be governed by the prevailing provisions on domestic re-investment if they make domestic equity investment by transferring their capitals in the original currencies. Where such an

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ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration, and the enterprise making the investment shall thereafter transfer the RMB funds obtained from foreign exchange settlement to the Account for Foreign Exchange Settlement Pending Payment opened by the invested enterprise according to the actual amount of investment. Violations of the SAFE Circular 19 could result in severe monetary penalties.

Dividend Distribution

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law and the Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 April 1986 and amended on 31 October 2000, and promulgated on 12 December 1990 and amended on 12 April 2001, respectively.

Under these regulations, wholly foreign-owned enterprises in China can pay dividends only from accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds until the accumulated reserve amounts to 50% of its registered capital. Such enterprises are also required to set aside funds for the employee bonus and welfare fund from their after-tax profits each year at percentages determined at their sole discretion. These reserves are not distributable as cash dividends.

Foreign Exchange Registration

According to the Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular 37**”), which was promulgated on 4 July 2014 by SAFE replacing the former SAFE Circular 75 effective on 1 November 2005, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they make contribution to any offshore special purpose vehicles with legitimate holdings of domestic or overseas assets or interests. According to the SAFE Circular 37, resident natural persons include those individuals who have PRC citizenship or other domestic legal status and those “individuals who do not have any domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests”. In accordance with the Appendix 1 of the SAFE Circular 37 i.e. Operating Guidelines for the Business Involved in the Foreign Exchange Administration of Round-trip Investment, “individuals who do not have domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests” mainly include the following:

- (1) individuals who have domestic permanent residence and leave this domestic permanent residence temporarily for reasons including overseas travel, study, medical treatment, work, or the requirements of overseas residence, etc., but return to the permanent residence after disappearance of the aforesaid reasons;

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- (2) individuals who hold domestic-funded rights and interests in domestic enterprises; and
- (3) individuals who hold domestic-funded rights and interests in domestic enterprises which though were converted into foreign-funded rights and interests are still held by such individuals.

Based on the above: (i) the Company has confirmed that all of its ultimate beneficial shareholders which have PRC citizenship, namely Huang Xueliang, Zhu Changhua and Gong Jun had completed the formalities to register pursuant to the SAFE Circular 75.

According to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知), which was promulgated on 13 February 2015 by SAFE and became effective on 1 June 2015, verification and approval of foreign exchange registration under overseas direct investment including the registration relating to SAFE Circular 37, shall be directly examined and handled by banks instead of the SAFE and its branches, which shall conduct indirect regulation of Foreign Exchange Registration of Direct Investment via banks.

PRC Regulations on the Issue and Listing of Shares Outside China and relevant Regulatory Approvals

On 8 August 2006, MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, CSRC, SAT, SAIC and SAFE promulgated the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (“關於外國投資者併購境內企業的規定”) (the “**M&A Rules**”). The M&A Rules, which became effective on 8 September 2006 and was amended on 22 June 2009, applies in the event that foreign investors acquire PRC enterprises.

However, the M&A Rules, which does not have retroactive effect, is not applicable to the listing of the Company and it is unnecessary for the Group to obtain approval from MOFCOM, since SMIT Shenzhen changed from a domestically-funded company into a sino-foreign equity joint venture enterprise on 9 February 2004 and later changed into a wholly foreign owned enterprise on 1 June 2005, both of which took place prior to the effective date of the M&A Rules.

EU LAWS AND REGULATIONS

Preliminary note

There is extensive legislation of the EU which aims at safeguarding the health, safety and interests of consumers. The regulations and directives of the EU cover a wide range of aims, such as the promotion of consumers’ rights to information and education, consumer safety, the protection of consumers’ economic and legal interests, and product packaging and labelling.

While a regulation is a binding legislative act directly applicable in the member states of the EU (the “**Member States**”), a directive must be implemented in the national laws.

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Any reference to regulations and directives made hereunder shall be references to the relevant regulations and directives as amended from time to time.

Product Liability and Safety

In the EU, product liability is governed by European Council Directive 85/374/EEC of 25 July 1985 on the approximation of the laws, regulations and administrative provisions of the Member States concerning liability for defective products (the “**Product Liability Directive**”). The Product Liability Directive addresses the civil liability of a producer for damage caused by a defect in its product. The Group is considered a producer under Article 3 since it is the manufacturer of a finished product and it presents itself as producer by putting its name, trade mark or other distinguished feature on the product. Injured persons may seek compensation from the Group with regard to damage caused by death or personal injuries, and damage to any item of property intended for private use or consumption. The Product Liability Directive is without prejudice to national provisions relating to non-material damage. According to Article 10, a limitation period of three years applies to proceedings for the recovery of damages. Pursuant to Article 11, the rights of the injured person shall be extinguished upon the expiry of a period of ten years from the date on which the producer put into circulation the product which caused the damage. Member States may provide that a producers’ liability for damage resulting from a death or personal injury and caused by identical items with the same defect shall be limited to an amount which may not be less than EUR70 million in accordance with Article 16.

The Directive 2001/95/EC on general product safety (the “**General Product Safety Directive**”) obliges producers to place only safe products on the market under Article 3. In addition, producers must provide consumers with the necessary information in order to assess a product’s inherent threat, take the necessary measures to avoid such threats (e.g. product monitoring, warnings, recalls) and inform the competent national authorities about potential risks under Article 5. The Directive applies in a complementary way to sector-specific and product-specific product safety legislation. The Group is considered a producer under the General Product Safety Directive since its activities may affect the safety properties of the products under Article 2 lit. (e) item (iii). A product is deemed safe once it conforms to the safety provisions provided in European legislation, or, in the absence of such rules, if it complies with the specific national regulations of the Member State in which it is being marketed or sold. The competent national authorities may impose penalties for infringements of the national provisions adopted pursuant to the General Product Safety Directive.

Consumer Protection

The purpose of the Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights (the “**Consumer Rights Directive**”) is to achieve a high level of consumer protection across the EU. The Consumer Rights Directive, apart from some exceptions such as financial services and insurance, covers contracts between traders and consumers on the sale of goods, services such as the supply of water, gas, electricity and heating, and online digital content.

Besides the Consumer Rights Directive, the principal directives relevant for consumer protection are: Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999 on certain aspects of the sale of consumer goods and associated guarantees (Directive on Consumer Sales and

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Guarantees), Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts (Directive on Unfair Contract Terms) and Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market (Unfair Commercial Practices Directive).

Intellectual Property

With respect to the European legal framework on the protection of intellectual property, the following areas have to be distinguished: (i) patents and utility models, (ii) know-how and other technical intellectual property rights, (iii) copyright, (iv) design rights, and (v) trademarks.

However, these different fields of regulation have in common that compliance with this legal framework has two sides for the company: on the one hand, it needs to make sure that it does not infringe upon intellectual property rights held by third parties. An infringement can entail administrative fines, sanctions under penal law for the individuals involved and measures under civil procedure law as well as competition law against the company, including foreclosure. On the other hand, the company can seek protection of its own intellectual property under this legislation.

In contrast to the areas of trademark and copyright law, the influence of EU legislation on patent law has been quite limited since it has been confined to certain specific areas in patent law such as pharmaceuticals and biotechnology. The respective directives had to be implemented into national law. The directly applicable EU regulations supersede or supplement the national law. The following EU regulations — outside the area of pharmaceuticals and biotechnology, which seems not to pertain to the Group's business — are the most relevant in practice:

- Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights; and
- Regulation (EU) No. 608/2013 of the European Parliament and of the Council of 12 June 2013 concerning customs enforcement of intellectual property rights.

Even the protection of know-how will be driven by EU law as the EU is discussing a Trade Secrets Directive. Meanwhile national laws and international treaties prevail in this area.

Copyright protection is fundamentally based on the idea that works of authorship cannot be transferred by the author like a piece of physical property or a registered patent or trademark. Rather, the copyright — and certain moral rights — to the work remain with the author while it can only grant certain rights of use and exploitation to a work.

Important European Union legislative acts affecting copyright law are the following:

- Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs;

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- the Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases; and
- the Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society.

However, the national laws in the area of copyrights are still crucial and diverge substantially in certain areas.

As regards design rights, on 6 March 2002, the Council Regulation (EC) No. 6/2002 of 12 December 2001 on Community Designs (the “**Community Design Regulation**”) came into force. This Regulation makes it possible to now obtain protection for designs in all 28 Member States of the European Union simultaneously at little cost. Apart from this Community Design Regulation, namely the Commission Regulation (EC) No. 2245/2002 of 21 October 2002 implementing Council Regulation (EC) No. 6/2002 on Community designs and the Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs need to be taken into account within the EU in relationship to this topic.

When it comes to trademark regulation, the Council Regulation (EC) No. 207/2009 of 26 February 2009, on the Community trade mark (“**CTR**”) provides for one procedural system regarding the uniform protection of trademarks within the Member States. The Office for Harmonization in the Internal Market (OHIM) was set up and started to operate and to accept Community trademark applications on 1 April 1996. With this system it has since been possible to obtain protection for trademarks in all 28 Member States of the European Union by filing only one application. National trademarks are still existing in parallel. Together with the above-mentioned CTR,

- Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks;
- the Commission Regulation (EC) No. 2868/95 of 13 December 1995 implementing Council Regulation (EC) No. 40/94 on the Community trade mark;
- the Commission Regulation (EC) No. 216/96 of 5 February 1996 laying down the rules of procedure of the Boards of Appeal of the Office for Harmonization in the Internal Market (Trade Marks and Designs);
- Regulation (EU) No. 1151/2012 of the European Parliament and of the Council of 21 November 2012 on quality schemes for agricultural products and foodstuffs; and
- Council Decision 2003/793/EC of 27 October 2003 approving the accession of the European Community to the Protocol relating to the Madrid Agreement concerning the international registration of marks make up the main body of EU trademark law.

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Customs Duties/Tariff

In principle, customs duties are imposed on goods imported into the European Union from a foreign country. The European Union comprises a customs unit with a common customs tariff.

Therefore, the same common customs tariff is applicable on importations irrespective of the member state of the European Union where customs clearance is actually conducted. The common customs tariff provides for a classification of the goods, which determines the applicable tariff rate.

Anti-dumping/Anti-subsidy

According to regulations of the European Council (No. 1225/2009 of 30 November 2009 and No. 597/2009 of 11 June 2009), importations into the European Union may be subject to an additional anti-dumping or anti-subsidy duty imposed by the European Commission. The European Commission basically determines within an investigation whether a product is sold within the European Union at less than its market value, i.e. dumped, or which product benefits from subsidies provided through foreign government programs and whether its release for the free circulation in the European Union could, therefore, pose a threat to or harm the European industry.

The European Commission initiates such investigation upon a complaint or on its own discretion.

Depending on the findings, or even in the course of an ongoing investigation, the European Commission may temporarily or permanently impose additional duties on a product. Alternatively, the European Commission may accept certain offers submitted by the concerned parties to revise their prices or may accept offers submitted by the country of origin to reduce the respective subsidy, in order to eliminate the threat to the European industry. The European Commission is not obliged to accept such an offer and may still impose additional duties if the agreed conditions are not met or if a circumvention of anti-dumping or anti-subsidy measures in force is taking place.

VAT/IMPORT VAT

The supply of goods and services rendered within the European Union are generally subject to VAT. Additionally, the importation of goods into the European Union is generally subject to import value added tax ("**Import VAT**"). There is a common harmonized Import VAT and VAT system within the European Union even though the tax rates are determined individually by each member state of the European Union.

Import VAT is generally due upon the importation of goods into the European Union when the goods are customs cleared. The actual Import VAT rate, therefore, depends on the circumstances and the place of importation within the European Union where customs clearance is conducted. If certain requirements are met, Import VAT may be refundable for the supplier of goods upon application.

VAT is generally due upon the supply of goods or the rendering of services within the European Union. The actual VAT rate depends on the circumstances and the place of supply or service within the European Union.

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Excise Duties

Within the European Union, additional taxes may apply to certain goods.

Import Restrictions

According to the regulations of the European Union with respect to importations of goods from foreign countries, any person, group, organization, country or certain goods may be subject to particular measures, such as the complete ban of importation, importation quotas or the requirement for an importation clearance issued by a competent authority of the respective member state of the European Union.

APPLICABLE LAWS AND REGULATIONS IN THE RUSSIAN FEDERATION

Product Liability and Safety

Russian legislation is customer-focused and contains rather strict requirements in relation to manufacturers and sellers. Key norms on product liability are provided in the Civil Code of the Russian Federation (the “**Civil Code**”), Law “On Consumer Protection” dated 7 February 1992 (as amended) (the “**Consumer Protection Law**”) and the Federal Law No. 184-FZ “On Technical Regulation” dated 27 December 2002 (as amended). Product liability may arise from contract, tort or breach of statutory duties.

Provisions of the Civil Code apply where goods (works or services) obtained by a consumer (or on behalf of a consumer) have caused damage to health, life or property as a result of (a) a defective design or formula or other defect in such goods (works or services); or (b) unreliable or insufficient information concerning such goods (works or services). Liability occurs regardless of whether or not contractual relations are in place. This means that claims against manufacturers or sellers, upon consumer’s choice, may be initiated not only by the buyers of the goods, but also by third parties. Liability for damage caused to a consumer cannot be limited by contract.

Certain products which are imported and distributed in Russia are subject to mandatory technical compliance certification under the Federal law “On Technical Regulation”.

Under the Federal law No. 99-FZ “On Licensing of Certain Types of Activities” dated 4 May 2011 as amended, distribution of cryptographically protected devices is subject to mandatory licensing in Russia.

Consumer Protection

The Consumer Protection Law contains basic rules on protection of consumer’s rights and interests in Russia. Certain specific issues are further detailed in subordinate normative acts.

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Pursuant to the Consumer Protection Law, a manufacturer or seller must, as soon as it becomes aware of any risks of its products to the life, health or property of a consumer or to the environment, suspend the production or sale of any such products already on the market until the risk is eliminated. If appropriate, the manufacturer (seller) must recall the product from the market and from consumers. In the latter case the manufacturer (but not the seller) must compensate the consumer against losses suffered as a result of the product's recall.

The recall of products can also be ordered by an appropriate authority. If a product is not recalled, an injured person may claim compensation for damage caused by the product, including moral damage.

The Code of Administrative Offences of the Russian Federation establishes liability for certain offences committed against a consumer, such as: selling goods and rendering works or services of improper quality or violating the requirements of technical regulations and sanitary rules; consumer deception (including misleading consumers in respect of properties and qualities of goods (works, services), or acting dishonestly towards consumers in any other way); and violating other consumer rights (such as failure to provide necessary and reliable information about the goods (works, services) or about the manufacturer, seller), etc.).

Criminal liability may be incurred in some serious cases in accordance with the Criminal Code of the Russian Federation.

Intellectual Property

Matters related to intellectual property in Russia are regulated by Part Four of the Civil Code. Part Four of the Civil Code came into force on 1 January 2008 and replaces previous sets of legislation regulating intellectual property rights, including the trademark law, the copyright law, the patent law and the software law. Part Four of the Civil Code declares protection of intellectual property objects in Russia which, inter alia, include inventions; utility models; industrial designs; software programmes and databases; know-how; trademarks and service marks; copyrights and other.

Russia is a party to major international treaties on intellectual property rights. Generally, any non-Russian entity or person may seek protection for its (his/her) intellectual property rights in Russia, subject to compliance with the established legal requirements and procedures.

Russian Federal Service of Intellectual Property ("**Rospatent**"), being subordinated to the Russian Ministry of Economic Development, is the main state authority in charge of intellectual property issues and is responsible for the state registration of respective rights (where applicable).

As a general rule, infringement of the patent rights, trademark, know-how or copyright may entail civil, administrative or criminal liability in accordance with the applicable Russian legislation.

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Inventions, utility models and industrial designs

The Civil Code specifically regulates protection of inventions, utility models and industrial designs. Under the Civil Code patent protection covers the following results of intellectual activity:

- invention which is a technical solution in any field related to a product or a process;
- utility model which is a technical solution in the scientific and technical domain; and
- industrial design which is a result of intellectual activity in the domain of artistic design.

Patent protection is subject to conditions which depend on the type of object being protected. Invention, utility model or industrial design are only protected after the appropriate state registration with Rospatent. The right to obtain a patent belongs to the inventor, his/her employer (in case of an employee's invention) or their assignees. The application for patent protection must be delivered to Rospatent for consideration and issuance of the relevant patent if the established criteria are met.

The maximum duration for patent protection is as follows (in each case the term starts from the date of filing of an application): invention - 20 years; utility model - 10 years; and industrial design - 5 years (the term may be extended four times for additional 5 years each time).

In accordance with the Civil Code it is possible to assign or licence to a third party the right to use an invention, utility model or industrial design protected by a patent duly issued by Rospatent. Such assignment and licence agreements should be drafted in compliance with certain mandatory legal requirements and should be filed with Rospatent. These agreements enter into force as of the date of their state registration by Rospatent.

The patent owner has the sole right to use an invention, utility model or industrial design that is protected by such a patent. Without the owner's permission no one is allowed to use a patented intellectual property object in any way, including importation, production, application, offer for sale, sale or other introduction into commercial turnover.

Trademarks

Under the Civil Code, a trademark is a distinctive sign that is used to distinguish the goods or services of a legal entity (or of an individual entrepreneur). A trademark may be represented by a word (or words), pictures, three-dimensional signs and other designations or a combination of all of these elements. To be protected in Russia, the trademark needs to be registered with Rospatent in the appropriate state register of trademarks. Alternatively, it may be protected in Russia under the Madrid system of international registration of trademarks. Trademark protection is granted for 10 years from the date of filing of an application with Rospatent, and may be renewed during the last year of validity for a subsequent 10-year period subject to an appropriate application and fees being made. Trademark registration is cancelled if the registration term expires without having been renewed.

REGULATORY OVERVIEW

As a general rule, assignments and licences of the exclusive rights to trademarks must be registered with Rospatent. In the absence of such registration such agreements are deemed null and void. Trademark legal protection may be terminated upon request from an interested party in respect of all or part of the respective goods and services due to non-use of the trademark during any three consecutive years after the date of its state registration with Rospatent.

Copyright

The Civil Code provides that intellectual property rights in respect of works of science, literature and the arts are treated as copyrights. Copyright protection arises by virtue of creation of a work of art and its protection does not require any state registration. An author of the copyright enjoys personal (moral) rights (such as right of authorship, right to the name, right to public disclosure) and proprietary rights (right of reproduction, distribution, import, public demonstration, translation, modification, *etc.*). Personal (moral) rights are inalienable from the author and cannot be assigned or transferred under an agreement. The proprietary rights to the copyright may be licensed or assigned by means of the relevant agreement. The term of copyright protection for all works is the lifetime of the author plus 70 years after the author's death. The author's moral rights (right of authorship, right to the name and right to protect the author's reputation) are protected perpetually.

Software programmes and databases

Under the Civil Code, software programmes and databases are protected as copyrights, namely software programmes are protected as literary works and databases are protected as compilations. State registration of software programmes and databases with Rospatent is not mandatory for protection. However, in case an author would like to register appropriate software or a database he/she should file an application to Rospatent. Assignments of registered software programmes and databases must be recorded with Rospatent. A software programme or a database is protected for the lifetime of the author plus 70 years after authors' death. The right to use a software programme may be granted under a licence agreement.

Russian Import Regulations

Customs legislation in Russia is based on the unified rules of the Customs Union (the “CU”) as well as on the rules of the Eurasian Economic Union (the “EEU”). Currently all Russian foreign trade regulations are primarily based on the rules established by agreements and decisions taken at the level of the CU and EEU.

On 22 August 2012 Russia officially became a member of the World Trade Organization (the “WTO”). Russia's commitments and obligations are established in the Protocol of Accession of Russia to the WTO dated 16 December 2011 and the Working Party Report on the Accession of Russia to the WTO dated 17 November 2011, which are publicly available. Russia also participates in the International Convention on Harmonized Commodity Description and Coding System, the Convention on Temporary Admission and the International Convention on the Simplification and Harmonization of Customs Procedures.

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All cross-border transfers of goods in Russia are carried out under one of the customs procedures prescribed by the customs legislation. Each customs procedure provides different terms for clearance, which have a considerable effect on the tariff and non-tariff barriers under import and export transactions.

The resident principle applies in the CU which implies that only companies that are local residents of a CU member state and are parties to cross-border supply agreements may act as importers before the customs authorities. A declarant may clear goods through a customs broker.

Russian customs regulations do not require importers of record to be registered with the Russian customs authorities. However, a clearing customs post must open a file for every importer of record that clears goods through customs. The file should contain a standard set of documents that must be filed with the clearing customs post together with the first customs declaration.

Anti-dumping regulations

The EEU regulations set forth rules with regards to anti-dumping and countervailing measures, which are mandatory for all the EEU countries, including Russia.

The Agreement on the EEU states that the member-countries can impose special safeguard, anti-dumping and countervailing measures against goods from non-member countries. The measures are introduced by decision of the Commission of the EEU on the basis of preceding investigation.

The anti-dumping measures apply to goods which are imported under dumping conditions and the importation causes (or poses risks of causing) material damages to the economic sector or significantly slows the establishment of that sector of economy. The minimal allowable dumping margin should not exceed two percent (2%). The minimal allowable importation of goods on dumping terms should not exceed three percent (3%) from the overall volume of the same goods imported into Russia.

The anti-dumping measures include establishment of an obligation to pay the anti-dumping duty upon importation of specific goods. The anti-dumping investigation may be stopped and the duties may not be imposed if the exporter agrees in writing to correct the export price so that it eliminates the dumping margin in full (or in part sufficient to remedy the situation).

Tax

Importation of goods in Russia is generally associated with paying 18% VAT and applicable customs duty as part of the customs clearance procedure.

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IMPACT OF INTERNATIONAL SANCTIONS LAWS

During the Track Record Period, we conducted CAM sales to customers located in Russia, which represented 10.6% of our total revenue for the year ended 31 December 2015, and an insignificant amount of CAM sales to customers located in Ukraine, the Balkans, Egypt, Lebanon and Belarus (the “**Relevant Sales**”), which jurisdictions are subject to some form of International Sanctions. In light of this, we have appointed DLA Piper Hong Kong, an international law firm, to determine whether the Relevant Sales violate the International Sanctions.

As advised by DLA Piper Hong Kong, our International Sanctions legal adviser, the Relevant Sales are not sanctioned activities under International Sanctions and do not implicate the application of the relevant sanctions laws on our Group, or any person or entity, including our Group’s investors, the Stock Exchange, the HKSCC and the HKSCC Nominees. For details on the Relevant Sales and the impact of sanctions laws, please refer to the section headed “Business — Customers, Sales and Marketing — Sales to Customers located in Jurisdictions Subject to International Sanctions” in this prospectus.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR CORPORATE HISTORY

Our Company was incorporated in the Cayman Islands on 29 June 2015. Our Group's history can be traced back to the establishment of SMIT Shenzhen, our major operating subsidiary, in January 2002 by Shenzhen State Micro Electronics Co., Ltd. ("**Shenzhen State Micro**") and a former employee of Shenzhen State Micro who is an Independent Third Party, who respectively held a 90.00% and 10.00% interest in the registered share capital of SMIT Shenzhen. At the time of the establishment of SMIT Shenzhen, Mr. Huang Xueliang and Mr. Zhu Changhua were directors of Shenzhen State Micro and our Founders together held a 2.67% interest in the registered share capital of Shenzhen State Micro.

Prior to the incorporation of SMIT Shenzhen, two of the Founders, Mr. Huang Xueliang and Mr. Zhu Changhua, had been working in the semiconductor and microchip business in the PRC, and Mr. Gong Jun, another Founder, had been a senior engineer in semiconductor and micro-electronics with extensive experience in the research and development of semiconductor and micro-electronics.

Through a series of subsequent equity interest transfers between 2002 and 2005 in both Shenzhen State Micro and SMIT Shenzhen effected pursuant to a management buyout of Shenzhen State Micro by the Founders with their personal savings and the shareholding restructuring of SMIT Shenzhen, the Founders together held a controlling interest in the registered capital of Shenzhen State Micro which in turn held a 50% interest in SMIT Shenzhen immediately prior to SMIT Corporation's acquisition of SMIT Shenzhen in June 2005, with the remaining 50% interest in SMIT Shenzhen held by Star International Limited ("**Star International**") and another former employee of SMIT Shenzhen, an Independent Third Party, as to 49% and 1%, respectively.

For the purpose of attracting additional funding through investments by overseas venture capital investors, SMIT Corporation was incorporated in the Cayman Islands in March 2005, and the entire equity interest of SMIT Shenzhen was transferred to SMIT Corporation in June 2005. Between July 2005 and February 2011, SMIT Corporation raised three rounds of equity financing, in the form of Series A, Series B and Series C Preference Shares. Immediately prior to the issuance of the Series A Preference Shares, the Founders and Star International respectively held a 66% and 34% interest in SMIT Corporation. Through a series of equity interest changes between 2005 and 2011, including the exit of Star International from SMIT Corporation in December 2008 and the issuance of the Series A, Series B and Series C Preference Shares, the Founders and the Series A, Series B and Series C Investors respectively held a 22.51% and 77.49% interest in SMIT Corporation upon completion of the Series C Investment in February 2011.

Pursuant to the Series C Investors' request to exit from their investment in SMIT Corporation, on 21 September 2015, SMIT Corporation repurchased from the Series C Investors all issued Series C Preference Shares, which represented approximately 7.97% of the issued share capital of SMIT Corporation immediately prior to such repurchase.

In anticipation of the Global Offering, we underwent the Reorganisation to rationalise our corporate structure, which included the transfer of the Security Devices Business from SMIT Corporation to our Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Since our inception, our Group has grown to become a leading security devices provider for CAMs globally and mPOS devices in the PRC. For details of our business, please refer to the section headed “Business” in this prospectus.

OUR KEY BUSINESS DEVELOPMENT MILESTONES

The following table summarises various key milestones in the business development of our Group:

Year	Milestones
November 2006	We successfully developed the first generation application-specific integrated circuit (ASIC) for CAM. The product is fully compliant with the international DVB-CI standard. The product successfully passed the tests ran by the China Electronics Standardisation Institute (CESI), and was among the first batch of products issued with the Certificate of Product Certification* (產品認證證書) by the CESI.
2008	SMIT Shenzhen became a “Shenzhen Municipal High and New Technology Enterprise* (深圳市高新技術企業)”.
March 2009	Our new generation of security CAM, SECURE PLUS CAM, successfully obtained certification from the Digital TV Labs of CI Plus LLP, and our Company became the first company in the world to launch CI+ CAM.
October 2010	We obtained the ISO9001:2008 Quality Management System certificate.
December 2010	Our SM1660 chipset won the “Best Market Performance Award” in the Fifth Annual ChinaChip (2010).
September 2011	SMIT Shenzhen was recognised as one of the “2011 Guangdong Province Top 100 Software and IC Design Incubated Corporations* (廣東省軟件和集成電路設計100強培育企業)” by the Economic & Information Commission of Guangdong Province.
June 2012	Together with Conax, we introduced the Cardless CAM, which combines a pre-paired high security CA smartcard chip with an approved CAM. This new technology eliminated the need for a separate CA smartcard in CAM.
September 2012	We manufactured a new generation of SM1670 chipset, which complied with the CI+1.3 standard with the latest security requirements.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

March 2013	• Our new generation chipset SM1670 passed Conax Chipset Security Evaluation with the maximum level 5 of its security rank.
July 2013	• Commencement of development and sales of mPOS devices.
December 2013	• Our CI+1.3VOD CAM was officially put into commercial use in the Netherlands.
May 2014	• Together with Vietnam's largest private pay TV broadcasting operator and Audio Visual Global Joint Stock Company, we launched the IDTV+CAM solutions service catering to the Vietnamese market.
September 2014	• Together with Verimatrix, we presented IPTV Solution Based on CI+1.4 at the International Broadcasting Convention 2014. The demonstration is based on the new features of the CI+1.4 standard, with IP delivery and multi-streams features being leveraged to extend IP stream routing.

INFORMATION ON SMIT CORPORATION AND MEMBERS OF OUR GROUP

We set forth below certain information on SMIT Corporation and each member of our Group that made material contribution to our results of operations during the Track Record Period.

(i) SMIT Corporation

SMIT Corporation was incorporated in the Cayman Islands on 23 March 2005 as an exempted company with limited liability. From its acquisition of SMIT Shenzhen in June 2005 up to immediately before completion of the Reorganisation, SMIT Corporation was the investment holding company of SMIT Germany and SMIT Hong Kong, which in turn holds SMIT Shenzhen.

Immediately prior to the issuance of the Series A Preference Shares in July 2005, the Founders and Star International respectively held a 66% and 34% interest in SMIT Corporation. Between July 2005 and February 2011, SMIT Corporation raised three rounds of equity financing in the form of Series A, Series B and Series C Preference Shares.

Through a series of equity interest changes between 2005 and 2011, including the exit of Star International from SMIT Corporation in December 2008 and the issuance of the Series A, Series B and Series C Preference Shares, the Founders and the Series A, Series B and Series C Investors respectively held a 22.51% and 77.49% interest in SMIT Corporation upon completion of the Series C Investment in February 2011.

Pursuant to the Series C Investors' request to exit from their investment in SMIT Corporation, on 21 September 2015, SMIT Corporation repurchased from the Series C Investors all issued Series C Preference Shares, which represented approximately 7.97% of the issued share capital of SMIT Corporation immediately prior to such repurchase. For further details on the Series A, Series B and Series C Investments in SMIT Corporation, please refer to the paragraph headed "Investments in SMIT Corporation" in this section.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

In anticipation of the Global Offering, we underwent the Reorganisation to rationalise our corporate structure, which included the transfer of the Security Devices Business from SMIT Corporation to our Company. SMIT Corporation ceased to own or operate the Security Devices Business upon completion of the Reorganisation. For further details on the Reorganisation, please refer to the paragraph headed “Reorganisation” in this section.

Other than our operations in the Security Devices Business, certain subsidiaries of SMIT Corporation were previously engaged in other business apart from the Security Devices Business, and such business has been discontinued by SMIT Corporation and excluded from our Group. For more information on such excluded business, please refer to the paragraph headed “Excluded Business and Exclusion of Other Investment Interests — The Excluded Business” in this section.

(ii) Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 June 2015, with its principal function as an investment holding company. At the time of incorporation, the authorised share capital of our Company was US\$50,000 divided into 2,500,000,000 shares with par value of US\$0.00002 per share, and one ordinary share was issued to Mapcal Limited, an Independent Third Party. On the day of our Company’s incorporation, Mapcal Limited transferred the said ordinary share to Mr. Huang Xueliang.

We entered into the share sale and purchase agreement on 21 September 2015 for the Reorganisation. Upon completion of the Reorganisation, our Company became the holding company of SMIT Germany and SMIT Hong Kong, the latter which in turn holds SMIT Shenzhen. For further details of the Reorganisation, please refer to the paragraph headed “Reorganisation” in this section. For details of our Company’s business, please refer to the paragraph headed “Business — Overview” in this prospectus.

(iii) SMIT Hong Kong

SMIT Hong Kong was established on 25 April 2006 in Hong Kong as a limited liability company. At the time of incorporation, the authorised share capital of SMIT Hong Kong was HK\$10,000 divided into 10,000 shares with par value of HK\$1.00 per share. SMIT Hong Kong had been a wholly-owned subsidiary of SMIT Corporation since its incorporation up to completion of the Reorganisation, after which SMIT Hong Kong became a wholly-owned subsidiary of our Company.

SMIT Hong Kong is responsible for administration and facilitating business operations and Hong Kong is where our head office is located. It also acts as the billing office of the Group for its overseas sales. SMIT Hong Kong is also the holding company of SMIT Shenzhen.

(iv) SMIT Shenzhen

SMIT Shenzhen is our principal operating subsidiary in China and is primarily engaged in the business of designing, developing and marketing security devices primarily for the pay TV industry through sales of CAMs, and the mobile payment market through sales of mPOS devices.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

SMIT Shenzhen was established on 4 January 2002 as a limited liability company in the PRC with an initial registered capital of RMB2 million. At the time of establishment, SMIT Shenzhen was held as to 90% and 10%, respectively, by Shenzhen State Micro and a former employee of Shenzhen State Micro, an Independent Third Party. At the time of SMIT Shenzhen's establishment, the Founders were members of the management team of Shenzhen State Micro and together held a 2.67% interest in Shenzhen State Micro.

Through a series of subsequent equity interest transfers between 2002 and 2005 in both Shenzhen State Micro and SMIT Shenzhen effected pursuant to a management buyout of Shenzhen State Micro by the Founders and the shareholding restructuring of SMIT Shenzhen, the Founders together held a 99.44% interest in the registered capital of Shenzhen State Micro which in turn held 50% of the registered capital of SMIT Shenzhen immediately prior to SMIT Corporation's acquisition of SMIT Shenzhen in June 2005, with the remaining 50% interest in SMIT Shenzhen held by Star International and another former employee of SMIT Shenzhen, an Independent Third Party, as to 49% and 1%, respectively.

For the purpose of attracting additional funding from overseas venture capital investors, the entire registered capital of SMIT Shenzhen was transferred to SMIT Corporation on 1 June 2005. On 16 April 2013, the registered capital of SMIT Shenzhen was transferred to SMIT Hong Kong, a wholly-owned subsidiary of SMIT Corporation at the time.

(v) SMIT Germany

SMIT Germany was established in Germany as a company with limited liability on 11 August 2009 with a registered share capital of EUR25,000. On 25 August 2010, SMIT Corporation acquired the entire registered share capital of SMIT Germany.

Upon completion of the Reorganisation, SMIT Germany became a wholly-owned subsidiary of our Company.

SMIT Germany acts as the representative office of our Group in Germany and is primarily engaged in the sales and marketing of, and provision of technical support for, our CAMs in Germany.

EXCLUDED BUSINESS AND EXCLUSION OF OTHER INVESTMENT INTERESTS

The Security Devices Business

We are engaged in the security devices business of designing, developing and marketing security devices primarily for the pay TV industry through sales of CAMs, and the mobile payment market through sales of mPOS devices (the “**Security Devices Business**”). For details of our business, please refer to the section headed “Business” in this prospectus.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CAMs are electronic devices which equip a digital TV or SmartTV with a piece of hardware that facilitates end users' viewing of encrypted digital paid television content. TV content security is crucial and requires specially designed decryption coding and anti-hacking secured chips, accredited by international conditional access providers who designed the original encryption coding, to ensure final delivery of encrypted TV content, which are usually under protection and/or regulation that require payment and/or authorisation, to viewers.

mPOS products are card reading devices which may be connected to mobile devices (such as smartphones and tablets) to allow such devices to process payment transactions and function as mobile cash registers. mPOS products allow mobile devices to securely read information from credit, debit and other bank cards, and perform functions similar to the larger and more expensive stationary credit/debit card machines seen at most retailers today.

The core feature of both CAMs and mPOS devices is security, and such products are security hardware products. CAMs are used for secured access to and decryption of paid access content, and mPOS devices allow mobile devices to perform secured payment transactions.

Both CAMs and mPOS devices require, as part of their core technology, the design and development of security chipsets, algorithms, software and hardware that ensure a high level of security. CAMs and mPOS devices share similar production processes and resources for research and development, and the mPOS business is a natural extension of the CAMs business due to the similarity of their core technology and mode of operation.

CAMs and mPOS devices occupy an important and fundamental position in their respective value chains. CAMs securely protect the copyright of the video content provided by the broadcasting operators and facilitate the secure transmission of broadcasting operators' content with proper and controlled access, whereas mPOS device rely on their secure system-on-chip design which secure payment transactions through banking-level encryption.

Further, CAMs and mPOS devices have security algorithms encoded and are tested for security and reliability by third parties. CAM security software designed by our Group incorporates algorithms licensed from and tested by the CA Providers and the mPOS devices are required to go through a safety accreditation process by third parties such as UnionPay.

The Excluded Business

Other than our operations in the Security Devices Business, SMIT Corporation previously engaged in other non-Security Devices Business, which consists of the online video streaming business (the **"Online Video Business"**) and the internet-based integrated applications business (the **"IBIA Business"**), together with the Online Video Business, the **"Excluded Business"**).

The Online Video Business was set up in August 2012 to provide an online education and entertainment video streaming platform for children, similar to the children content channels of other PRC video streaming platforms. The Online Video Business was conducted mainly through SMIT Shenzhen (Beijing Branch), formerly a branch office of SMIT Shenzhen.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The IBIA Business was set up in October 2012 for the design and development of various products and software based on internet applications. The business focused on data analysis using Internet server and/or Cloud database service to achieve communication connection and content selection, including online video applications on mobile devices, gateway router products and an interactive teaching and studying device. The IBIA Business was conducted through SMIT Beijing, formerly a wholly-owned subsidiary of SMIT Shenzhen.

Distinctions between the Security Devices Business and the Excluded Business

The Security Devices Business and the Excluded Business are fundamentally different in nature. The Security Devices Business focuses on security technology, and its products are designed for the encryption/decryption and/or processing of secured information.

The Excluded Business does not entail any significant element of security and does not require the design or development of security features or components. The Excluded Business is different and distinctive from the Security Devices Business in all principal aspects of operation, including core technology, target market, customers, suppliers and business management team. There are no overlapping core technology between the Security Devices Business and the Excluded Business, and hence completely separate research and development was conducted for each of the two businesses. Furthermore, each of the said businesses was managed by completely separate management teams and employees and the Online Video Business and the IBIA Business were operated by SMIT Shenzhen (Beijing Branch) and SMIT Beijing, respectively, which were operationally and financially separated and independent from the Security Devices Business.

SMIT Corporation's previous engagement in the Excluded Business was driven by the shareholders of SMIT Corporation at the time, which mainly consisted of venture capital and private equity shareholders, for the purpose of exploring further development and investment opportunities in business sectors unrelated to its then existing business (i.e. the Security Devices Business) within the technology industry. As such, the Excluded Business was commenced not through any leveraging of SMIT Corporation's then existing business (i.e. the Security Devices Business) or its resources, given that there was no overlapping in either core technologies/expertise, management, personnel, operating entities, customers or suppliers.

As confirmed by Frost & Sullivan, the Excluded Business is not a natural extension of the Security Devices Business given that (i) the business models for each of the two businesses are completely different since the Security Devices Business operates on a business-to-business model whereas the Excluded Business operates on a business-to-customer model; and (ii) the CAMs and mPOS businesses are found in the upstream of their respective value chains, whereas the Online Video Business and IBIA Business are found in the downstream of their respective value chains.

Discontinuation of the Excluded Business

In order to focus resources on the Security Devices Business, the directors of SMIT Corporation decided to discontinue and sell the Online Video Business in 2014. The Online Video Business was first transferred to the newly incorporated Shenzhen Video Mall Network Technology Co., Ltd. ("Shenzhen Video Mall"), which at the time was a wholly-owned subsidiary of SMIT Hong Kong.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

SMIT Hong Kong's interest in the entire share capital of Shenzhen Video Mall was later sold to iVmall HK Limited, which was wholly owned by iVmall Corporation, in August 2014, for a consideration of RMB10 million. The consideration was determined at arm's length negotiations between the relevant parties and the share transfer was completed on 8 August 2014. At the time of the share transfer, iVmall Corporation was wholly owned by Mr. Huang Xueliang, our Chairman and executive Director, through his investment company, Green Flourish Limited. Mr Huang Xueliang's interest in iVmall Corporation was subsequently reduced to 44.44% as a result of investments made respectively by SMIT Corporation and the general manager of Shenzhen Video Mall in iVmall Corporation after the said discontinuation and sale of the Online Video Business, further details of which are set out in the paragraph headed "Investment interest in iVmall Corporation and iCast Corporation" in this section.

In order to focus resources on the Security Devices Business, and as a result of the resignation of certain employees who were previously involved in the IBIA Business, the directors of SMIT Corporation decided to completely discontinue the IBIA Business in October 2014. After resigning from SMIT Shenzhen, the employees operated a separate internet services provider business through iCast Corporation, an Independent Third Party. After discontinuation of the IBIA Business, SMIT Corporation subsequently acquired a minority interest in iCast Corporation, further details of which are set out in the paragraph headed "Investment interest in iVmall Corporation and iCast Corporation" in this section.

Deregistration of SMIT Shenzhen (Beijing Branch) and SMIT Beijing

After the discontinuation of the Excluded Business, SMIT Shenzhen (Beijing Branch) and SMIT Beijing eventually ceased operations in August 2014 and October 2014 respectively, and had terminated all employment since that time. SMIT Shenzhen (Beijing Branch) and SMIT Beijing were deregistered on 27 July 2015 and 23 July 2015 respectively.

Our PRC Legal Advisers confirmed that SMIT Shenzhen (Beijing Branch) and SMIT Beijing had obtained all necessary approvals and completed all requisite formalities in respect of their deregistration in accordance with all applicable PRC laws and regulations. As a result of the deregistration, SMIT Shenzhen (Beijing Branch) ceased to be a branch office of SMIT Shenzhen and SMIT Beijing ceased to be a subsidiary of SMIT Shenzhen.

Investment interest in iVmall Corporation and iCast Corporation

iVmall Corporation and its subsidiaries are mainly engaged in providing an online education and entertainment video streaming platform for children. iCast Corporation and its subsidiaries are mainly engaged in the provision of internet services business.

After SMIT Corporation's discontinuation of the Excluded Business, the shareholders of SMIT Corporation decided, in view of the potential growth and development of the relevant businesses, to acquire investment interests in each of iVmall Corporation and iCast Corporation.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 30 October 2014, Good Future Management Limited, an investment company then wholly-owned by SMIT Corporation, entered into an agreement to acquire a 22.22% equity interest in iVmall Corporation for a consideration of US\$2.5 million, such consideration having been determined at arm's length negotiations between the relevant parties.

On 29 January 2015, Better Balance Limited, an investment company then wholly-owned by SMIT Corporation, entered into an agreement to acquire a 18.75% interest in iCast Corporation for a consideration of US\$3 million, such consideration having been determined at arm's length negotiation between the relevant parties.

In order for our Group to focus on the Security Devices Business, which has been our core operating business since our Group's inception in 2002 and throughout the Track Record Period, and in order to separate the Security Devices Business from SMIT Corporation's investment interests in iVmall Corporation and iCast Corporation in consideration of, among other things, a clearer presentation of the Security Devices Business' financial performance and position, the Directors were of the view that the said investment interests should be excluded and held separately from our Group.

As a result, SMIT Corporation's investment interests in iVmall Corporation and iCast Corporation were not transferred to our Company pursuant to the Reorganisation and the shareholders of SMIT Corporation will maintain their investment in iVmall Corporation and iCast Corporation through SMIT Investment, an entity separate from our Group. For further information, please refer to sub-section headed "Reorganisation" under this section.

Investment interest in iBoxpay

To tap into the growing hardware-based mobile payment market in the PRC, and in order to diversify and expand our business through leveraging on our experience in the security devices industry, we entered into the PRC mobile payment market in July 2013 through sales of our mPOS devices. Since our entry into the PRC mobile payment market, iBoxpay has become the major customer for our mPOS devices.

In view of the potential of mPOS devices and in order to strengthen our cooperation with iBoxpay, the management of SMIT Corporation decided to acquire a minority investment interest in iBoxpay. In July 2013, New Achievement Limited, a wholly-owned subsidiary of SMIT Corporation, entered into a share purchase agreement to acquire a 17.96% interest in iBoxpay for a total consideration of US\$6.0 million. The consideration for the subscription was determined at arm's length negotiations between the relevant parties and the subscription was completed on 8 July 2013. Immediately prior to the completion of the Reorganisation, SMIT Corporation indirectly held an approximately 15.89% interest in iBoxpay.

In order for our Group to focus on the Security Devices Business, which has been our core operating business, and in order to separate the Security Devices Business from SMIT Corporation's investment interest in iBoxpay, our Directors were of the view that the said investment interest in the iBoxpay should be excluded and held separately from our Group.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

As a result, SMIT Corporation's interest in iBoxpay was not transferred to our Company and the shareholders of SMIT Corporation will maintain their investment in iBoxpay through SMIT Investment, an entity separate from our Group, after completion of the Reorganisation. For further information, please refer to the paragraph headed "Reorganisation" in this section.

Interests in SMIT International and attempted United States listing

In 2011, SMIT Corporation commenced preparation for an initial public offering and listing in the United States (the "**Proposed Listing**"), and filed its registration statements (which is similar to a listing application made to the Stock Exchange) with the U.S. Securities and Exchange Commission (the "**SEC**"). However, due to adverse market conditions in the U.S. at the time, SMIT Corporation voluntarily discontinued with the Proposed Listing in 2011. The discontinuance of the Proposed Listing was not due to any disagreement between SMIT Corporation and the SEC, and would have no material adverse impact on the suitability of our Company to list on the Stock Exchange. In contemplation of the Proposed Listing in 2011, SMIT International Inc. ("**SMIT International**") was established in August 2010 as a wholly-owned subsidiary of SMIT Corporation serving as a corporate vehicle for potential strategic business and technological developments related to the United States. As the Proposed Listing was discontinued, SMIT International remained as a dormant company.

Since SMIT International is a dormant company and is not engaged in the Security Devices Business, our Directors were of the view that SMIT International should be excluded and held separately from our Group. As a result, SMIT Corporation's interest in SMIT International was not transferred to our Company and the shareholders of SMIT Corporation will maintain their interest in SMIT International through SMIT Investment, an entity separate from our Group, after completion of the Reorganisation. For further information, please refer to paragraph headed "Reorganisation" in this section.

REORGANISATION

REORGANISATION



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Pacven Walden consists of five entities, namely Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V.. To the best of our Directors' knowledge, each of Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., and Pacven Walden Ventures V-QP Associates Fund, L.P. is a limited partnership formed under the laws of the Cayman Islands and each of Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. is a limited partnership formed under the laws of the Kingdom of the Netherlands. Pacven Walden is engaged in venture investment around the world focusing on cross-border investments. Pacven Walden is one of the Series A, Series B and Series C Investors in SMIT Corporation. Pacven Walden held 18,657,655 preference shares in SMIT Corporation, representing approximately 12.24% of the issued share capital of SMIT Corporation, immediately before completion of the Reorganisation. To the best of our Directors' knowledge, other than its investment in our Group, the said Pacven Walden entities are independent of our Company and our connected persons.
- (2) Mayfield consists of four entities, namely Mayfield XI, a Delaware Limited Partnership ("**Mayfield XI**"), Mayfield XI Qualified, a Delaware Limited Partnership ("**Mayfield XI Q**"), Mayfield Associates Fund VI, a Delaware Limited Partnership ("**Mayfield AF VI**") and Mayfield Principals Fund II, a Delaware LLC Including Multiple Series ("**Mayfield PF II**"). To the best of our Directors' knowledge, Mayfield XI Management, L.L.C. is the sole general partner of each of Mayfield XI, Mayfield XI Q, Mayfield AF VI and is the sole managing director of Mayfield PF II. Mayfield is a global early stage venture capital firm with a focus on investments in the United States, India and China. Mayfield is one of the Series A and Series B Investors in SMIT Corporation. The Mayfield entities referenced herein held 15,406,000 preference shares in SMIT Corporation, representing approximately 10.11% of the issued share capital of SMIT Corporation immediately before completion of the Reorganisation. To the best of our Directors' knowledge, other than its investment in our Group and GSR, the said Mayfield entities are independent of our Company and our connected persons.
- (3) David Mixer is an individual investor investing in a personal capacity. David Mixer holds 2,500,000 preference shares in SMIT Corporation, representing approximately 1.64% of the number of entire issued shares of SMIT Corporation immediately before completion of the Reorganisation. To the best of our Directors' knowledge, other than his investment in our Group, David Mixer is independent of our Company and our connected persons.
- (4) GSR consists of two entities, namely GSR Ventures I, L.P. and GSR Principals Fund I, L.P.. To the best of our Directors' knowledge, each of GSR Ventures I, L.P. and GSR Principals Fund I, L.P. is a limited partnership formed under the laws of the Cayman Islands controlled by a general partner, GSR Partners I, L.P.. GSR is engaged in venture investments primarily in early growth stage technology companies with substantial operations in China. GSR is one of the Series A, Series B and Series C Investors in SMIT Corporation. GSR held 8,475,000 ordinary shares and preference shares in SMIT Corporation, representing approximately 5.56% and 15.34% of the issued share capital of SMIT Corporation, immediately before completion of Reorganisation. To the best of our Directors' knowledge, Mayfield, through its various funds and entities, holds approximately 10.40%, 5.48% and 29.60% interest in GSR Ventures I, L.P., GSR Principals Fund I, L.P. and GSR Partners I, L.P., respectively. To the best of our Directors' knowledge, other than its investment in our Group, the said GSR entities are independent of our Company and our connected persons.
- (5) Castlewilder is an unlimited company having a share capital established in the Republic of Ireland and is an indirect subsidiary of Cadence Design Systems, Inc.. Immediately before the Reorganisation, Castlewilder held 2,500,000 preference shares in SMIT Corporation, representing approximately 1.64% of the issued share capital of SMIT Corporation, immediately before completion of the Reorganisation. To the best of our Directors' knowledge, other than its investment in our Group, Castlewilder is independent of our Company and our connected persons.
- (6) Silverose Enterprises Limited ("**Silverose**") is a limited company formed under the laws of Samoa. Silverose is one of the Series A Investors in SMIT Corporation. Silverose held 5,000,000 preference shares in SMIT Corporation, representing approximately 3.28% of the issued share capital of SMIT Corporation immediately before Reorganisation. To the best of our Directors' knowledge, other than its investment in our Group, Silverose is independent of our Company and our connected persons.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (7) Oak consists of two entities, namely Oak Investment Partners X, L.P. and Oak X Affiliates Fund, L.P.. To the best of our Directors' knowledge, each of Oak Investment Partners X, L.P. and Oak X Affiliates Fund, L.P. is a limited partnership formed in Delaware. Oak is a multi-stage venture capital firm that focuses on the technology sector. Oak is one of the Series B and C Investors in SMIT Corporation. Oak held 39,215,685 preference shares in SMIT Corporation, representing approximately 25.73% of the issued share capital of SMIT Corporation, immediately before completion of the Reorganisation. To the best of our Directors' knowledge, other than its investment in our Group, the said Oak entities are independent of our Company and our connected persons.
- (8) Immediately before completion of the Reorganisation, iCast Corporation was owned by Better Balance, 21 Vianet Group Inc. (a company listed on NASDAQ and a leading data centre, network services and cloud services provider in the PRC) and Sino Express Ventures* (華展創投有限公司) as to 18.75%, 18.75% and 62.5% respectively. Huazhan Chuungtou Limited is wholly-owned by Mr. Cui Yisheng the general manager of iCast. To the best of our Directors' knowledge, each of 21 Vianet Group Inc. and Mr. Cui Yisheng is independent to our Company and our connected persons.
- (9) Immediately before completion of the Reorganisation, iVmall Corporation was owned by Good Future Management Limited, Sheen Gain Investments Limited and Green Flourish Limited as to 22.22%, 33.33% and 44.44% respectively. Sheen Gain Investments Limited is wholly owned by Mr. He Shiguang the general manager of Shenzhen Video Mall. To the best of our Directors' knowledge, Mr. He Shiguang is independent of our Company and our connected persons. Green Flourish Limited is wholly owned by Mr. Huang Xueliang, our executive Director.
- (10) Immediately before completion of the Reorganisation, iBoxpay International Inc. was owned by New Achievement Limited, Green Flourish Limited, Mr. Han Changlei, Mr. Zhang Zhiyong, GSR, Orchid Asia, Atomico Ventures and Box Opportunity Capital Limited as to 15.89%, 1.32%, 35.02%, 1.84%, 24.85%, 13.27%, 5.74% and 2.06% respectively. Green Flourish Limited is wholly-owned by Mr. Huang Xueliang, our executive Director. Orchid Asia's interest in iBoxpay International Inc. is held through Orchid Asia VI, L.P. and Orchid Asia C Co-Investment Limited. Atomico Ventures's interest in iBoxpay International Inc. is held through Atomico Ventures II L.P. and Atomico Ventures Affiliates II, L.P.. GSR Ventures III, L.P., GSR Opportunities IV, L.P., GSR Principals Fund IV, L.P. and Banean Holdings Ltd are affiliated funds of GSR Ventures I, L.P. and GSR Principals Fund I, L.P., who are shareholders of our Company, details of which are set out in Note (4) above. To the best of our Directors' knowledge each of Mr. Han Changlei, Mr. Zhang Zhiyong, Orchid Asia, Atomico Ventures and Box Opportunity Capital Limited is an Independent Third Party.

We underwent the Reorganisation to rationalise our corporate structure in anticipation of the Global Offering. Our Group commenced a series of offshore and onshore reorganisation activities, which involved the following steps:

1. The incorporation of our Company

On 29 June 2015, our Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability (i) with an authorised share capital of US\$50,000 divided into 2,500,000,000 shares of par value of US\$0.00002 each and (ii) with one share of par value of US\$0.00002 being allotted to and issued to Mapcal Limited as fully paid at par, which was then transferred to Mr. Huang Xueliang on 29 June 2015.

2. Our Company's acquisition of SMIT Hong Kong and SMIT Germany from SMIT Corporation and subscription of Shares in our Company by the Founders and the Fund Investors

On 21 September 2015, among other parties, SMIT Corporation, our Company, the Founders Companies and the Fund Investors entered into a share sale and purchase agreement, pursuant to which, among other things, our Company agreed to acquire from SMIT Corporation its entire interests in each of SMIT Hong Kong and SMIT Germany. In consideration of, among other things, the said share acquisitions, our Company agreed to issue (upon the direction and instruction of SMIT Corporation) to each of the Founders Companies and the Fund Investors such number of ordinary

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

shares in our Company as to reflect its respective shareholding interests of the Founders Companies and the Fund Investors (on an as converted basis) held in SMIT Corporation at the time of completion of the share sale and purchase agreement. Pursuant to the share sale and purchase agreement, certain related parties' balances was assumed by or assigned to the Company as part of the Reorganisation, as the case may be. Upon completion of the Reorganisation, such amounts no longer appear on our consolidated balance sheet.

Upon completion of the said share sale and purchase agreement, each of SMIT Germany, SMIT Hong Kong and SMIT Shenzhen became wholly-owned subsidiaries of our Company.

Upon completion of the Reorganisation, each of the Founders Companies and the Fund Investors shall (i) retain their respective shareholding interests and rights in SMIT Corporation as set out in the paragraph headed "Investments in SMIT Corporation" in this section below; and (ii) hold ordinary shares in our Company and shall not hold any rights or interests in our Company other than their respective ordinary shareholding interests as set out in this section below. For details on the special rights and interests held by the Investors in SMIT Corporation, please refer to the paragraph headed "Investments in SMIT Corporation — Special Rights of the Series A, Series B and Series C Investors in SMIT Corporation" in this section.

3. Assumption of 2008 Share Plan as the Pre-IPO Share Option Scheme

To recognise the contributions made to the growth of SMIT Corporation by (i) certain of its directors and employees who advised SMIT Corporation on its business strategy with their management experience and finance expertise, or (ii) consultants of SMIT Corporation including certain former employees of SMIT Corporation who continued to serve SMIT Corporation in new roles as consultants of SMIT Corporation (the details of whose options held under the 2008 Share Plan are set out in the section headed "Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme" in Appendix IV), SMIT Corporation adopted a share incentive plan on 21 February 2008 (the "**2008 Share Plan**").

As part of the Reorganisation, our Company assumed the 2008 Share Plan on 15 September 2015 as the Pre-IPO Share Option Scheme. Pursuant to the foregoing, our Company assumed all the rights and obligations under options granted by SMIT Corporation under the 2008 Share Plan, and all share option agreements entered into between SMIT Corporation and the holders of such options, to the intent and effect that all such share options granted under, and such share option agreements entered, under the 2008 Share Plan will be valid, binding and enforceable against our Company in accordance with their terms, as if such options had been granted by our Company under the Pre-IPO Share Option Scheme. Immediately after completion of the Reorganisation, the number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme was 39,610,510 Shares. Upon completion of the Capitalisation Issue, the number of outstanding Shares subject to the Pre-IPO Share Option Scheme will, pursuant to the Pre-IPO Share Option Scheme, be adjusted proportionally to 58,470,406 Shares. Upon completion of the Capitalisation Issue and the Global Offering, the aggregate number of outstanding Shares subject to the options granted to our Directors, senior management, connected persons (other than the Directors) and consultants under the Pre-IPO Share Option Scheme are 15,013,578, 13,088,263, 2,837,140 and 6,766,414 respectively, representing approximately 5.00%, 4.36%, 0.95% and 2.26% of the issued share capital of the Company respectively.

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A summary of the principal terms of the Pre-IPO Share Option Scheme is set forth in the section headed “Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme” in Appendix IV.

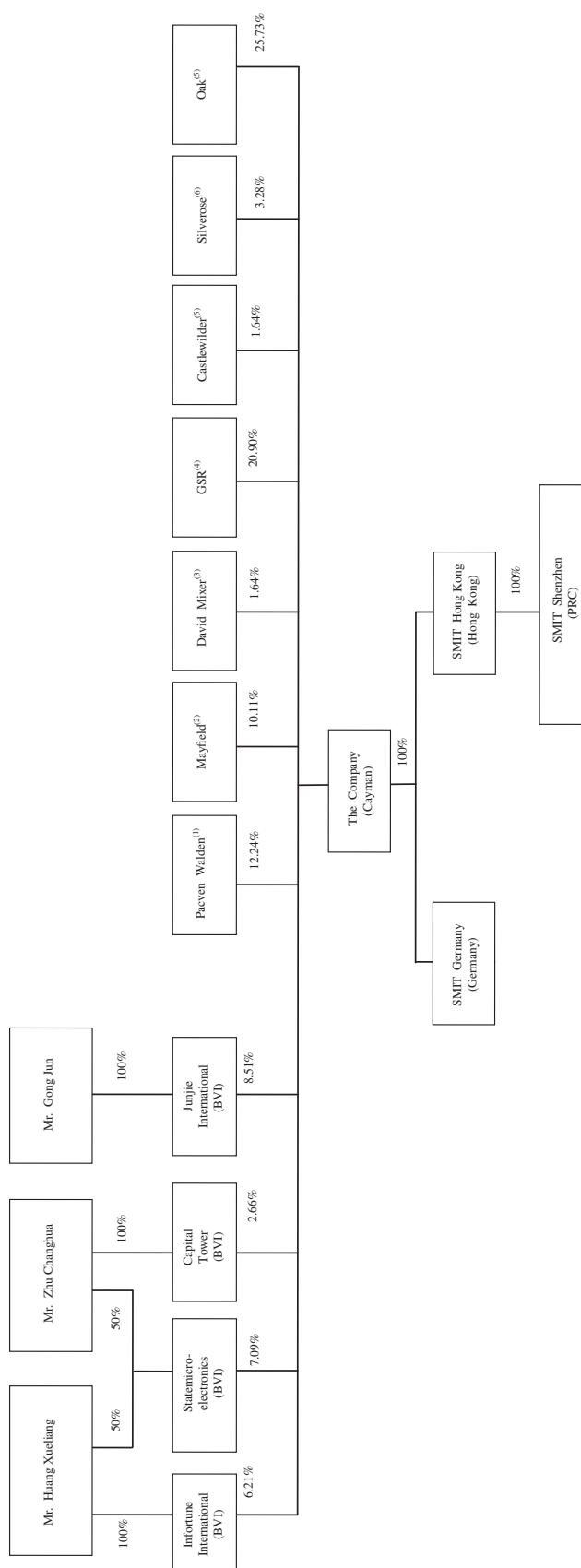
Our PRC Legal Advisers have confirmed that our Group has obtained all necessary approvals, consents, licenses and permits and has effected all necessary filings or recordation under the relevant PRC laws and regulations in connection with the Reorganisation.

Immediately after the completion of Reorganisation, our Company’s shareholding structure was as follows:

Shareholder	No. of shares held in our Company	Shareholding interest in our Company
Infortune International	9,460,635	6.21%
Capital Tower	4,052,305	2.66%
Junjie International	12,966,750	8.51%
Statemicroelectronics	10,810,310	7.09%
Pacven Walden Ventures V, L.P.	17,464,245	11.46%
Pacven Walden Ventures V Associates Fund, L.P.	60,600	0.04%
Pacven Walden Ventures V-QP Associates Fund, L.P.	329,140	0.22%
Pacven Walden Ventures Parallel V-A C.V.	401,835	0.26%
Pacven Walden Ventures Parallel V-B C.V.	401,835	0.26%
Mayfield XI, a Delaware Limited Partnership	831,925	0.55%
Mayfield XI Qualified, a Delaware Limited Partnership	13,341,600	8.75%
Mayfield Associates Fund VI, a Delaware Limited Partnership	277,305	0.18%
Mayfield Principals Fund II, a Delaware LLC Including Multiple Series	955,170	0.63%
David Mixer	2,500,000	1.64%
GSR Ventures I, L.P.	30,900,210	20.27%
GSR Principals Fund I, L.P.	955,675	0.63%
Castlewilder	2,500,000	1.64%
Silverose Enterprises Limited	5,000,000	3.28%
Oak Investment Partners X, L.P.	38,596,080	25.32%
Oak X Affiliates Fund, L.P.	619,605	0.41%
Total	<u>152,425,225</u>	<u>100.00%</u>

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out our corporate and shareholding structure immediately after completion of the Reorganisation:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Pacven Walden consists of five entities, namely Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V.. To the best of our Directors' knowledge, each of Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., and Pacven Walden Ventures V-QP Associates Fund, L.P. is a limited partnership formed under the laws of the Cayman Islands and each of Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. is a limited partnership formed under the laws of the Kingdom of the Netherlands. Pacven Walden is engaged in venture investment around the world focusing on cross-border investments. Pacven Walden is one of the Series A, Series B and Series C Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group, the said Pacven Walden entities are independent of our Company and our connected persons.
- (2) Mayfield consists of four entities, namely Mayfield XI, a Delaware Limited Partnership ("**Mayfield XI**"), Mayfield XI Qualified, a Delaware Limited Partnership ("**Mayfield XI Q**"), Mayfield Associates Fund VI, a Delaware Limited Partnership ("**Mayfield AF VI**") and Mayfield Principals Fund II, a Delaware LLC Including Multiple Series ("**Mayfield PF II**"). To the best of our Directors' knowledge, Mayfield XI Management, L.L.C. is the sole general partner of each of Mayfield XI, Mayfield XI Q, Mayfield AF VI and is the sole managing director of Mayfield PF II. Mayfield is a global early stage venture capital firm with a focus on investments in the United States, India and China. Mayfield is one of the Series A and Series B Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group and GSR, the said Mayfield entities are independent of our Company and our connected persons.
- (3) David Mixer is an individual investor investing in a personal capacity. To the best of our Directors' knowledge, David Mixer is a party independent of our Company and our connected persons.
- (4) GSR consists of two entities, namely GSR Ventures I, L.P. and GSR Principals Fund I, L.P.. To the best of our Directors' knowledge, each of GSR Ventures I, L.P. and GSR Principals Fund I, L.P. is a limited partnership formed under the laws of the Cayman Islands controlled by a general partner, GSR Partners I, L.P.. GSR is engaged in venture investments primarily in early growth stage technology companies with substantial operations in China. GSR is one of the Series A, Series B and Series C Investors in SMIT Corporation. To the best of our Directors' knowledge, Mayfield, through its various funds and entities, holds approximately 10.40%, 5.48% and 29.60% interest in GSR Ventures I, L.P., GSR Principals Fund I, L.P. and GSR Partners I, L.P., respectively. To the best of our Directors' knowledge, other than its investment in our Group, the said GSR entities are independent of our Company and our connected persons.
- (5) Castlewilder is an unlimited company having a share capital established in the Republic of Ireland and is an indirect subsidiary of Cadence Design Systems, Inc. To the best of our Directors' knowledge, Castlewilder is independent of our Company and our connected persons.
- (6) Silverose Enterprises Limited ("**Silverose**") is a limited company formed under the laws of Samoa. Silverose is one of the Series A Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group, Silverose is independent of our Company and our connected persons.
- (7) Oak consists of two entities, namely Oak Investment Partners X, L.P. and Oak X Affiliates Fund, L.P.. To the best of our Directors' knowledge, each of Oak Investment Partners X, L.P. and Oak X Affiliates Fund, L.P. is a limited partnership formed in Delaware. Oak is a multi-stage venture capital firm that focuses on the technology sector. Oak is one of the Series B and C Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group, the said Oak entities are independent of our Company and our connected persons.

THE CAPITALISATION ISSUE AND THE GLOBAL OFFERING

Conditional upon the share premium account of our Company being credited as a result of the Global Offering, our Company will capitalise all or a portion, as the case may be, of the balance of the share premium account and apply such sum in paying up in full at par value a total of 72,574,775 Shares for allotment and issue to the existing shareholders of our Company immediately prior to the Capitalisation Issue on a pro rata basis. Our Company will issue 75,000,000 Shares under and upon the completion of the Global Offering.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

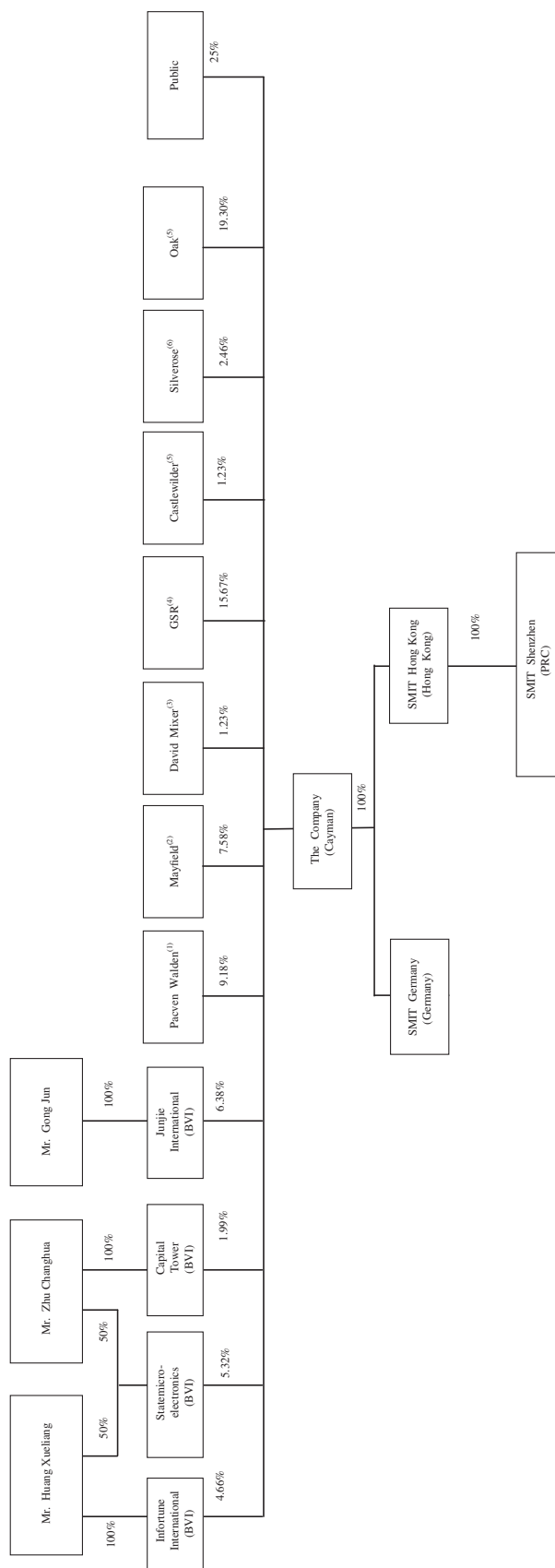
Immediately after the completion of the Capitalisation Issue and the Global Offering, our Company's shareholding structure will be as follows (without taking into account of any Shares that may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme):

Shareholder	No. of shares held in our Company	Shareholding interest in our Company
Infortune International Limited	13,965,149	4.66%
Capital Tower Profits Limited	5,981,744	1.99%
Junjie International Co., Ltd	19,140,656	6.38%
Statemicroelectronics International Co. Ltd	15,957,463	5.32%
Pacven Walden Ventures V, L.P.	25,779,560	8.59%
Pacven Walden Ventures V Associates Fund, L.P.	89,454	0.03%
Pacven Walden Ventures V-QP Associates Fund, L.P.	485,855	0.16%
Pacven Walden Ventures Parallel V-A C.V.	593,163	0.20%
Pacven Walden Ventures Parallel V-B C.V.	593,163	0.20%
Mayfield XI, a Delaware Limited Partnership	1,228,033	0.41%
Mayfield XI Qualified, a Delaware Limited Partnership	19,693,985	6.56%
Mayfield Associates Fund VI, a Delaware Limited Partnership	409,340	0.14%
Mayfield Principals Fund II, a Delaware LLC Including Multiple Series	1,409,959	0.47%
David Mixer	3,690,335	1.23%
GSR Ventures I, L.P.	45,612,840	15.20%
GSR Principals Fund I, L.P.	1,410,705	0.47%
Castlewilder	3,690,335	1.23%
Silverose Enterprises Limited	7,380,669	2.46%
Oak Investment Partners X, L.P.	56,972,972	18.99%
Oak X Affiliates Fund, L.P.	914,620	0.30%
Public Shareholders	75,000,000	25.00%
Total	<u>300,000,000</u>	<u>100.00%</u>

Immediately after the completion of the Capitalisation Issue and the Global Offering, the number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme will be adjusted to 58,470,406 Shares, representing approximately 19.49% of the number of issued Shares of the Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out our corporate and shareholding structure immediately following the completion of the Global Offering (without taking into account of any Shares that may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme):



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Pacven Walden consists of five entities, namely Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V.. To the best of our Directors' knowledge, each of Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., and Pacven Walden Ventures V-QP Associates Fund, L.P. is a limited partnership formed under the laws of the Cayman Islands and each of Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. is a limited partnership formed under the laws of the Kingdom of the Netherlands. Pacven Walden is engaged in venture investment around the world focusing on cross-border investments. Pacven Walden is one of the Series A, Series B and Series C Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group, the said Pacven Walden entities are independent of our Company and our connected persons.
- (2) Mayfield consists of four entities, namely Mayfield XI, a Delaware Limited Partnership ("**Mayfield XI**"), Mayfield XI Qualified, a Delaware Limited Partnership ("**Mayfield XI Q**"), Mayfield Associates Fund VI, a Delaware Limited Partnership ("**Mayfield AF VI**") and Mayfield Principals Fund II, a Delaware LLC Including Multiple Series ("**Mayfield PF II**"). To the best of our Directors' knowledge, Mayfield XI Management, L.L.C. is the sole general partner of each of Mayfield XI, Mayfield XI Q, Mayfield AF VI and is the sole managing director of Mayfield PF II. Mayfield is a global early stage venture capital firm with a focus on investments in the United States, India and China. Mayfield is one of the Series A and Series B Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group and GSR, the said Mayfield entities are independent of our Company and our connected persons.
- (3) David Mixer is an individual investor investing in a personal capacity. To the best of our Directors' knowledge, other than his investment in our Group, David Mixer is independent of our Company and our connected persons.
- (4) GSR consists of two entities, namely GSR Ventures I, L.P. and GSR Principals Fund I, L.P.. To the best of our Directors' knowledge, each of GSR Ventures I, L.P. and GSR Principals Fund I, L.P. is a limited partnership formed under the laws of the Cayman Islands controlled by a general partner, GSR Partners I, L.P.. GSR is engaged in venture investments primarily in early and growth stage technology companies with substantial operations in China. GSR is one of the Series A, Series B and Series C Investors in SMIT Corporation. To the best of our Directors' knowledge, Mayfield, through its various funds and entities, holds approximately 10.40%, 5.48% and 29.60% interest in GSR Ventures I, L.P., GSR Principals Fund I, L.P. and GSR Partners I, L.P., respectively. To the best of our Directors' knowledge, other than its investment in our Group, such GSR entities are independent of our Company and our connected persons.
- (5) Castlewilder is an unlimited company having a share capital established in the Republic of Ireland and is an indirect subsidiary of Cadence Design Systems, Inc. To the best of our Directors' knowledge, other than its investment in our Group, Castlewilder is independent of our Company and our connected persons.
- (6) Silverose Enterprises Limited ("**Silverose**") is a limited company formed under the laws of Samoa. Silverose is one of the Series A Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group, Silverose is independent of our Company and our connected persons.
- (7) Oak consists of two entities, namely Oak Investment Partners X, L.P. and Oak X Affiliates Fund, L.P.. To the best of our Directors' knowledge, each of Oak Investment Partners X, L.P. and Oak X Affiliates Fund, L.P. is a limited partnership formed in Delaware. Oak is a multi-stage venture capital firm that focuses on the technology sector. Oak is one of the Series B and C Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group, the said Oak entities are independent of our Company and our connected persons.

INVESTMENTS IN SMIT CORPORATION

In order to raise additional capital for further growth and development, SMIT Corporation underwent three rounds of investments in the form of the Series A, Series B and Series C Investments. The Series A Investments was undertaken by the Series A Investors and was completed in February 2008. The second round of investments was undertaken by the Series B Investors and was completed in February 2008. The third round of investments was undertaken by the Series C Investors and was completed in February 2011.

The Series A, Series B and Series C Investors consist of mostly overseas venture capital funds.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Overview of the Series A Investment

In July 2005, SMIT Corporation entered into the Series A Preference Shares Purchase Agreement with the Series A Investors. Pursuant to the Series A Preference Shares Purchase Agreement, the Series A Investors agreed to subscribe for a total number of 9,000,000 Series A Preference Shares in SMIT Corporation, representing approximately 49.58% of the issued share capital of SMIT Corporation as enlarged by the subscription of Series A Preference Shares, for a total consideration of approximately US\$9 million, such consideration being determined at arm's length negotiations between the parties. As a closing condition to the Series A Preference Shares purchase agreement, SMIT Corporation, the Founders Companies and the Series A Investors, among others, agreed to enter into the investors' rights agreement, the first refusal and co-sale agreement and the voting agreement in July 2005, each of which was subsequently amended and restated in February 2008 and in February 2011 when the Series B Investment and the Series C Investment was respectively completed.

Basic information of the Series A Investment is as set out below:

Name		Number of Series A Preference Shares originally subscribed/ acquired⁽¹⁾	Date of investment	Payment date	Remarks
Pacven Walden Ventures V, L.P.	(i)	1,872,072	4 July 2005	14 July 2005	
	(ii)	655,225	16 February 2008	N/A ⁽²⁾	Pacven Walden Ventures V, L.P. acquired 655,225 Series A Preference Shares from Former Series A Investor A on 16 February 2008
Pacven Walden Ventures V Associates Fund, L.P.	(i)	6,496	4 July 2005	14 July 2005	
	(ii)	2,274	16 February 2008	N/A ⁽²⁾	Pacven Walden Ventures V Associates Fund, L.P. acquired 2,274 Series A Preference Shares from Former Series A Investor A on 16 February 2008

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Name		Number of Series A Preference Shares originally subscribed/ acquired ⁽¹⁾	Date of investment	Payment date	Remarks
Pacven Walden Ventures V-QP Associates Fund, L.P.	(i)	35,282	4 July 2005	14 July 2005	
	(ii)	12,349	16 February 2008	N/A ⁽²⁾	Pacven Walden Ventures V-QP Associates Fund, L.P. also acquired 12,349 Series A Preference Shares from Former Series A Investor A on 16 February 2008
Pacven Walden Ventures Parallel V-A C.V.	(i)	43,075	4 July 2005	14 July 2005	
	(ii)	15,076	16 February 2008	N/A ⁽²⁾	Pacven Walden Ventures Parallel V-A C.V. acquired 15,076 Series A Preference Shares from Former Series A Investor A on 16 February 2008
Pacven Walden Ventures Parallel V-B C.V.	(i)	43,075	4 July 2005	14 July 2005	
	(ii)	15,076	16 February 2008	N/A ⁽²⁾	Pacven Walden Ventures Parallel V-B C.V. acquired 15,076 Series A Preference Shares from Former Series A Investor A on 16 February 2008
Former Series A Investor A		2,000,000	4 July 2005	14 July 2005	Former Series A Investor A ceased to be a Series A Investor after transferring its Series A Preference Shares to Pacven Walden, GSR and Castlewilder entities on 16 February 2008
Mayfield XI		94,500	4 July 2005	14 July 2005	
Mayfield XI Qualified		1,515,500	4 July 2005	14 July 2005	
Mayfield Associates Fund VI		31,500	4 July 2005	14 July 2005	

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Name		Number of Series A Preference Shares originally subscribed/ acquired ⁽¹⁾	Date of investment	Payment date	Remarks
Mayfield Principals Fund II		31,500	4 July 2005	14 July 2005	
Former Series A Investor B		1,000,000	4 July 2005	14 July 2005	Former Series A Investor B ceased to be a Series A Investor after its entire Series A Preference Shares shareholding was repurchased by SMIT Corporation on 17 February 2008
David Mixer		500,000	4 July 2005	14 July 2005	
GSR Ventures I, L.P.	(i)	1,697,500	26 May 2006	2 December 2005	
	(ii)	776,000	16 February 2008	N/A ⁽²⁾	GSR Ventures I, L.P. acquired 776,000 Series A Preference Shares from Former Series A Investor A on 16 February 2008
GSR Principals Fund I, L.P.	(i)	52,500	26 May 2006	2 December 2005	
	(ii)	24,000	16 February 2008	N/A ⁽²⁾	GSR Principals Fund I, L.P. acquired 24,000 Series A Preference Shares from Former Series A Investor A on 16 February 2008
Castlewilder		500,000	16 February 2008	N/A ⁽²⁾	Castlewilder became a Series A Investor after acquiring 500,000 Series A Preference Shares from Former Series A Investor A on 16 February 2008
Silverose Enterprises Limited		1,000,000	17 February 2008	29 December 2005	

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

1. Without taking into account the subdivision of shares of SMIT Corporation on 2 December 2008 under which each Series A Preference Share, Series B Preference Share and ordinary share of SMIT Corporation was subdivided into five subdivided Series A Preference Shares, Series B Preference Shares and ordinary shares of SMIT Corporation respectively (the “**Share Subdivision**”).
2. The consideration for the Series A Preference Shares acquisition was settled directly between the relevant buyer and seller of the transaction, SMIT Corporation was not involved in the settlement of such consideration, and no funds were received by SMIT Corporation from the said share acquisition.

Amount of consideration paid for subscription of Series A Preference Shares: US\$9 million

Cost per share:

(i) *Subscription of Series A Preference Shares*

HK\$1.05

(taking into account the Share Subdivision of SMIT Corporation and assuming each Series A Preference Share is converted into one ordinary share of the Company and adjusted as a result of the Capitalisation Issue)

(ii) *Acquisition of Series A Preference Shares by Pacven Walden, GSR and Castlewilder from Former Series A Investor A*

N/A. The consideration for the Series A Preference Shares acquisition was negotiated and settled between the relevant buyer and seller of the transaction. SMIT Corporation was not involved in the negotiation and settlement of such consideration, and no funds were received by SMIT Corporation from the said share acquisition.

Discount to Offer Price of HK\$3.49 (being the mid-point of the Offer Price Range)

(i) *Subscription of Series A Preference Shares*

69.91%

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(ii) *Acquisition of Series A Preference Shares by
Castlewilder from Former Series A Investor A*

N/A. The consideration for the Series A Preference Shares acquisition was negotiated and settled between the relevant buyer and seller of the transaction. SMIT Corporation was not involved in the negotiation and settlement of such consideration, and no funds were received by SMIT Corporation from the said share acquisition.

Use of proceeds from the Series A Investment:	The proceeds from the Series A Investments had been fully utilised for the expansion of the business of SMIT Corporation and continued development of our CAM business, specifically in the area of research and development and marketing.
Strategic benefits brought by the Series A Investors:	In addition to the Series A Investment, the Series A Investors offer advice to SMIT Corporation in relation to its business and strategic development based on their extensive management experience and industry knowledge.

Overview of the Series B Investment

In February 2008, SMIT Corporation entered into the Series B Preference Shares purchase agreement with the Series B Investors. Pursuant to the Series B Preference Shares purchase agreement, the Series B Investors agreed to subscribe for a total number of 12,332,045 Series B Preference Shares in SMIT Corporation, representing approximately 40.45% of the issued share capital of SMIT Corporation as enlarged by the subscription of Series B Preference Shares, for a total consideration of approximately US\$30 million, such consideration being determined at arm's length negotiations between the parties. As a closing condition to the Series B Preference Shares purchase agreement, SMIT Corporation, the Founders and the Series B Investors, among others, agreed to enter into the amended and restated investors' rights agreement, first refusal and co-sale agreement and the voting agreement in February 2008, each of which was further amended and restated in February 2011 when the Series C Investment was completed.

Basic information of the Series B Investment is as set out below:

Name	Number of Series B Preference Shares originally subscribed ^(Note)	Date of investment	Payment date
Pacven Walden Ventures V, L.P.	965,552	25 February 2008	22 February 2008
Pacven Walden Ventures V Associates Fund, L.P.	3,350	25 February 2008	22 February 2008

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Name	Number of Series B Preference Shares originally subscribed ^(Note)	Date of investment	Payment date
Pacven Walden Ventures V-QP Associates Fund, L.P.	18,197	25 February 2008	22 February 2008
Pacven Walden Ventures Parallel V-A C.V.	22,216	25 February 2008	22 February 2008
Pacven Walden Ventures Parallel V-B C.V.	22,216	25 February 2008	22 February 2008
Mayfield XI	71,885	25 February 2008	22 February 2008
Mayfield XI Qualified	1,515,500	25 February 2008	22 February 2008
Mayfield Associates Fund VI	23,961	25 February 2008	22 February 2008
Mayfield Principals Fund II	82,534	25 February 2008	22 February 2008
GSR Ventures I, L.P.	2,062,392	25 February 2008	22 February 2008
GSR Principals Fund I, L.P.	63,785	25 February 2008	22 February 2008
Oak Investment Partners X, L.P.	7,719,216	25 February 2008	22 February 2008
Oak X Affiliates Fund, L.P.	123,921	25 February 2008	22 February 2008

Note: Without taking into account the subdivision of shares of SMIT Corporation on 2 December 2008 under which each Series A Preference Share, Series B Preference Share and ordinary share of SMIT Corporation were subdivided into five subdivided Series A Preference Shares, Series B Preference Shares and ordinary shares of SMIT Corporation respectively (the “**Share Subdivision**”).

Amount of consideration paid:	US\$30 million
Cost per share:	HK\$2.55 (taking into account the Share Subdivision of SMIT Corporation and assuming each Series B Preference Share is converted into one ordinary share of the Company and adjusted as a result of the Capitalisation Issue)
Discount to Offer Price of HK\$3.49 (being the mid-point of the Offer Price Range)	26.93%
Use of proceeds from the Series B Investment:	The proceeds from the Series B Investments had been fully utilised for the expansion of the business of SMIT Corporation and continued development of our CAM business, specifically in the area of research and development and marketing.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Strategic benefits brought by the Series B Investors:

In addition to the Series B Investment, the Series B Investors offer advice to SMIT Corporation in relation to its business and strategic development based on their extensive management experience and industry knowledge

Overview of the Series C Investment

In February 2011, SMIT Corporation entered into the Series C Preference Shares purchase agreement with the Series C Investors. Pursuant to the Series C Preference Shares purchase agreement, the Series C Investors agreed to subscribe for a total number of 13,200,528 Series C Preference Shares in SMIT Corporation, representing approximately 7.97% of the issued share capital of SMIT Corporation as enlarged by the subscription of Series C Preference Shares, for a total consideration of approximately US\$22 million, such consideration being determined at arm's length negotiations between the parties. As a closing condition to the Series C Preference Shares purchase agreement, SMIT Corporation, the Founders and the Series C Investors, among others, agreed to enter into the amended and restated investors' rights agreement, the first refusal and co-sale agreement and the voting agreement in February 2011.

Basic information of the Series C Investment is as set out below:

Name	Number of Series C Preference Shares originally subscribed	Date of investment	Payment date
Pacven Walden Ventures V, L.P.	561,644	24 February 2011	28 February 2011
Pacven Walden Ventures V Associates Fund, L.P.	1,949	24 February 2011	28 February 2011
Pacven Walden Ventures V-QP Associates Fund, L.P.	10,585	24 February 2011	28 February 2011
Pacven Walden Ventures Parallel V-B C.V.	12,923	24 February 2011	28 February 2011
GSR Ventures I, L.P.	1,140,766	24 February 2011	28 February 2011
GSR Principals Fund I, L.P.	35,281	24 February 2011	28 February 2011
Oak Investment Partners X, L.P.	1,771,631	24 February 2011	28 February 2011
Oak X Affiliates Fund, L.P.	28,441	24 February 2011	28 February 2011
Master Noble Investments Limited	9,000,360	24 February 2011	28 February 2011
Banean Holdings Ltd.	24,001	24 February 2011	28 February 2011
The Richard C Barker Revocable Trust 3/16/04	600,024	24 February 2011	28 February 2011

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Amount of consideration paid:	US\$22 million
Cost per share:	HK\$9.51 (assuming Series C Repurchase did not take place and each Series C Preference Share is converted into one ordinary share of the Company and adjusted after the Capitalisation Issue)
Premium to Offer Price of HK\$3.49 (being the mid-point of the Offer Price Range)	N/A. The cost per share for the Series C Preference Share is 272.49% of the Offer Price of HK\$3.49
Use of proceeds from the Series C Investment:	The proceeds from the Series C Investments had been fully utilised for the expansion of the business of SMIT Corporation and continued development of our CAM business, specifically in the area of research and development and marketing.
Strategic benefits brought by the Series C Investors:	In addition to the Series C Investment, the Series C Investors offer advice to SMIT Corporation in relation to its business and based on their extensive management experience

Series C Repurchase

Pursuant to the request by certain Series C Investors, on 18 September 2015 SMIT Corporation entered into a share repurchase agreement with the Series C Investors to repurchase all Series C Preference Shares in SMIT Corporation, representing approximately 7.97% of the issued share capital of SMIT Corporation immediately prior to such repurchase on a fully diluted basis, at its original issue price, for a total consideration of approximately US\$22 million. As a result of Series C Repurchase, Master Noble Investments Limited, Banean Holdings Ltd. and The Richard C Barker Revocable Trust 3/16/04 ceased to be shareholders of SMIT Corporation as they did not hold any other shares or interest in SMIT Corporation.

Background of Series A Investors, Series B Investors and Series C Investors

Pacven Walden

Pacven Walden consists of five entities, namely Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V.. To the best of our Directors' knowledge, each of Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., and Pacven Walden Ventures V-QP Associates Fund, L.P. is a limited partnership formed under the laws of the Cayman Islands and each of Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. is a limited partnership formed under the laws of the Kingdom of the Netherlands. Pacven Walden is engaged in venture investment around the world focusing on cross-border investments. Pacven Walden is one of the Series A, Series B and Series C Investors in SMIT Corporation. To the best of our Directors' knowledge, other than its investment in our Group, the said Pacven Walden entities are independent of our Company and our connected persons.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Mayfield

Mayfield consists of four entities, namely Mayfield XI, a Delaware Limited Partnership (“**Mayfield XI**”), Mayfield XI Qualified, a Delaware Limited Partnership (“**Mayfield XI Q**”), Mayfield Associates Fund VI, a Delaware Limited Partnership (“**Mayfield AF VI**”) and Mayfield Principals Fund II, a Delaware LLC Including Multiple Series (“**Mayfield PF II**”). To the best of our Directors’ knowledge, Mayfield XI Management, L.L.C. is the sole general partner of each of Mayfield XI, Mayfield XI Q, Mayfield AF VI and is the sole managing director of Mayfield PF II. Mayfield is a global early stage venture capital firm with a focus on investments in the United States, India and China. Mayfield is one of the Series A and Series B Investors in SMIT Corporation. To the best of our Directors’ knowledge, other than its investment in our Group and GSR, the said Mayfield entities are independent of our Company and our connected persons.

David Mixer

David Mixer is an individual investor investing in a personal capacity. To the best of our Directors’ knowledge, other than his investment in our Group, David Mixer is independent of our Company and our connected persons.

GSR

GSR consists of two entities, namely GSR Ventures I, L.P. and GSR Principals Fund I, L.P.. To the best of our Directors’ knowledge, each of GSR Ventures I, L.P. and GSR Principals Fund I, L.P. is a limited partnership formed under the laws of the Cayman Islands controlled by a general partner, GSR Partners I, L.P.. GSR is engaged in venture investments primarily in early and growth stage technology companies with substantial operations in China. GSR is one of the Series A, Series B and Series C Investors. GSR also held an aggregate of 8,475,000 ordinary shares in SMIT Corporation. To the best of our Directors’ knowledge, Mayfield, through its various funds and entities, holds approximately 10.40%, 5.48% and 29.60% interest in GSR Ventures I, L.P., GSR Principals Fund I, L.P. and GSR Partners I, L.P., respectively. To the best of our Directors’ knowledge, other than its investment in our Group and Mr. Sonny Wu being a managing director of GSR and director of SMIT Hong Kong and SMIT Shenzhen, the said GSR entities are independent of our Company and our connected persons.

Castlewilder

Castlewilder is an unlimited company having a share capital established in the Republic of Ireland and is an indirect subsidiary of Cadence Design Systems, Inc., an electronic design automation software and engineering services company incorporated in the U.S.A. and listed on the NASDAQ Global Select Market. To the best of our Directors’ knowledge, other than its investment in our Group, Castlewilder is independent of our Company and our connected persons.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Silverose

Silverose Enterprises Limited (“**Silverose**”) is a limited company formed under the laws of Samoa and is wholly-owned by Mr. David Hsueh, an individual investor. Silverose is one of the Series A Investors in SMIT Corporation. To the best of our Directors’ knowledge, other than its investment in our Group, Silverose is independent of our Company and our connected persons.

Oak

Oak consists of two entities, namely Oak Investment Partners X, L.P. and Oak X Affiliates Fund, L.P.. To the best of our Directors’ knowledge, each of Oak Investment Partners X, L.P. and Oak X Affiliates Fund is a limited partnership formed in Delaware. Oak is a multi-stage venture capital firm that focuses on the technology sector. Oak is one of the Series B and C Investors in SMIT Corporation. To the best of our Directors’ knowledge, other than its investment in our Group, the said Oak entities are independent of our Company and our connected persons.

Former Series A Investor A

Former Series A Investor A is a limited partnership registered in the U.S.A. and is an indirect subsidiary of Cadence Design Systems, Inc.. It was previously a Series A Investor in SMIT Corporation until it transferred its Series A Preference Shares to Pacven Walden, GSR entities and Castlewildier (an indirect subsidiary of Cadence Design Systems, Inc.) on 16 February 2008. To the best of our Directors’ knowledge, other than its previous investment in our Group, Former Series A Investor A is independent of our Company and our connected persons.

Former Series A Investor B

Former Series A Investor B is a Taiwanese smart handheld device manufacturer and network application service provider. Former Series A Investor B was previously a Series A Investor in SMIT Corporation until its entire Series A Preference Shares shareholding was repurchased by SMIT Corporation on 17 February 2008. To the best of our Directors’ knowledge, other than its previous investment in our Group, Former Series A Investor B is independent of our Company and our connected persons.

Master Noble

Master Noble Investments Limited (“**Master Noble**”) is a limited company incorporated in the British Virgin Islands, is an investment holding company wholly owned by AP Special Situations Fund II L.P.. AP Special Situations Fund II L.P. is a fund launched by AP Special Situations Group Inc. with an investment focus in consumer electronics, technology, clean energy and food & beverage. Master Noble was previously a Series C Investor of SMIT Corporation prior to the Series C Repurchase on 18 September 2015. To the best of our Directors’ knowledge, other than its previous investment in our Group, Master Noble is independent of our Company and our connected persons.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Banean

Banean Holdings Ltd. (“**Banean**”) is an investment holding company incorporated in the Cayman Islands, wholly owned by Wai Ping Leong and Peng Tsin Ong, both of which are individual investors. Banean was previously a Series C Investor of SMIT Corporation prior to the Series C Repurchase on 18 September 2015. To the best of our Directors’ knowledge, other than its previous investment in our Group, Banean is independent of our Company and our connected persons.

The Richard C Barker Revocable Trust 3/16/04

The Richard C Barker Revocable Trust 3/16/04 is an investment trust managed by Mr. Richard C Barker. The Richard C Barker Revocable Trust 3/16/04 was previously a Series C Investor of SMIT Corporation prior to the Series C Repurchase on 18 September 2015. To the best of our Directors’ knowledge, other than its previous investment in our Group, The Richard C Barker Revocable Trust 3/16/04 is independent of our Company and our connected persons.

Special Rights of the Series A, B and C Investors in SMIT Corporation

Pursuant to agreements entered into between SMIT Corporation and the Series A, Series B and Series C Investors and the articles of association of SMIT Corporation, the Series A, Series B and Series C Investors were granted with certain special rights relating to their interest held in SMIT Corporation. All of the said special rights only apply to the Series A, B and C Investors’ interests held in SMIT Corporation and none of such rights apply to our Company or its subsidiaries or their respective businesses. As set out in the sub-section headed “Reorganisation” under this section, as part of the Reorganisation, the Fund Investors subscribed for, and were issued by our Company, such number of ordinary shares in our Company as to reflect such Investors’ respective shareholding interests held in SMIT Corporation. Upon completion of the Reorganisation, the Investors only hold ordinary shares of our Company, with no special rights or other interest in our Company.

The special rights that were granted to the Series A, B and C Investors in respect of their interest held in SMIT Corporation prior to the Reorganisation, which no longer apply to their interest held in the Company upon completion of the Reorganisation, include the following:

Financial information and inspection right

Certain Series A, B and C Investors holding such number of shares in SMIT Corporation as above a shareholding threshold are entitled to receive and inspect financial and accounting information and other books and records of SMIT Corporation.

Board appointment right

The Series A Investors, Series B Investors and the holders of the ordinary shares of SMIT Corporation are entitled to elect three, one and two directors of SMIT Corporation respectively. In addition, the holders of preference shares and ordinary shares of SMIT Corporation, as a whole, are also entitled to elect one director of SMIT Corporation.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Anti-dilution and pre-emptive right

The Series A, B and C Investors have the pre-emptive right to purchase, on a pro rata basis, new securities issued by SMIT Corporation from time to time.

Veto right

So long as any preference shares of SMIT Corporation is outstanding, there are certain matters which would require the approval of the holders of a majority in voting power in the then outstanding preference shares of SMIT Corporation. Such matters include, among others, liquidation of SMIT Corporation or its key subsidiaries, disposal of major assets, adverse changes to the rights, preference or privileges of the preference shares of SMIT Corporation, issuance or creation of any security by SMIT Corporation or its key subsidiaries, increase or decrease in the total number of Preference Shares or ordinary shares of SMIT Corporation, payment or declaration of payment of any dividend or other distribution, redemption of any Preference Shares or ordinary shares of SMIT Corporation and amendment, revision or repeal of the articles of association of SMIT Corporation.

Right of first offer

Certain Series A, B and C Investors holding such number of shares in SMIT Corporation as above a shareholding threshold are entitled to a right of first offer to purchase new securities issued by SMIT Corporation on a pro rata basis.

Right of first refusal

If any of the Founders Companies intends to transfer its shares in SMIT Corporation to a specified purchaser, the Series A, B and C Investors shall have a right of first refusal to purchase the shares to be transferred by such selling Founders' Company on a pro rata basis on substantially the same terms and conditions as offered by such specified purchaser.

Co-sale right

Each of the Series A, B and C Investors which does not exercise its right of first refusal as mentioned above shall have the right to participate in such sales of any or all of its shares on substantially the same terms and conditions as offered by such specified purchaser to such selling Founders Company.

Conversion rights

Voluntary conversion

At the option of the Series A, B and C , each preference share of SMIT Corporation is convertible into such number of fully paid ordinary shares of SMIT Corporation at the applicable conversion price. The initial conversion price per share for each of the Series A, B and C Preference Shares shall be the original issue price applicable to such series of Preference Shares respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Automatic conversion

Each Preference Share is automatically converted into ordinary shares at the applicable conversion rate at the time in effect for each series of preference shares of SMIT Corporation, immediately upon the earlier of (i) SMIT's sale of its ordinary shares in a public offering on a recognised securities exchange in the United States or (ii) any date specified by written consent or agreement of the holders of a majority of the voting power of the then outstanding Preference Shares.

Redemption right

At any time after four years from the date on which the Series C Preference Shares were first issued, SMIT Corporation shall redeem the then outstanding preference shares of SMIT Corporation requested to be redeemed for a sum per share equal to the applicable original issue price for such preference shares of SMIT Corporation (as may be adjusted) upon receipt of a written request from the holders of not less than a majority in voting power of the then outstanding Preference Shares.

Liquidation preference

In the event of any liquidation event, either voluntary or involuntary, the holders of Preference Shares shall be entitled to receive, prior and in preference to any distribution of the proceeds of such liquidation event to the holders of ordinary shares of SMIT Corporation.

Dividend preference

The holders of preference shares of SMIT Corporation shall be entitled to receive dividends, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend on the ordinary shares of SMIT Corporation.

All of the said special rights only apply to the Series A, B and C Investors' interests held in SMIT Corporation and none of such rights apply to our Company or its subsidiaries or their respective businesses. Upon completion of the Reorganisation, the Investors only hold ordinary shares of our Company, with no special rights or other interest in our Company.

Confirmation from the Sole Sponsor

The Sole Sponsor has confirmed that the investment by the Series A Investors, Series B Investors and Series C Investors is in compliance with the Interim Guidance on Pre-IPO Investments issued on 13 October 2010 by the Stock Exchange, the Guidance Letter HKEx-GL43-12 issued in October 2012 and updated in July 2013 by the Stock Exchange and the Guidance Letter HKEx-GL44-12 issued in October 2012 by the Stock Exchange.

Lock-up

Certain of the Series A and Series B Investors, namely GSR, Oak, Mayfield and Pacven Walden, have undertaken to us and the Sole Global Coordinator that, commencing on the Listing Date and for a period of six months thereafter, they will not sell or otherwise transfer or dispose any Shares or other

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

securities of our Company without the prior consent of the Sole Global Coordinator. For further details, please refer to the section headed “Underwriting — Underwriting Arrangements and Expenses — Undertakings pursuant to the Lock-up Undertakings”.

Public float

Save for GSR and Oak, who will be substantial shareholders of our Company upon Listing, none of the other Series A and Series B Investors will be a connected person of our Company upon Listing, as such, the Shares held by each of such Series A and B Investors will be counted as public float upon Listing.

PRC Regulatory Issues relating to the Reorganisation and the Listing

On 4 July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37, which replaced the former SAFE Circular 75 promulgated on 21 October 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE with regards to their direct establishment or indirect control of an offshore entity established for the purpose of overseas investment and financing and holding such PRC residents’ legally owned assets or equity investments in domestic enterprises or offshore assets or interests (referred to as a “special purpose vehicle” in SAFE Circular 37). According to SAFE Circular 37, PRC resident individuals shall refer to Chinese citizens holding the identity cards for PRC residents, military identity documents or identity documents for Chinese armed police force, and overseas individuals who do not hold any PRC legal identity document, but who have habitual residences within the territory of China due to relationship of economic interests.

As confirmed by our Group, the individual shareholders of our Group, i.e. Huang Xueliang, Zhu Changhua and Gong Jun, are all PRC resident individuals as defined in SAFE Circular 37, and shall go through the formalities in respect of the foreign exchange registration of overseas investment of PRC resident.

The abovementioned individual PRC resident shareholders of our Group had completed the formalities in respect of the foreign exchange registration of overseas investment of PRC resident according to the then effective SAFE Circular 75. According to our consultation with Shenzhen branch of China Merchants Bank (“CMB”), one of the banks in charge of the registration relating to SAFE Circular 37, CMB has confirmed that our individual PRC resident shareholders are not required to complete the change of the foreign exchange registration under SAFE Circular 37, given that (i) individual PRC residents who had completed the formalities in respect of the foreign exchange registration of overseas investment of PRC resident according to the then effective SAFE Circular 75 do not need to go through the formalities in respect of the foreign exchange registration pursuant to SAFE Circular 37; (ii) only the special purpose vehicles that are directly held by the individual PRC residents are subject to the registration in practice, and the special purpose vehicles that our individual PRC resident shareholders directly holds have not changed due to Reorganisation.

BUSINESS

OVERVIEW

We are a leading security devices provider globally for pay TV broadcasting access and for mobile point-of-sale, or mPOS, payment systems in China. We design, develop and market security devices primarily for the pay TV industry worldwide through sales of our conditional access module, or CAM, products which provide end users with access to pay TV content. According to Frost & Sullivan, we ranked first in the global CAM market by both sales volume and revenue in 2014 and for the first half of 2015. We also had in 2014 and for the first half of 2015 the largest market share by both sales volume and revenue in the European Market, which is the most developed CAM market globally, according to Frost & Sullivan. In July 2013, we entered the fast-growing hardware-based mobile payment market in the PRC with our mPOS devices. According to Frost & Sullivan, we were the second largest supplier of mPOS devices in China in terms of market share by sales volume in 2014 and for the first half of 2015.

We entered the CAM market in western Europe in 2006 and have been steadily expanding our geographic markets and product portfolio since. CAMs are electronic devices approximately the size of a credit card primarily utilising a PCMCIA interface, which are used with digital TVs to decrypt transmissions, acting as a key for end users to unlock encrypted pay TV content. Sales of CAMs have accounted for the majority of our revenue during the Track Record Period. CAMs play a vital part in the pay TV content delivery value chain. Broadcasting operators utilise encryption technology from conditional access providers, or CA providers, to encrypt their pay TV content for secure transmission. TV manufacturers design and produce televisions which are compatible for CAMs to connect with and function. We work with all of these types of industry participants in the pay TV content delivery value chain to design and develop CAM products that are interoperable across multiple systems and protocols.

In July 2013, we further diversified our product portfolio with the development and sales of mPOS products to tap into the fast growing hardware-based mobile payment market in the PRC. According to Frost & Sullivan, China's mPOS terminal market by sales volume grew at a CAGR of 53.3% between 2010 and 2014 and is expected to grow at a CAGR of 39.7% between 2015 and 2019. mPOS products are secured payment devices which enable users to make credit and debit card transactions with mobility using their smartphones or tablets rather than a traditional stationary point-of-sale terminal, or POS terminal. We sell our mPOS products in the PRC to hardware-based mobile payment service providers like iBoxpay. Such mobile payment service providers utilise our mPOS products to enable end users, primarily business enterprises, to easily collect payments with mobility.

We are headquartered in Hong Kong, with offices in Shenzhen, China and Munich, Germany. Since our inception in 2002, we have grown quickly to serve more than 400 customers with sales in 46 countries worldwide. We attribute our success to our technological advantages accumulated over years of strong research and development efforts into security devices products. Because of our experience in chipset design, software development and hardware security, we are able to offer customised, vertically-integrated security devices to our customers. As a result, we have become the leader among CAM providers worldwide. As at 31 December 2015, our CAM products were sold to 16 CA providers, 174 broadcasting operators and seven TV manufacturers primarily in Europe and Asia, and to a much lesser extent to potential growth markets in Africa, South America and Australia.

BUSINESS

Our revenue for the year ended 31 December 2013, 2014 and 2015 were approximately US\$47.2 million, US\$56.0 million and US\$65.1 million, respectively. For the year ended 31 December 2015, sales of our CAMs and mPOS products generated approximately US\$37.3 million and US\$27.8 million of revenue, respectively, representing 57.3% and 42.7% of our total revenue for the period.

We have made significant investments in research and development for our security devices business. Our research and development expenses accounted for approximately 11% to 15% of our total revenue during the Track Record Period. Our research and development activities focus primarily on enhancing the security and functionality of our existing product portfolio, as well as developing new security devices. As at the Latest Practicable Date, we had in total 79 registered patents and 73 patents pending registration worldwide. Our major patents relate to proprietary chipsets and CAM designs relating to security decryption with anti-hacking and tamper resistance capabilities.

INDUSTRY GROWTH DRIVERS

According to Frost & Sullivan, the market size for our CAM and mPOS markets is expected to be driven by various industry growth drivers which include:

For CAMs:

- Transition to digital television broadcasting and development of the pay TV industry globally
- Changes in technologies and accelerating industry standards, such as CI standards
- Cooperation with industry participants along the pay TV content delivery value chain
- Rising demands from emerging CAM markets

For mPOS products:

- Increasing mobile payment demand with operational and cost efficiency
- Increasing need for transaction security and personal information protection
- More value-added features and services needed for the mobile payment market

According to Frost & Sullivan, the global CAM market is expected to grow from 2015 to 2019 at a CAGR of 17.9% in terms of sales volume, and the China mPOS terminal market is expected to grow from 2015 to 2019 at a CAGR of 39.7% by sales volume. For further details, please refer to the sections headed “Industry Overview — The Global CAM Market Overview — CAM Market Overview”, “Industry Overview — The Global CAM Market Overview — Key Drivers and Market Trends for the CAM Market” and “Industry Overview — The China mPOS Market Overview” in this prospectus.

BUSINESS

COMPETITIVE STRENGTHS

We are the market leader for CAM products worldwide and the second largest mPOS supplier in China.

Since first entering the CAM market in 2006 in western Europe, we have solidified our market position and expanded rapidly globally, attaining the leading position in the global CAM market with 48.7% of market share by both sales volume and revenue in 2014 and 48.9% and 49.6% of market share in terms of sales volume and revenue, respectively, for the first half of 2015, according to Frost & Sullivan. Additionally, we were the first company to take advantage of the TV digitisation trend in China and began offering CAMs in China in 2006, thereby achieving the largest CAM market share in China with 88.0% by sales volume and 88.7% by revenue in 2014 and with 89.7% by sales volume and 89.6% by revenue for the first half of 2015, according to Frost & Sullivan. We are also well positioned to take advantage of the fast growing mPOS terminal market in China. We were the second largest mPOS supplier in China, with 6.6% and 6.8% of the market share by sales volume in 2014 and for the first half of 2015, according to Frost & Sullivan. Despite the fragmented nature of the mPOS terminal market in China, the market size by sales volume has grown at a CAGR of 53.3% between 2010 and 2014 and is expected to grow at a CAGR of 39.7% from 2015 to 2019, according to Frost & Sullivan.

We are well positioned to benefit from the growth of the global CAM market

We believe our global leadership in the CAM market, combined with our extensive and established relationships with key industry participants across the pay TV content delivery value chain, including CA providers, broadcasting operators and TV manufacturers, and our integrated technological capabilities, provide us with a distinct advantage over competitors in extending our leadership in existing markets and expanding into new markets. In particular:

- As at 31 December 2015, our CAM customers included 16 CA providers, 174 broadcasting operators and seven TV manufacturers along the pay TV content delivery value chain.
- According to Frost & Sullivan, we hold CA licenses from the most number of CA providers among CAM suppliers worldwide, with a total of 17 such CA providers as at the Latest Practicable Date, including those global leading CA providers such as China Digital TV, Cisco, Conax, Irdeto, Viaccess and Verimatrix.
- Our CAMs support the secure delivery of pay TV content by over 170 broadcasting operators globally. We currently supply CAMs to some of the largest broadcasting operators in Europe.
- In the PRC and certain emerging CAM markets, such as India and Vietnam, we work with major TV manufacturers to accelerate the adoption of TVs compatible with our products through bundled sales and coordinated product development and marketing strategies, which increases the demand for CAMs. Our CAMs are compatible with digital TVs from most major TV manufacturers in the markets where we have sales.

BUSINESS

- According to Frost & Sullivan, the global CAM market by sales volume is expected to grow at a CAGR of 17.9% between 2015 and 2019, with expected growth by sales volume at a CAGR of 4.2%, 5.0%, 22.4% and 64.6% for the European Market, Russia, China and the rest of the world, respectively, between 2015 and 2019.
- During the Track Record Period, we have expanded our geographic coverage of CAM products by tapping into the relatively fast growing CAM markets, such as Russia, Kazakhstan, Uzbekistan, India and Vietnam.

Our ability to design and develop security chipsets, algorithms, software and hardware makes us a vertically-integrated security devices provider that is able to efficiently adapt to evolving technological trends

We possess extensive expertise and know-how in the design and development of security chipsets, algorithms, software and hardware, in addition to the capabilities of manufacturing, marketing and selling our products. As such, we are vertically-integrated and can independently provide our customers with comprehensive security devices and products to suit their specific requirements. This capability is vital for participants in the security devices field and poses a considerable barrier to entry, limiting the number of companies that can viably compete in this sector.

Our strong technological capabilities allow us to develop products with improved security and enriched functionalities to satisfy the varied requirements and needs of our customers and industry partners in step with evolving technological standards. Our mPOS products are designed with security features accredited by UnionPay, a third-party payment settlement and accreditation body in the PRC, and are updated periodically in step with safety standards and technological trends. We have introduced three models of mPOS devices, with each model designed to meet UnionPay's safety accreditation standards. We have added new features, such as near field communication capabilities so as to produce contactless reading of card information, as well as Bluetooth capabilities. CAMs are designed in accordance with CI standards which normally are upgraded every two to three years. We were the first to commercially launch CAMs compatible with the DTV-CI standards in China in 2006, the CI+ standards in Europe in 2009 and the CI+1.3 standard in Europe in 2013.

We are a trusted brand and a reliable security devices provider to industry participants worldwide based on our track record of quality design of security chipsets and product information security management

We are a trusted brand and a reliable security devices provider to industry participants. This is mainly attributable to our track record of quality design of security chipsets through adopting internal protocols to safeguard not only our product information security and proprietary interests, but also those of our business partners. For example, iBoxpay, being the third largest hardware-based mobile payment service provider in the PRC by accumulated business users as at 30 June 2015 according to Frost & Sullivan, relies on us to design and develop products with banking-level strength encryption as its customers utilise our mPOS devices to conduct mobile payment transactions and our SM1670 CAM chipset had been graded security level 5, the highest of its kind, by Conax, one of the world's leading CA providers. In addition, we utilise self-designed encryption systems in production process to ensure the safe transmission of client data and technological knowhow.

BUSINESS

Due to the security nature of our business, industry participants adopt strict standards on product security levels and are highly selective in choosing business partners. For example, with respect to CAMs, broadcasting operators only work with two or fewer CA providers in one region, while CA providers normally choose no more than two CAM providers as their CA technology licensees. To initially qualify with CA providers, CAM suppliers need to pass rigorous security certification involving their entire operations, which typically takes up to two years. CAM suppliers also need to continue to pass subsequent CA license certification process which usually takes three to six months. We have, however, over the years won the trust of and established close and long-term relationships with a large number of industry participants, in particular with CA providers and broadcasting operators. According to Frost & Sullivan, we hold CA licenses from the most number of CA providers among CAM suppliers worldwide, with a total of 17 such CA providers as at the Latest Practicable Date. Our CAMs serve more than 170 broadcasting operators worldwide and we have in general established more than six years of relationship with each of our major CA provider and broadcasting operator customers.

The close relationships with and trust from industry participants not only enable us to maintain the constant communication and feedback needed to swiftly respond to technological shifts, market trends and security needs, but also create attractive sales and joint-marketing opportunities and further enhance our reputation and credibility in new markets and with new business partners, making us well positioned to gain market insights, influence industry trends and better direct our research and development, as well as sales and marketing efforts.

We have a strong research and development team with a proven track record of innovation and product design capabilities

We devote a significant amount of our resources to research and development. Our research and development expenses accounted for approximately 11% to 15% of our total revenue for each financial period over the Track Record Period. Our research and development team consisted of 112 employees as at 31 December 2015, accounting for more than 40% of our total employees. Our research and development staff have on average five years of relevant industry experience and approximately 13% of them have masters' degrees or higher.

Our research and development team possess strong foresight and innovative capabilities. We have staff designated to focus on long-term research and development roadmap to be on the lookout for latest industry standards and technological advances so that we can be well positioned to launch new generations of products ahead of our competitors. In addition, we are dedicated to develop CAM products with new functions embracing the ever-changing and diversified needs of customers, such as video-on-demand, or VOD, and personal video recorder, or PVR. Moreover, we have proven our ability to expand our security devices portfolio by developing mPOS devices through leveraging on our core research and development ability in security devices design. Furthermore, we possess extensive proprietary knowhow and intellectual property rights with a total of 79 registered patents and 73 patents pending registration worldwide as at the Latest Practicable Date. Our major patents relate to proprietary chipsets and CAM designs emphasising on security decryption with anti-hacking and tamper resistance capabilities. For more details, please refer to the section headed "Business — Product Design, Research and Development" in this prospectus.

BUSINESS

We have a strong sales and marketing team to expand and support our international customer base

We have over 400 customers with sales in 46 countries primarily in Europe and Asia, and to a much lesser extent to potential growth markets in Africa, South America and Australia. We have a strong sales and marketing team which is dedicated to expand our geographic markets and to provide efficient customer services for our customers globally.

Our sales and marketing staff leverage on existing close ties with industry participants to explore sales opportunities in overseas markets. For example, we cooperated with one of our CA providers and secured certain joint-bid projects with local broadcasting operators in Russia and Turkey, which helped us to expand our market share in these regions. In addition, we jointly advertise with local broadcasting operators and bundle-sell with TV manufacturers to promote our products in some emerging CAM markets, such as India and Vietnam. Furthermore, we participated in various industry conventions and trade shows to promote our products and brand.

To support our global customer base, our sales and marketing team maintains a dedicated representative to oversee our overall business relationship with each of our major customers. Our sales and marketing staff are organised by regions and they check in with major customers generally on a weekly basis to keep well-informed of and respond to customer trends and needs specific to a geographic market. We strive to provide our customers with expedient and effective assistance and we collect customers' feedback from time to time to further improve our service standards. As a result of our dedicated customer services and marketing efforts, we have cultivated steady relationships with customers globally, including major global CA providers, broadcasting operators and TV manufacturers. For details on our customer relationships and sales and marketing, please refer to the section headed "Business — Customers, Sales and Marketing" in this prospectus.

We have a seasoned management with a proven track record

Our senior management brings together decades of complementary industry and management experience in the areas of security devices, research and development, operations, finance and sales. Most of them have joined us since our establishment and have worked seamlessly together as a team. Mr. Huang Xueliang, our chairman and chief executive officer, is an industry pioneer with more than 20 years of experience in integrated circuit design and security devices. Mr. Huang Xueliang, together with our president and chief operating officer Mr. Shuai Hongyu, who has more than 20 years of industry experience related to image processing and digital television technologies, lead our business with a clear focus on delivering quality products and services and staying at the forefront of security devices technology. We believe the technical and industry knowledge, as well as the entrepreneurship and leadership of our senior management, have been instrumental in the achievement of our steady global expansion and business growth and will continue to serve us well as we extend our leadership in the global market for our business and related technologies.

BUSINESS

BUSINESS STRATEGIES

Continue to develop and improve our CAM and mPOS products by further investing in product planning, and research and development

Our expertise and know-how in the design and development of security chipsets, algorithms, software and hardware, as well as our market leadership position, place us in a strong position to be at the forefront of developing future versions of CAMs and mPOS devices. Accordingly, we plan to further invest in product planning, and research and development so that we can be well-positioned to launch new generations of products ahead of our competitors.

For CAMs, we are developing and plan to commercially launch in 2016 CAMs that are compatible with the DVB-CI+1.4 standard. Similarly, we will develop CAMs that are compatible with the DVB-CI+ 2.0 standard, which is a significant upgrade from existing CI standards and is expected to be released in 2018.

For mPOS devices, we plan to continually improve existing products by upgrading the security systems and developing models that support more diverse payment methods or with more new value-added features such as customer relationship management and inventory control to cater to smaller businesses as their operations grow, as well as the needs of medium- to large- enterprise users. We also plan to strengthen the anti-hacking and tamper resistance levels of our mPOS devices.

Deepen our relationships with key industry participants to further improve our products, promote industry reputation and expand our customer base

We believe our relationships with key industry participants are vital to the growth of our business. For CAMs, we have, over the years, won the trust of and established close and long-term relationships with a large number of industry participants, in particular, CA providers and broadcasting operators, and have built a trusted brand known for the quality design of our security chipsets. Accordingly, we intend to deepen our relationships with industry participants (that are often also our customers) by increasing collaboration with, and facilitating more frequent communications and providing more comprehensive after-sales and other services, such as improved technical support and software or hardware design to these participants. In addition, we intend to further improve market recognition and enhance our industry reputation, especially in markets with good growth opportunities. We will continue to jointly advertise with TV manufacturers and local broadcasting operators to promote our CAM products in the emerging CAM markets, to increase public awareness and interest in our CAMs in markets where the digital TV penetration rate and the pay TV industry are growing. Moreover, we also plan to participate in the drafting and revision of more industry standards to develop newer generations of commercially viable products to maintain our market leading position.

BUSINESS

For mPOS devices, we plan to continue to deepen our relationship with iBoxpay, our primary mPOS customer, by improving customer services and technical support, and increasing our product offerings to them. As the hardware-based mobile payment industry is growing significantly in China, we also plan to build relationships with other industry participants and promote our industry reputation by leveraging our expertise in security software and hardware design and marketing capabilities, whether through collaboration or joint-development of new mPOS products, in order to adapt to the rapidly changing nature of the technology.

Improve and expand our domestic and international sales network

We are the market leader for CAM products worldwide and have extensive and established relationships with key industry participants across the pay TV content delivery value chain. As countries such as Russia, Kazakhstan, Uzbekistan, India and Vietnam continue to switch to digital TVs and as digital TV broadcasting becomes more prevalent, demand for security solutions to protect pay TV content is expected to grow significantly. Accordingly, we plan to leverage our leading position to invest in and expand the scope of our overseas sales network in order to gain a foothold in new markets and capture these market opportunities. Because each country's government policies, industry standards, broadcasting operator preferences and user habits may differ, we plan to hire local talent, particularly for sales and marketing, and strengthen our cooperation with local distributors. In addition, we may support our expansion by establishing new overseas sales and support offices to better penetrate new markets. Moreover, we plan to recruit more experienced marketing experts for promoting our mPOS products in China.

Selectively pursue merger and acquisition opportunities along the value chain as opportunities arise

As we expand into areas for new products and services, we intend to seek and consider suitable merger and acquisition opportunities to enhance our capabilities for security devices development. As at the Latest Practicable Date, we had not identified any merger or acquisition target. If suitable opportunities arise, we may invest in or form joint ventures with high-quality companies that are within our industry, or acquire technologies or assets from businesses that can provide us with a technological advantage. In selecting and assessing potential merger and acquisition opportunities, we will consider a variety of factors relating to the target companies, such as our ability to leverage their expertise and products, the synergies expected to be generated, as well as their compatibility with our business and future development plans.

OUR PRODUCTS

We design and develop products aimed at providing security solutions for pay TV content delivery and hardware-based mobile payment transactions. Our main product types are CAMs and mPOS devices.

BUSINESS

The following table sets out the breakdown of our revenue by product type for the periods indicated:

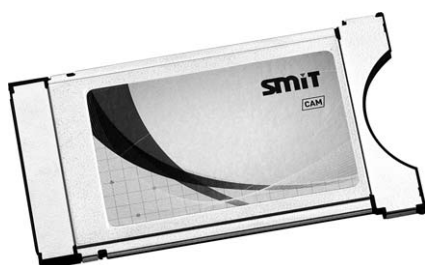
	Year ended 31 December					
	2013		2014		2015	
	US\$'000	% of total revenue	US\$'000	% of total revenue	US\$'000	% of total revenue
Product type						
CAM	45,710	96.9	43,230	77.2	37,352	57.3
mPOS devices ¹	1,471	3.1	12,777	22.8	27,789	42.7
Total	<u>47,181</u>	<u>100.0</u>	<u>56,007</u>	<u>100.0</u>	<u>65,141</u>	<u>100.0</u>

Note:

1. We commenced sales of mPOS devices in July 2013.

The life cycles of our products are generally affected by changes in technologies, industry standards and consumers' needs in different geographic markets. We typically put to market CAMs with a new generation of chipsets every two years and launch new models of mPOS devices every one to one and a half years. According to Frost & Sullivan, the product life cycles for CAMs and mPOS devices are on average two years and one and a half years, respectively.

CAMs



Overview

A CAM is an electronic device used to facilitate authorised access to encrypted pay TV content. Broadcasting operators transmit pay TV content using signals encrypted by CA providers. CAMs house proprietary intellectual property from the same CA providers that will allow end users to decrypt the signals and access that content once the CAM is connected to their TVs. TV manufacturers incorporate compatible interfaces into TVs which are used to connect to CAMs. The specifications of such interfaces differ depending upon CAM product type and geographic markets.

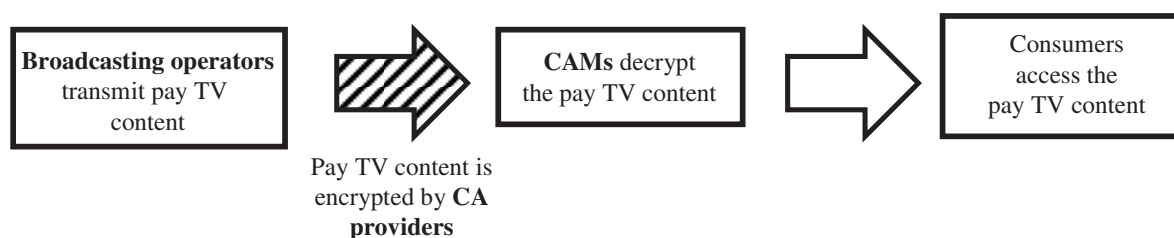
BUSINESS

All of our CAMs are sold under our SMIT brand. As a CAM designer, we are able to customise our CAM products to the needs and requirements of individual CA providers, broadcasting operators and TV manufacturers. Because CAMs are used for security and decryption, our expertise in CAM hardware is especially important as the effectiveness of a CAM relies on the hardware being able to resist tampering. The core technology in a CAM is the chipset. We have endeavoured to continually improve our proprietary CAM chipsets by increasing their security, interoperability, functionality and performance for each new generation. As at 31 December 2015, we had designed and developed five generations of chipsets which have been incorporated into our CAMs for sale.

Pay TV Content Delivery Value Chain

Because of the need for high security standards as well as flexible interoperability, CAMs occupy an important position in the pay TV content delivery value chain:

- *Broadcasting Operators.* By allowing the secure delivery of pay TV content of broadcasting operators, our CAMs provide a cost-effective, attractive and user-friendly alternative to traditional security solutions, such as set-top boxes, or STBs, for accessing pay TV content. Our CAM solutions currently support the delivery of pay TV content by over 170 broadcasting operators globally.
- *CA Providers.* Our CAMs allow CA providers to fortify and effectively utilise their CA technologies for secure pay TV content delivery. Our integrated technological capabilities enable us to cooperate closely with CA providers and provide responsive and customised security devices that combat constant threats to secured content delivery. CA providers grant us CA licenses for utilising their CA technology in our CAM products. As at the Latest Practicable Date, we had obtained CA licenses from 17 CA providers across the world, including industry leaders such as China Digital TV, Cisco, Conax, Irdeto, Verimatrix and Viaccess. According to Frost & Sullivan, as at the Latest Practicable Date, there were 32 CA providers globally granting CA licenses to CAM providers and our major CAM competitors SmarDTV and Neotion were granted CA licenses from six and five such CA providers, respectively.
- *TV Manufacturers.* Our CAMs enable TV manufacturers to mass produce TVs that can adapt to different broadcasting operators' varied requirements for secured delivery of pay TV content. We cooperate with leading TV manufacturers, such as Hisense and TCL, to increase the availability of TVs that can be used with our CAM products.



BUSINESS

CAM Product Types

We entered the CAM market in 2006 by selling PCAMs, which are electronic modules approximately the size of a credit card utilising a PCMCIA interface for insertion to TVs to access pay TV content. We offer a variety of PCAMs customised to fit our customers' needs and continually upgrade our products to meet ever-evolving technological advancement and trends. Traditionally, a PCAM is used in conjunction with a separate CA smartcard which would specify exactly what content the user has authorised access to. We now also design and develop PCAMs which have built-in smartcards as well as cardless PCAMs which do not require smartcards to function.

Our basic PCAM, which was first developed in 2005 and commercially launched in 2006, is compatible with DVB-CI 1.0 standard in Europe, the initial standard established for common interface slots, as well as the corresponding DTV-CI 1.0 standard in the PRC. We have since developed PCAMs to comply with subsequent updates to the CI standards.

During the Track Record Period, almost all of the CAMs we offered were PCAMs. Starting in May 2014, we began designing, developing and selling UCAM products, which offer the same pay TV content decryption functionality as PCAMs but utilise a USB interface. During the Track Record Period, we primarily sold our UCAMs in the PRC to iCast, an internet video and service provider. The sales of UCAMs have been insignificant to date. For more information, please refer to the section headed "Business — Customers, Sales and Marketing — CAM Customers — Other CAM Customers" in this prospectus.

Besides PCAMs and UCAMs, our CAMs can also be categorised based on end users, namely (i) consumer CAMs, which are used by general household end users to access pay TV content and (ii) professional CAMs, which are used primarily by customers such as television stations to decrypt multiple channels of data all at one time. The following table sets out the breakdown of our CAM revenue by consumer and professional CAMs:

	Year ended 31 December					
	2013		2014		2015	
	<i>US\$'000</i>	<i>% of total CAM revenue</i>	<i>US\$'000</i>	<i>% of total CAM revenue</i>	<i>US\$'000</i>	<i>% of total CAM revenue</i>
CAM product type						
Consumer	41,827	91.5	39,733	92.0	34,150	91.4
Professional	3,883	8.5	3,497	8.0	3,202	8.6
Total CAM revenue	<u>45,710</u>	<u>100.0</u>	<u>43,230</u>	<u>100.0</u>	<u>37,352</u>	<u>100.0</u>

BUSINESS

CAM Geographic Markets

Our CAMs are compatible with most digital TVs in the markets where we have sales. Our product offerings largely depend upon customer specifications, which often vary among geographic markets. With a high digitisation rate, the European Market had been the primary market for our CAMs due to the prevalence of pay TV content and government mandated CI slots for digital TVs in the European Union countries. In 2006, by establishing relationships with local TV manufacturers and broadcasting operators, we entered the CAM market in the PRC which has been undergoing a government-led switch from analog to digital television broadcasting. In recent years, we have also expanded our CAM sales network to Russia and some other CAM markets, such as Kazakhstan, Uzbekistan, India and Vietnam, which are in the process of digitisation. Because these markets often use the same or similar DVB standards as countries in our traditional European Market, we are able to capitalise on our experience with existing CA providers and broadcasting operators to establish new relationships with local industry participants in these markets.

The following table sets out the breakdown of our CAM revenue by geographic markets based on final location of delivery for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>US\$'000</i>	<i>% of total CAM revenue</i>	<i>US\$'000</i>	<i>% of total CAM revenue</i>	<i>US\$'000</i>	<i>% of total CAM revenue</i>
CAM geographic markets						
European Market ¹	20,370	44.6	24,308	56.2	19,389	51.9
Russia	14,402	31.5	9,817	22.7	10,355	27.7
China ²	8,861	19.4	5,613	13.0	5,007	13.4
- PCAMs	8,861	19.4	5,542	12.8	3,887	10.4
- UCAMs	—	—	71	0.2	1,120	3.0
Others ³	2,077	4.5	3,492	8.1	2,601	7.0
Total CAM revenue	<u>45,710</u>	<u>100.0</u>	<u>43,230</u>	<u>100.0</u>	<u>37,352</u>	<u>100.0</u>

Notes:

1. European Market primarily includes countries such as Germany, Norway, Austria, Netherlands and Denmark.
2. PCAMs were sold globally while UCAMs were sold only in China during the Track Record Period.
3. Others primarily include countries such as Kazakhstan, Uzbekistan, India, Vietnam and Azerbaijan.

mPOS Devices



Starting in July 2013, we began developing and selling mPOS products to tap into the growing hardware-based mobile payment market in the PRC and to diversify and expand our business through leveraging on our expertise in design and development of security chipset for the security devices industry. mPOS products are card reading devices that may be connected to smart devices (such as smartphones and tablets) to allow such smart devices to process payment transactions and function as mobile cash registers. mPOS products provide a secure way to read information from credit and debit cards, and perform functions similar to the larger and generally more expensive stationary POS terminals at retailers. We offer mPOS devices in two forms — a handheld keypad device which can connect via Bluetooth, and a smaller, non-keyboard module which can be directly plugged into a smart device. We have so far designed three models of mPOS devices, updated to increase security and compatibility in step with the development of mobile payment technology.

Our mPOS products are designed to be used by ultimate end users such as merchants and business enterprises for secure and convenient mobile payment collection. Our mPOS products are designed with banking-level strength encryption which is vital to the device as it ensures that the payment information transmitted remains secure and that the device is tamper-resistant. Our mPOS devices are sold to hardware-based mobile payment service providers which utilise our mPOS products to enable end users to conduct mobile payment collection. Such mobile payment service providers submit each model of our mPOS products to a rigorous safety accreditation process by UnionPay, a third-party payment settlement and accreditation body in the PRC, so that our devices can be used for mobile payment activities in the PRC. As at the Latest Practicable Date, each model of our mPOS products had either received this safety accreditation or was in the process to be accredited.

We mainly sell our mPOS devices in the PRC to iBoxpay, a hardware-based mobile payment service provider. For more information about our relationship with iBoxpay, please refer to the section headed “Business — Customers, Sales and Marketing — mPOS Customers” in this prospectus.

BUSINESS

CUSTOMERS, SALES AND MARKETING

Our sales and marketing team's coverage is split between the PRC and international markets. We have offices in Shenzhen and Munich with a total of 46 sales and marketing staff as at 31 December 2015. They maintain close communication with our customers, including with CA providers, broadcasting operators, TV manufacturers and distributors for our CAM business as well as mPOS customers, and regularly visit them in person to stay updated on their needs. Our sales and marketing team participates in trade shows and industry conferences to promote our brand, products and services to a wide range of customers. In the PRC, Russia and emerging CAM markets, such as India and Vietnam, we also jointly advertise with TV manufacturers and local broadcasting operators to promote our CAM products. This strengthens our relationship with TV manufacturers and local broadcasting operators and it also increases public awareness and interests in our CAM products in markets where the digital TV penetration rate is still growing.

All of our customers are Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, there were no instances of material product returns, exchanges, product recalls, warranty claims, delivery delays with our customers or any other customer complaints.

Five Largest Customers

In general, we sign framework agreements with our major customers to establish terms such as pricing structure, delivery and after-sales support, with specific details determined by subsequent purchase orders. Terms of the framework agreements generally vary depending upon the type of customer and are discussed further below in this section.

Our five largest customers for the Track Record Period accounted for 44.1%, 59.9% and 73.1% of our total revenue for the year ended 31 December 2013, 2014 and 2015, respectively. Our largest customers for the Track Record Period accounted for 21.6%, 22.4% and 42.3% of our total revenue for the year ended 31 December 2013, 2014 and 2015, respectively. iBoxpay was our largest customer for the year ended 31 December 2014 and 2015.

Our five largest customers for 2013 were Telco, Conax, Cisco, Van Buuren and Universal Communications Corporation, sales to which accounted for 21.6%, 6.9%, 6.5%, 5.1% and 4.0% of our total revenue for 2013, respectively. Our five largest customers for 2014 were iBoxpay, Conax, Van Buuren, Telco and Cisco, sales to which accounted for 22.4%, 14.4%, 8.0%, 7.9% and 7.3% of our total revenue for 2014, respectively. Our five largest customers for the year ended 31 December 2015 were iBoxpay, Conax, Telco, Cisco and Irdeto, sales to which accounted for 42.3%, 13.9%, 9.2%, 5.4% and 2.3% of our total revenue for the year ended 31 December 2015, respectively. Cisco, Conax and Irdeto are major global CA providers registered in the US, Norway and the Netherlands, respectively. Van Buuren is our distributor in the Netherlands and Telco and Universal Communications Corporation are our distributors in Russia.

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We face certain risks due to a concentration of major customers, for details, please refer to the sections headed “Risk Factors — Risks Relating to our Business and Industry — We derived a substantial portion of our revenue from a small number of major customers and from certain geographic markets. Any decrease in our sales to any of these customers and in any such geographic market, or any adverse changes in these customers and geographic markets could materially and adversely affect our business, financial condition and results of operations.” and “Risk Factors — Risks Relating to our Business and Industry — We sell substantially all of our mPOS products to iBoxpay. Any adverse changes in iBoxpay’s business or financial condition could adversely affect our revenue from iBoxpay, which in turn would materially and adversely affect our business, financial condition and results of operations.” in this prospectus. To the best of our Directors’ knowledge, as at the Latest Practicable Date, we were not aware of any information or arrangement which would lead to cessation or termination of our relationships with any of our five largest customers for the Track Record Period.

GSR, consisting of GSR Ventures I, L.P. and GSR Principals Fund I, L.P., is a substantial shareholder of the Company which owns 20.9% of the issued share capital of the Company immediately prior to the Capitalisation Issue and the Global Offering. Certain affiliated funds of GSR and Mr. Huang Xueliang, our executive Director, respectively hold 24.85% and 1.32% of interest in iBoxpay, which was one of our largest customers during the Track Record Period. iBoxpay is not a connected person of the Company under the Listing Rules. Save as disclosed above, none of our Directors, their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had any interest in any of our five largest customers for the Track Record Period.

CAM Customers

Our CAM customers consist mainly of CA providers, broadcasting operators, TV manufacturers and distributors. To a lesser extent, we sell to one-off customers including various companies and individuals, as well as direct sales to end users through third-party internet platforms.

The following table sets out the breakdown of CAM revenue by customer type for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	US\$'000	%	US\$'000	%	US\$'000	%
Customer Type						
CA Providers	6,679	14.6	12,385	28.7	14,375	38.5
Broadcasting Operators.	7,300	16.0	4,732	10.9	3,621	9.7
TV Manufacturers	3,901	8.5	1,718	4.0	894	2.4
Distributors	22,452	49.1	19,601	45.3	14,057	37.6
Others ¹	5,378	11.8	4,794	11.1	4,405	11.8
CAM Total	45,710	100.0	43,230	100.0	37,352	100.0

Note:

- “Others” primarily consists of one-off customers.

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During the Track Record Period, our revenue from CA providers as a percentage of our total CAM revenue increased from 14.6% in 2013 to 38.5% in 2015. This increase was primarily due to one of our major CA provider customers changing its business model in 2013. Previously, other customers would order CAMs utilising that CA provider's technology directly from us. Under the new business model, such CAMs are instead primarily sold through the CA provider. As a result, our sales to other customers were diverted to the CA provider, resulting in a significant increase in revenue from CA providers, while revenue from other customers decreased.

Our revenue from broadcasting operators as a percentage of our total CAM revenue decreased from 16.0% in 2013 to 9.7% in 2015. This decrease was mainly as a result of (i) the business model change by a CA provider customer as discussed above and (ii) a decrease in average selling price for CAMs generally resulting from pricing pressure due to exchange rate fluctuations.

Our revenue from distributors as a percentage of total CAM revenue decreased from 49.1% in 2013 to 37.6% in 2015. This was primarily as a result of the decrease in average selling price for CAMs overall and the change in business model from our CA provider customer as previously discussed.

As at 31 December 2015, our CAM customers included 16 CA providers, 174 broadcasting operators, seven TV manufacturers and 27 distributors. Our CAM business has coverage that goes beyond our direct customer sales relationships with CAM customers. For instance, as at the Latest Practicable Date, we had also entered into licensing agreements with a total of 17 CA providers. We emphasise our strong position in the CAM market and our expertise and experience in the field to attract new customers along the pay TV content delivery value chain.

Our pricing for CAM products is initially determined on a cost-plus basis, meaning they are priced with a percentage mark-up based on the estimated and/or actual costs. Such costs consist primarily of costs of materials and subcontracting expenses. Because all of our products are produced in the PRC, these costs do not differ significantly between types of customers. Our costs also include royalty expenses paid to CA providers for incorporating their CA technology into the CAMs sold. Royalties may vary based on each CA provider's own policies and strategies. For example, certain CA providers do not charge us royalties for CAMs sold to them and some CA providers may be willing to reduce royalties sold to broadcasting operators in order to encourage adoption of their CA technology. Our selling prices would be adjusted accordingly to reflect those variations.

Selling prices may be further adjusted depending upon a variety of factors including the following:

- CAM pricing policies vary among geographic markets as economic development, consumer habits, technological advancement and competition differ from region to region;
- Product types affect pricing. For instance, professional CAMs are generally priced higher than our consumer CAMs;

BUSINESS

- Changes in currency rates also affect pricing. For example, most of our CAM overseas sales are denominated in U.S. dollars. To remain competitive, we lowered selling prices in regions where the local currencies had experienced depreciation, such as Euro and the Russian Rouble, against the U.S. dollar;
- Although we do not differentiate prices by customer type generally, we do negotiate prices with our customers on a case-by-case basis taking into account a number of considerations including our relationship with the customer, the size of the order and the factors listed above.

We need to regularly assess all relevant factors and review market conditions to adjust pricing accordingly. Our framework agreements with CAM customers usually set out a pre-determined pricing schedule that is generally subject to reconsideration on a yearly basis. For further details on our pricing of CAMs, average selling price of CAMs and reasons for material fluctuation during the Track Record Period, please refer to the sections headed “Financial Information — Significant Factors Affecting our Results of Operations — Selling Prices and Margins Impacted by Product and Geographic Mix”, “Financial Information — Description of Selected Income Statement Line Items — Revenue” and “Financial Information — Results of Operations” in this prospectus. For expected future selling price trends of CAMs, please refer to the section headed “Industry Overview — Component Costs and Selling Prices” in this prospectus.

CA Providers

We have close relationships with a number of major global CA providers, including China Digital TV, Cisco, Conax, Irdeto, Verimatrix and Viaccess. We have around eight years of relationship with each of our major CA provider customers. We sell CAMs to CA providers who generally on-sell our CAMs to broadcasting operators. For the year ended 31 December 2015, approximately 38.5% of CAM sales were derived from CA providers, which also represented 22.1% of our total revenue for the period. As at 31 December 2015, we had 16 CA providers as customers.

We generally entered into legally binding framework agreements with our major CA provider customers. Key terms of these agreements typically include:

- *Term:* The typical term for our CA provider framework agreements is three years, with the possibility of extension or a new agreement.
- *Pricing:* We set out U.S. dollar denominated, pre-determined price lists based mainly on type of product and purchase volume.
- *Ordering/Credit terms:* Actual orders, including amount of units to be delivered and final prices to be paid, are determined by individual purchase orders. We usually receive two to six weeks of lead times for purchase orders of existing products, and longer lead times for new or specialised product designs. Our CA provider customers typically agree to provide non-binding forecasts on a monthly basis. We generally provide 30 to 60 days of credit terms to our CA providers and they mostly settle their payment by wire transfers.

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- *Quality control:* We also agree to adhere to certain quality control and security requirements such as ongoing qualification testing and security system audits.
- *Delivery:* We are generally responsible for and carry the risk for delivery to a carrier nominated by the customer at a pre-determined location in Shenzhen. In addition to delivering to our customer's carrier, we may also be requested to deliver to third-parties who are customers of the CA providers.
- *After-sales services:* Our after-sales services usually include two-year warranties, as well as customer support and training to the CA providers, and exchange and repair services.
- *Returns:* We do not generally provide for a right of return, except in the case of a product defect. We did not experience any material refunds, returns or exchanges of products during the Track Record Period and up to the Latest Practicable Date for our CA provider customers.

Broadcasting Operators

For the year ended 31 December 2015, approximately 9.7% of our CAM sales were derived from broadcasting operators, which also represented 5.6% of our total revenue for the period. We sell CAMs to broadcasting operators who generally on-sell our CAMs together with their CA smart cards to end users for viewing encrypted pay TV content. As at 31 December 2015, we had 174 broadcasting operator customers. We generally have around five years of relationship with each of our major broadcasting operator customers. Our framework agreements with major broadcasting operator customers are legally binding and typically include the following key terms:

- *Term:* Our framework agreements with broadcasting operators usually have no set timeframe but instead remain in effect until one or both parties terminates.
- *Pricing:* We set out U.S. dollar denominated, pre-determined price lists based mainly on type of product and purchase volume.
- *Ordering/Credit terms:* Actual orders from broadcasting operator customers, including amount of units to be delivered and final prices to be paid, are determined by individual purchase orders. We usually receive monthly forecasts followed by purchase orders which must correspond with the forecast within a certain margin. We usually provide 30 days of credit terms to our broadcasting operator customers and they generally pay us through wire transfers.
- *Quality control:* We typically agree to allow our broadcasting operator customers to sample test our product deliveries.
- *Delivery:* For our broadcasting operator customers, we usually agree to be responsible for delivery of products to a pre-determined location in the country of the customer.

BUSINESS

- *After-sales services:* Our after-sales services include warranty terms of two to five years, software and hardware technical support and training, and exchange and repair services.
- *Returns:* We do not generally provide for a right of return, except in the case of a product defect. We did not experience any material refunds, returns or exchanges of products during the Track Record Period and up to the Latest Practicable Date for our broadcasting operator customers.

TV Manufacturers

We sell CAMs to TV manufacturers who generally bundle our CAMs together with their own TV products to sell to end users for marketing and promotional purposes. For the year ended 31 December 2015, approximately 2.4% of our CAM sales were derived from TV manufacturers, which also represented 1.4% of our total revenue for the period. As at 31 December 2015, we had seven TV manufacturer customers and we generally have around six years of relationship with each of our major TV manufacturer customers, including Hisense and TCL. We enter into legally binding framework agreements with major TV manufacturers which typically include the following terms:

- *Term:* Our framework agreements with TV manufacturers are usually valid for one year, subject to renewal.
- *Pricing:* Pricing is pre-determined in framework agreements based on type of CAM, subject to our periodic adjustment.
- *Ordering/Credit terms:* Actual orders, including amount of units to be delivered and final prices to be paid, are determined by individual purchase orders. We usually provide credit terms of three months to our TV manufacturer customers and they mostly settle their payment by wire transfers.
- *Quality control:* We also agree to adhere to certain quality control and security requirements such as ongoing qualification testing.
- *Delivery:* We are generally responsible for delivering the order to either the customer or to a third-party carrier nominated by the customer usually to a location in China.
- *After-sales services:* Our after-sales services include warranty terms of up to 18 months, and exchange and repair services.
- *Returns:* We do not generally provide for a right of return, except in the case of a product defect. We did not experience any material refunds, returns or exchanges of products during the Track Record Period and up to the Latest Practicable Date for our TV manufacturer customers.

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Distributors

We have distributors who regularly purchase CAMs from us and with which we have an on-going relationship or arrangements to sell our CAMs in designated regions. These distributors generally sell to retail stores, which in turn sell to end users. All of our sales to distributors are on a final sale basis, without a right of return except where the products are defective. To avoid internal competition, we typically limit our sales to one to two distributors in each country or region where we have sales. We believe our distributor business model allows us to leverage our distributors' diversified customer base and marketing resources which help us to expand our market share with lower operating costs, so that we can focus more on our key operations, such as product development. According to Frost & Sullivan, our distributor business model is in line with the industry norm. For the year ended 31 December 2013, 2014 and 2015, revenue derived from sales to distributors accounted for approximately 49.1%, 45.3% and 37.6% of our CAM revenue, which also represented 47.6%, 35.0% and 21.6% of our total revenue, respectively.

As at 31 December 2015, we had 27 distributors, all of whom are Independent Third Parties. We have around six years of relationship with each of our major distributors, including Van Buuren and Telco. Van Buuren is a company in the Netherlands which is primarily engaged in the distribution and retail of electronic products across western Europe. Telco is a company in Russia engaged in distributing electronic devices. The revenue from Van Buuren and Telco in aggregate accounted for 26.7%, 15.9% and 11.1% of our total revenue for the year ended 31 December 2013, 2014 and 2015, respectively. We select our distributors based on their distribution channels, financial strength, management capabilities, industry reputation and local knowledge. The following table shows the movement of the number of our distributors during the Track Record Period:

	Year ended 31 December		
	2013	2014	2015
Additions during the period	3	3	—
Terminations during the period	<u>2</u>	<u>4</u>	<u>2</u>
Total as at the end of the period	<u>30</u>	<u>29</u>	<u>27</u>

We terminated certain of our distributors during the Track Record Period mainly due to our adjusted distribution network plan in the European Market and Russia to avoid internal competition among our distributors in one country. Revenue generated by terminated distributors for 2013 accounted for 3.7% of our distributor revenue for 2012, revenue generated by terminated distributors for 2014 accounted for 1.1% of our distributor revenue for 2013 and revenue generated by terminated distributor for 2015 accounted for 0.7% of our distributor revenue for 2014.

BUSINESS

The below maps set out the geographic coverage of our distributors and the number of distributor(s) for each country as at 31 December 2015.



Austria (4)	Slovakia (1)
Bulgaria (1)	Spain (2)
Czech Republic (2)	Sweden (2)
Finland (1)	Switzerland (2)
The Netherlands (1)	Ukraine (1)
Poland (1)	United Kingdom (1)



China (2)
Kazakhstan (1)
Uzbekistan (1)
Russia (4)

We maintain on-going relationship or arrangements with our distributors through either legally binding framework agreements and/or purchase orders, as well as maintaining regular communication with distributors by mainly our sales and marketing staff. General terms and arrangements with our major distributors are set out as below:

- *Term:* Our framework agreements or purchase agreements with distributors usually have a term of two years subject to renewal.
- *Pricing:* We set out U.S. dollar denominated, pre-determined price lists based on type of product, purchase volume and type of packing, with possible incentives for purchases above a certain volume.
- *Ordering/Credit terms:* Actual orders, including amount of units to be delivered and final prices to be paid, are determined by individual purchase orders. We usually provide 30 to 60 days of credit terms to our distributors and they generally pay us through wire transfers. Certain order arrangements may vary depending upon the distributor, such as requirements for monthly forecasts. We do not have minimum purchase amounts requirements for our distributors.

BUSINESS

- *Operational control:* We generally provide our distributors with retail pricing suggestions of our products. Our distributors also agree to only sell our products within certain territories and we typically require them not to sell competing CAM products. We assess the market conditions in different regions through market reports provided by our distributors and communication with them on a regular basis mainly through our sales and marketing staff.
- *Delivery:* For PRC distributors, we are generally responsible for delivering the order to either the distributors or to a third-party carrier nominated by them. For our overseas distributors, we are generally responsible for delivery to a set location in Shenzhen.
- *After-sales services:* Our after-sales services with distributors typically include warranty terms of two years.
- *Returns:* We do not provide for a right of return, except in the case of a product defect. We did not experience any material refunds, returns or exchanges of defective products for our distributors during the Track Record Period and up to the Latest Practicable Date.

Our sales to distributors are on a final sale basis and we consider that it is unlikely to have any channel stuffing issue under our current sales model on the following basis: (i) we typically grant our distributors credit terms ranging from 30 days to 60 days which is in line with industry norm, and our average turnover days of trade receivables for distributors as at 31 December 2013, 2014 and 2015 were approximately 32 days, 29 days and 45 days which were within distributors' credit term range of 30 to 60 days; (ii) we have satisfactory record of recoverability of trade receivables for our distributors during the Track Record Period and approximately US\$0.2 million or 19.8% of our trade receivables for distributors as at 31 December 2015 were settled as at 31 January 2016; (iii) we do not set any initial purchase requirements or minimum purchase requirements on our distributors; and (iv) our distributors are not entitled to return products (including unsold or obsolete goods) unless they are defective, and the total amount of returned goods by our distributors was around 0.1% of our total revenue during the Track Record Period.

Our sales to distributors are on a final basis, and even if we terminate our relationship with a distributor, that distributor does not have the right to return any unsold products to us. Therefore, we do not control the inventory levels of our distributors on an individual basis but our sales and marketing staff will discuss with our major distributors to understand their inventory levels relating to our products. Our distributors generally place purchase orders in accordance with their purchase forecast, which will be adjusted from time to time based on the actual demands from their customers. The above measures help us to assess the possibility and mitigate the risks of excess inventory build-up at our distributors. During the Track Record Period, we did not find any unusually large orders from our major distributors. Based on the above, we are of the view, and the Sole Sponsor concurs that, the measures taken by the Company for preventing the excess inventory build-up at the distributors' level are adequate.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, there were no instances of material disputes in relation to, or non-compliance with key terms or arrangements with any of our distributors.

Other CAM Customers

Sales of CAMs to other customers accounted for approximately 11.8% of our CAM sales for the year ended 31 December 2015, which also represented 6.8% of our total revenue for the period.

During the Track Record Period, we sold our CAMs to other customers who either subsequently on-sell our CAMs to third-parties, or who are end users directly purchasing our CAMs through third-party online platforms. We do not enter into formal framework agreements with these customers as they purchase our products generally on a one-off basis and such customers are all Independent Third Parties.

Other customers for CAMs also include iCast, to whom we sell in the PRC almost all of our UCAMs. iCast is an internet video and service provider which utilises our UCAMs to provide their end users access to pay TV content as well as the online interface run by iCast. The Founders and the Fund Investors hold a 18.75% equity interest in iCast through SMIT Investment, an entity separate from the Group. Please refer to the section headed “History, Reorganisation and Corporate Structure — Excluded Business and Exclusion of Other Investment Interests — Investment Interest in iVmall Corporation and iCast Corporation” in this prospectus for details. On 2 June 2014, we signed a cooperation agreement with iCast, for a term of two years subject to renewal, outlining the general terms of our relationship, and we also have purchase orders which include our standard terms for sale. We do not have any unusual terms with iCast in our cooperation agreement and purchase orders with them. Our sales to iCast are negotiated on an arms-length basis and we have granted iCast a 180-day credit term to promote our UCAMs in China. During the Track Record Period, we derived our UCAM revenue primarily from sales to iCast. Revenue from our UCAM business has been growing but is insignificant to-date, representing only 0.1% and 1.7% of our total revenue for the year ended 31 December 2014 and 2015, respectively.

mPOS Customers

We currently sell mPOS devices primarily to iBoxpay and to a much lesser extent, to other hardware-based mobile payment service providers in the PRC. iBoxpay is a leading hardware-based mobile payment service provider which utilises our mPOS devices in conjunction with their own mobile applications to enable end users to make mobile payment transactions. iBoxpay’s customers primarily include merchants and other business enterprises who use mPOS devices to collect payments. iBoxpay is the third largest hardware-based mobile payment service provider in China by the number of accumulated business users as at 30 June 2015 and the mPOS terminal market in China by sales volume is expected to grow at a CAGR of 39.7% between 2015 and 2019, according to Frost & Sullivan. Please see “Industry Overview — The China MPOS Market Overview” for further information on the mPOS industry in China.

BUSINESS

We do not hold any ownership interest in iBoxpay, although we have an overlapping director and overlapping shareholders to a limited extent. iBoxpay and our Company each has a broad shareholder base. Each of iBoxpay and our Company is mainly owned by different investment funds. GSR, consisting of GSR Ventures I, L.P. and GSR Principals Fund I, L.P., is a venture capital fund which owns 20.9% of our issued share capital immediately prior to the Capitalisation Issue and the Global Offering. Certain affiliated funds of GSR hold 24.85% of the equity interest in iBoxpay. Mr. Huang Xueliang, our executive Director who owns 9.76% of our issued share capital immediately prior to the Capitalisation Issue and the Global Offering, also holds a 1.32% indirect equity interest in iBoxpay. In addition, the Founders and the Fund Investors, including GSR and Mr. Huang Xueliang, amongst others, collectively own a 15.89% equity interest in iBoxpay through SMIT Investment, an entity separate from the Group. Mr. Huang Xueliang serves as one of the five directors of iBoxpay by virtue of being the director representative of SMIT Investment's interest in iBoxpay and Mr. Huang Xueliang is not an officer or employee of iBoxpay, and is not involved in its daily operations. Accordingly, iBoxpay is not a connected person of the Company under the Listing Rules and is separately managed and controlled by its founders and other investment funds. In addition, one of the founders of iBoxpay is its sole controlling shareholder with an interest of 35.02% in iBoxpay. As such, iBoxpay operates independently from us. Having considered that (i) our average selling price of mPOS was US\$19.56 (equivalent to RMB121.7) per unit in 2015, which was slightly higher than such average selling prices offered by mPOS suppliers to hardware-based mobile payment service providers of US\$19.1 per unit in China in 2015 according to Frost & Sullivan. (ii) the selling price of mPOS devices to iBoxpay was no less favourable than the selling price of mPOS devices to our other mPOS customers, our Directors are of the view that our sales to iBoxpay are on normal commercial terms and are negotiated on an arms-length basis taking into account, among others, the industry environment, our costs of production and the long-term strategic business relationship with iBoxpay. Please also refer to the section headed "History, Reorganisation and Corporate Structure — Excluded Business and Exclusion of Other Investment Interests — Investment Interest in iBoxpay" in this prospectus for further details.

We commenced sales of mPOS products in July 2013. Revenue from our mPOS products has been growing significantly and represented 3.1%, 22.8% and 42.7% of our total revenue for the year ended 31 December 2013, 2014 and 2015, respectively.

We evaluate pricing for mPOS devices primarily based on (1) component procurement analysis and subcontracting costs, (2) purchase volume and any additional product specifications required by our mPOS customers, and (3) general market prices at the time of order. For more details on our pricing of products, as well as mPOS average selling prices and reasons for material fluctuation during the Track Record Period, please refer to the sections headed "Financial Information — Significant Factors Affecting our Results of Operations — Selling Prices and Margins Impacted by Product and Geographic Mix" and "Financial Information — Description of Selected Income Statement Line Items — Revenue" and "Financial Information — Results of Operations" in this prospectus. For expected future mPOS selling price trends, please refer to the section headed "Industry Overview — Component Costs and Selling Prices" in this prospectus.

BUSINESS

Our standard contract terms for our mPOS customers (including iBoxpay) are generally laid out in purchase agreements which are legally binding:

- *Term:* Our purchase agreements with mPOS customers are usually valid for one year subject to renewal.
- *Pricing:* Pricing is pre-determined on a cost-plus basis and also pending on the type of mPOS products sold and purchase volume.
- *Ordering/Credit terms:* The amount of units to be delivered and final prices to be paid are specified in purchase agreements. We provide credit terms of 180 days to iBoxpay which is not uncommon for the mPOS industry and iBoxpay generally pays us through wire transfers. For other mPOS customers, we only dispatch our products upon receipt of payments.
- *Quality control:* mPOS products will have to pass our pre-set technical standards and quality requirements as agreed with mPOS customers.
- *Delivery:* We are generally responsible for delivering the order to either the customer's location or to a third-party carrier nominated by the customer at a location in China.
- *After-sales services:* Our after-sales services typically include warranty terms of 12 to 14 months. After that period, we will charge fees for repair and replacement services.
- *Returns:* We do not generally provide for a right of return, except in the case of a product defect. We did not experience any material refunds, returns or replacements during the Track Record Period and up to the Latest Practicable Date for our mPOS customers.

In addition to purchase agreements, our relationship with iBoxpay is also governed by a legally binding strategic cooperation agreement signed on 1 June 2015, stating that for a three-year term, so long as we provide mPOS devices with better performance, quality and prices, iBoxpay will not purchase from any other mPOS suppliers. This three-year term is subject to automatic renewal. Specific terms regarding pricing, delivery and other requirements are determined by individual purchase orders, which are negotiated on an arms-length basis.

Separately, we have during the Track Record Period sourced a small amount of mPOS generic components from iBoxpay, accounting for 0.9%, 1.7% and 0.1% of our total purchases for the year ended 31 December 2013, 2014 and 2015, respectively. iBoxpay had purchased these mPOS components for research and development of mPOS devices and subsequently on-sold the components to us on an arm's-length basis as we agreed to become iBoxpay's mPOS supplier.

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iBoxpay was one of our largest customers for the Track Record Period, and sales of mPOS products to iBoxpay represented 96.3%, 98.1%, 99.2% of our mPOS revenue during 2013, 2014 and 2015, respectively. We face certain risks due to a concentration of mPOS sales to iBoxpay. If we fail to meet the product performance, quality or pricing terms as agreed in the strategic cooperation agreement with iBoxpay, or if for any other reason iBoxpay discontinues or significantly reduces its purchase orders to us and we are unable to identify and obtain new customers for our mPOS business on a timely basis and with similar terms, if at all, we may have difficulties in maintaining our profitability at current level for our mPOS sales and our business and results of operations could be materially and adversely affected. For details, please refer to the section headed “Risk Factors — Risks Relating to our Business and Industry — We sell substantially all of our mPOS products to iBoxpay. Any adverse changes in iBoxpay’s business or financial condition could adversely affect our revenue from iBoxpay, which in turn would materially and adversely affect our business, financial condition and results of operations.” in this prospectus. According to Frost & Sullivan, iBoxpay was the third largest hardware-based mobile payment service provider in China by the number of accumulated business users as at 30 June 2015. According to Frost & Sullivan, it is not uncommon for an mPOS supplier like us to work primarily with one hardware-based mobile payment service provider like iBoxpay, and it is likewise not uncommon for a customer like iBoxpay to rely on a trusted supplier like us for mPOS products. We believe iBoxpay relies on our mPOS devices to develop their mobile payment business with security and reliability, as we’re a well-trusted security devices provider with industry-renowned expertise in security chipset and product system design. As we do not have a commitment to sell exclusively to iBoxpay, starting from July 2015, we had entered into mPOS sales contracts with two other hardware-based mobile payment service providers in the PRC. Although sales to other mPOS customers have been insignificant to-date, we plan to maintain flexibility and further diversify our customer base to explore more opportunities for mPOS sales.

After-Sales Service

We strive to provide high quality after-sales services, such as replacing defective products and performing software upgrades, to maintain strong relationships with our customers. Generally, the warranty period for our CAM products is two to three years and the warranty period for our mPOS devices is between 12 to 14 months. We endeavour to respond to all customer support inquiries within 24 hours to ensure that we are able to address our customers’ needs efficiently. We also provide training services for our broadcasting operator customers so that they are able to independently address end user inquiries. We do not have a return policy besides repair or replacement of defective products. We did not encounter any instances of material sales refunds, returns or exchanges during the Track Record Period and up to the Latest Practicable Date.

Sales to Customers located in Jurisdictions Subject to International Sanctions

During the Track Record Period, we had CAM sales to customers located in Russia, which accounted for 28.1%, 12.3% and 10.6% of our total revenue for the year ended 31 December 2013, 2014 and 2015, respectively, as well as an insignificant amount of sales to customers located in Ukraine, the Balkans, Egypt, Lebanon and Belarus (the “**Relevant Sales**”), which in aggregate accounted for 3.4%, 2.5% and 1.9% of our total revenue for the year ended 31 December 2013, 2014 and 2015, respectively.

BUSINESS

Russia, Ukraine, the Balkans, Egypt, Lebanon and Belarus are subject to country-specific International Sanctions, which prohibit certain dealings, including with persons and entities specifically listed on the Specially Designated Nationals and Blocked Persons List (“**SDN List**”) or other lists maintained by OFAC, and parties designated under lists maintained by the European Union, the United Nations or Australia. As advised and based on the following procedures conducted by DLA Piper Hong Kong, our International Sanctions legal adviser, the Relevant Sales do not implicate the application of any International Sanctions or any wider trade restrictions administered and enforced by the United States, the European Union, the United Nations or Australia, on our Group, or any person or entity, including our Group’s investors, the Stock Exchange, HKSCC or HKSCC Nominees:

- (a) reviewed documents provided by us that evidence the Relevant Sales;
- (b) received written confirmation from us that neither our Group nor any of our affiliates had conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions; and
- (c) reviewed the list of customers to whom the Relevant Sales were made against the lists of persons and organisations subject to International Sanctions, and confirmed that none of our customers are on such lists.

As at the Latest Practicable Date, we had not been notified, nor were we aware of any governmental investigation into the Relevant Sales and there had been no administrative, civil or criminal fines or penalties imposed on us in connection with the Relevant Sales. As confirmed by our International Sanctions legal adviser, the Relevant Sales do not involve industries, activities or sectors that are currently subject to specific prohibitions or restrictions under International Sanctions and the Relevant Sales are not deemed to be prohibited activities under the International Sanctions. In addition, the Group has not conducted, during the Track Record Period and up to the Latest Practicable Date, any business activities which, either directly or indirectly, risk violating International Sanctions.

Taking into account that the Relevant Sales are not deemed to be prohibited activities under the International Sanctions and do not implicate the application of any International Sanctions on our Group, or any person or entity, including our Group’s investors, the Stock Exchange, the Listing Committee, the HKSCC and the HKSCC Nominees, and with the intention to maintain sales revenue and maximise Shareholders’ interests, we will continue to carry out the above business activities. Our Directors, however, do not expect any significant increase or decrease in our Group’s sales to customers located in Russia after the Listing and our sales to customers located in Ukraine, the Balkans, Egypt, Lebanon and Belarus are expected to remain immaterial after the Listing. We have no present or future intention to undertake any future activities that would cause us, the Stock Exchange, the Listing Committee, HKSCC, HKSCC Nominees, or our investors to violate or to become a target of International Sanctions. After the Listing, we will disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in the Sanctioned Countries or with Sanctioned Persons would put our Group or our investors at risk of violating or becoming the target of International Sanctions, and to disclose in our annual reports and interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in the Sanctioned Countries and with Sanctioned Persons and our business intention relating to the Sanctioned Countries and with Sanctioned Persons.

BUSINESS

We will continuously monitor and evaluate our business activities which may give rise to sanctions risks. For details, please refer to the section headed “Business — Internal Control and Risk Management — Sanctions Related Undertakings and Risk Management” in this prospectus.

PRODUCT DESIGN, RESEARCH AND DEVELOPMENT

We devote a significant amount of our resources to product design, research and development. Our research and development expenses were approximately US\$7.0 million, US\$6.0 million and US\$7.4 million for the year ended 31 December 2013, 2014 and 2015, respectively, which also represented 14.8%, 10.6% and 11.3% of our total revenue, respectively. For more details on our research and development expenses, please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Research and Development Expenses” in this prospectus.

As at 31 December 2015, our research and development team consisted of 112 employees, comprising (1) 27 chipset design staff, (2) 59 project management staff mainly responsible for managing product design, research and development projects and related coordination with customers and provision of technical support, and (3) 26 other staff mainly focusing on long-term research and development roadmap in view of upcoming industry standards and technology advances. As at 31 December 2015, more than 40% of our employees were research and development staff, who had an average of five years of relevant industry experience. In addition, approximately 13% of our research and development staff have masters’ degrees or higher in related areas such as electronic engineering.

Our research and development efforts are focused on enhancing the functionality and security of our existing chipsets and products, addressing the technical needs of our customers and expanding our product portfolio. Since our inception, we have developed five generations of CAM chipsets, as well as CAMs compatible with various updates of the CI standards.

The table below sets out the details of our major on-going product design, research and development projects:

<u>Project Description</u>	<u>Implementation Plan</u>	<u>Estimated Time of Commercial Launch</u>	<u>Current Status</u>
Design and development of CAMs suitable for DVB-CI+ 1.4 standard related to terrestrial broadcasting for a German broadcasting operator	Approval test is expected to be completed by March 2016 with design verification test to be completed by April 2016. Trial production is expected to commence by May 2016.	June 2016	Preliminary product design is completed and on-site test is being carried out.

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Project Description	Implementation Plan	Estimated Time of Commercial Launch	Current Status
Co-design and development of next generation mPOS chipset with TMC	Chipset sample testing is expected to be completed by June 2016.	June 2016	Chipset sample testing is being conducted.
Design and development of CAMs with SM1680 chipset, the next generation of CAM chipset, which is compatible with both the DVB-CI+ 1.4 standard and the upcoming DVB-CI+ 2.0 standard	Chipset security evaluation is expected to be carried out by March 2016 with external test to be completed by April 2016. Integration testing and adjustments are expected to be completed by August 2016 based on additional needs of broadcasting operators.	August 2016	Chipset security evaluation is being carried out.
Design and development of IPTV CAMs compatible with DVB-CI+ 1.4 standard for a Netherlands broadcasting operator	Relevant television compatibility test is expected to be completed by April 2016 with design verification approval to be obtained by June 2016. Field test is expected to be passed by September 2016.	September 2016	Sample testing and final integration test are being carried out.
Development of smart and integrated mPOS system	Product design is expected to be completed by May 2016 with internal and external tests expected to be passed by July and September 2016, respectively.	September 2016	Initial product design is being conducted.
Design of software and hardware for the DVB-CI+ 2.0 CAM	Initial product design is expected to be completed by October 2016. Prototype is expected to be completed by August 2017 with external testing to be completed by February 2018.	June 2018	Initial product design is being formulated.

BUSINESS

Our product design, research and development projects not only help us to solidify our market position in existing markets to fulfil the ever-changing needs of our existing customers, but also help to expand our customer base and benefit our sales in newer markets. For instance, our development of DVB-CI+ 2.0 CAMs have standardised USB interface for CAMs to be more widely used in regions where CI standards are not widely or mandatorily adopted, which is likely to increase our sales opportunities in these regions. Our development of smart and integrated mPOS systems with enhanced integrated functions, such as customer relationship management and inventory control, may appeal to not only small business enterprises as their operations grow, but also to medium- to large- enterprise users, such as hotels and travel agencies, thus expanding our mPOS customer base for increased future sales.

In addition, we possess extensive proprietary knowhow and intellectual property rights. For details, please refer to the section headed “Business — Product Design, Research and Development — Intellectual Property” in this prospectus.

Our product design, research and development projects are mainly managed by the project management staff from our research and development team. We begin new product design by conducting market research which includes analyses of technological developments and changes in laws, protocols and other standards pertaining to technology. We also work with our customers to determine the exact specifications for the products they require and assess product feasibility. Once we have developed the product design, we perform rigorous testing on functionality and performance before submitting the product for certification and ultimately releasing the product. This process generally takes about three to six months depending on the complexity of the product.

Our project managers not only coordinate with customers at the product design and production stages, but also follow up with them by responding to technical inquiries arising from the products released and providing technical support for product software upgrades. In addition, due to the security nature of the CA technology that we adopt from CA providers for our CAM products, we also often agree to allow our CA providers to inspect or audit our related facilities and security and internal control systems, which our project management team helps coordinate.

Intellectual Property

We use in our production various product designs, technologies and manufacturing know-how that were developed by us or third parties through licensing arrangements. We non-exhaustively rely on the laws and regulations of trade secrets, patents, copyrights and trademarks, as well as confidentiality agreements to protect our intellectual property rights. For details of our intellectual property rights, please refer to the section headed “Statutory and General Information — Intellectual Property Rights of our Group” in Appendix IV of this prospectus.

As at the Latest Practicable Date, we had 78 registered patents and 55 patents pending registration in China, one patent registered in the United States, three patents pending registration in Europe and 15 international patents pending registration. Our patents primarily relate to our chipsets and CAM designs and generally have remaining durations ranging from one to 20 years.

BUSINESS

As at the Latest Practicable Date, we owned 24 registered copyrights in China. Our registered copyrights generally have remaining durations of 39 to 49 years and primarily relate to our proprietary software.

As at the Latest Practicable Date, we had 45 registered trademarks in China, six European Union registered trademarks, two registered trademarks in the United States, two registered trademarks in Germany, one registered trademark in Hong Kong and one trademark pending registration in Hong Kong. Our registered trademarks generally have remaining durations of four to ten years and may be renewed with the relevant authorities upon expiration.

We have licensing agreements with leading CA providers such as Cisco, Conax, Irdeto, China Digital TV and Viaccess, under which we license their decryption algorithms and other intellectual property rights to be incorporated with our own proprietary software and hardware technology. To be granted such CA licenses, we need to go through rigorous certification process by fulfilling the conditions set by the CA providers. For instance, our chipsets need to meet the security standards of the CA providers and are graded based on different security levels. The CA providers also conduct inspection and evaluation on our software and hardware integration capabilities, our operations and facilities, as well as our security and internal control systems to form an all-around opinion for granting the CA licenses to us. We pay licensing fees based on the type of CA technology licenses and the geographic markets where they are used. Additionally, we pay royalties for these licenses based on the number of CAMs we produce that incorporate their CA technology. For the year ended 31 December 2013, 2014 and 2015, we paid such royalties amounting to approximately US\$5.1 million, US\$4.6 million and US\$3.2 million, respectively. Our royalty expenses decreased during the Track Record Period primarily because we sold more CAMs to certain CA providers which do not charge royalties for CAMs produced and sold to them. For more information, see the section headed “Business — Customers, Sales and Marketing — CAM Customers” in this prospectus. The term of the licenses is usually two to five years, subject to renewal. For the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant difficulties in renewing our CA licenses and we expect to be able to renew our material CA licenses when necessary. The table below sets out the CA licenses we held as at the Latest Practicable Date, and their respective expiry dates:

CA provider granting the license	Expiry date	CA provider granting the license	Expiry date
1. Cisco Systems, Inc.	14 May 2018	10. China Digital TV Holding Co., Ltd.	30 June 2017
2. Conax AS	27 March 2017	11. Beijing Compunicate Technologies Inc.	5 December 2016
3. Irdeto B.V.	31 August 2016	12. Gospel Digital Technology Co., Ltd.	29 April 2017
4. Viaccess S.A.	26 November 2017	13. Geeya Technology Co., Ltd.	28 February 2017
5. Verimatrix Inc.	18 November 2017	14. Beijing Tengrui Video System Technology Co., Ltd.	8 April 2017
6. Necleus Systems, Ltd.	18 June 2016	15. Sumavision Technologies Co., Ltd.	31 July 2016
7. Panaccess System GmbH	15 February 2017		
8. Abel DRM Systems AS	10 October 2017		
9. Sichuan Jiuzhou Electronics Technology Co., Ltd.	5 April 2017		

BUSINESS

<u>CA provider granting the license</u>	<u>Expiry date</u>	<u>CA provider granting the license</u>	<u>Expiry date</u>
16. Telecast Technology Co., Ltd.	20 December 2016	17. Cloud Vision Networks Technology Corporation	17 January 2018

In addition, we also license certain technological intellectual property from third parties, such as certain kinds of CAM chipset layout designs, which are standard for electronics manufacturers to use. As at the Latest Practicable Date, we had effective licenses for all the third-party technologies and other intellectual property that we utilise.

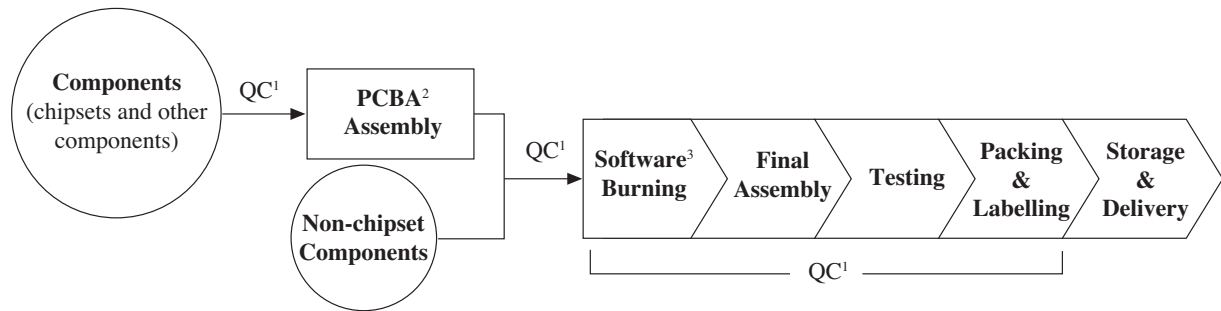
We undertake a pro-active approach to protect our intellectual property interests. On one hand, we seek and maintain proper registration of our trademarks, patents and other intellectual property rights. On the other hand, due to the nature of our security devices, most of our technologies and production methods or processes involve unpatented, non-public proprietary know-how. Therefore, we rely, to a large extent, on trade secrets protection and contractual restrictions to safeguard our intellectual property interests. For instance, we enter into confidentiality agreements with our senior management, key research and development staff, as well as our subcontractors and other counterparties to protect such trade secrets relating to our know-how. In particular, each of our executive officers has agreed to hold, both during and after the term of his or her employment, in strict confidence and not to use, except as required in the performance of his or her duties in connection with his or her employment, any confidential information, trade secrets or know-how of the Group or the confidential information of any third party received by us. We have also entered into a confidentiality agreement with SMIC, our CAM chipset wafer supplier, for protecting the know-how contained in the chipset design that we provide to SMIC for wafer production. In addition, we also closely monitor and collect information on any instances of infringement on our intellectual property rights, and we take legal action where necessary and cooperate with local authorities to enforce our intellectual property rights.

While we actively take steps to protect our intellectual property rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. This is particularly the case in China where the laws may not protect our proprietary rights as fully as in elsewhere in the world. Infringement or misappropriation of our intellectual property could materially harm our business. Please refer to the section headed “Risk Factors — Risks Relating to our Business and Industry — Our patents and other intellectual property rights are important assets to us, and if we are unable to protect them, our business, financial condition and results of operations may be adversely affected.” in this prospectus. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any infringement of other’s intellectual property rights or infringement of our intellectual property rights by others that would have a material adverse impact on our business and we were not involved in any proceedings involving infringement of intellectual property rights.

PRODUCTION

Production Process

Below is the flow chart showing the general production process of both our CAMs and mPOS devices.



Note:

1. QC refers to the quality control measures taken for ensuring the quality of the components we source as well as our products.
2. The production time for PCBA assembly of our products is usually two days.
3. The production time from software burning to final products is usually one day.

Our production process generally includes the following major steps:

- **PCBA Assembly:** components sourced from suppliers, including chipsets and other electronic components, are combined to form the PCBA, a circuit board assembly which is the electronic core of our products. We engage subcontractors to perform the PCBA assembly for our products;
- **Software Burning:** once the hardware components are assembled, software needs to be burned properly onto the PCBA incorporating the necessary algorithms, authentication keys or any intellectual property to precisely match our customers' specifications and our product system design. Burning software onto PCBAs may involve third-party licensing proprietary knowhow such as CA technology. If such PCBAs burned with software cannot meet our quality standards, they need to be disposed of strictly in the manner as required by our CA providers; and
- **Final Assembly, Testing and Packing:** burned PCBAs are assembled into the relevant casings. The finished products need to undergo rigorous testing on its functionality and security before they are being labelled, packed and delivered to warehouses for delivery.

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The production process for our CAMs and mPOS are generally the same. One difference is that, for CAMs, we conduct the process from software burning to final product packing at our own in-house production facilities, whereas for mPOS, such processes are outsourced to subcontractors. For details, please refer to the section headed “Business — Production — Suppliers — Subcontractors” in this prospectus. Our in-house production is primarily based on manpower assigned. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruptions, delays or lack of capacity with respect to our in-house production processes.

For details on purchases from suppliers and quality control measures adopted in connection with our production process, please refer to the sections headed “Business — Production — Suppliers” and “Business — Production — Quality Control” in this prospectus.

Suppliers

Our suppliers consist of (1) vendors from whom we source components for our products, and (2) subcontractors who perform certain stages of the production of our products. For the year ended 31 December 2013, 2014 and 2015, our purchases from suppliers amounted to US\$19.4 million, US\$33.8 million and US\$39.7 million, respectively.

Cost of components and subcontracting fees constituted a substantial portion of our cost of sales during the Track Record Period. For example, our purchase price of SM1670S chipsets and PCBs, the key components for CAMs, ranged from RMB10.8 to RMB12.0 per unit and RMB5.2 to RMB6.0 per unit, respectively, during the Track Record Period. Our purchase price of the key mPOS K21DN512 chipset ranged from RMB18.8 to RMB21.8 per unit during the Track Record Period. According to Frost & Sullivan, market prices of such key components for our products had experienced a steady decline during the Track Record Period and are expected to continue to decrease up to 2019. For details, please refer to the section headed “Industry Overview — Component Costs and Selling Prices” in this prospectus. We do not enter into any hedging arrangements to reduce our exposure to fluctuations in these purchase costs, but we price our products on a cost-plus basis and we expect that, subject to general market conditions, we will be able to pass on part or all of any purchase costs increases to our customers. For further details on these purchase costs and sensitivity analyses relating to our cost of components, please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Cost of Sales” in this prospectus.

Our suppliers generally provide us 30 to 60 days of credit terms and we usually pay our suppliers through wire transfers. All of our suppliers are Independent Third Parties. For any defects or product claims of our products that are attributable to our suppliers, we have the right to recourse against such suppliers for product liability. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material lack of capacity, supply shortages, delays or disruptions in our operations relating to our suppliers, or any material product claims attributable to our suppliers.

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Five Largest Suppliers

Purchases from our five largest suppliers, which include both vendors and subcontractors, accounted for 57.0%, 36.0% and 32.8% of our total purchases for the year ended 31 December 2013, 2014 and 2015, respectively, and purchases from our largest supplier accounted for 16.6%, 10.8% and 8.4%, respectively, of our total purchases.

To the best of our Directors' knowledge, as at the Latest Practicable Date, we were not aware of any information or arrangement which would lead to cessation or termination of our relationships with any of our five largest suppliers for the Track Record Period. None of our Directors, their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had any interest in any of our five largest suppliers for the Track Record Period.

Vendors

We purchase components for our products from vendors primarily in the PRC, with some from overseas, such as Germany. These components mainly include wafers for our CAM chipsets, mPOS chipsets, PCBs, flash memory and casings. We generally have around eight years of relationship with each of our major vendors.

Based on our chipset and product system designs, we source the wafers needed for our CAM chipsets from SMIC, a leading semiconductors foundry in China, to perform fabrication of chipset wafer which is the primary process for producing chipsets. Circular silicon wafers are produced and etched with our proprietary chipset designs. We have had a close relationship with SMIC for more than 12 years. We signed our latest supply contract with SMIC in 2013 for a term of two years with automatic renewal for one other year unless either party terminates prior to three months of expiry. In order to economise on costs, we generally make two to three bulk purchase orders a year from SMIC based on customer forecasts and market analysis of CAMs. The lead time for SMIC is approximately six to eight weeks, as we generally keep a sales forecast of CAMs for the next three to four months, we are able to estimate well in advance whether additional purchases from SMIC will be necessary to supplement our existing inventory.

Based on our product system design, we source generic mPOS chipsets, which are commonly used in almost all our mPOS models, from several generic chipsets vendors both in the PRC and Hong Kong. In addition, we also co-design with and source from Beijing Tongfang Microelectronics Co. Ltd. ("TMC"), a leading integrated circuit design company in the PRC, chipsets that are specifically tailored to two models of our mPOS products. Pursuant to a strategic cooperation agreement entered into between TMC and us in June 2015, we co-design the chipsets with TMC by providing the design requirements and by jointly determining the chipset specifications with TMC. TMC has committed to prioritise our orders before those of other customers under similar terms. We and TMC each bear our own respective costs and are each entitled to our own respective intellectual property rights, if any, from the co-design of chipsets. The strategic cooperation is legally binding and is valid for a term of five years.

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We only work with vendors who we deem as “preferred suppliers” and vendors must first pass an initial qualification assessment. This usually includes sample testing of product quality and functionality, as well as on-site evaluation, before we add them to our list of preferred suppliers. After the initial assessment, each batch of components delivered by a vendor is subject to sample testing and the vendor must continue to meet stringent, ongoing standards to remain on our preferred list. We generally have two or three vendors from whom we regularly purchase for each type of components in order to ensure that we have at least one available back-up supplier.

Subcontractors

We generally maintain in the PRC at least two subcontractors who are primarily responsible for the PCBA assembly for both our CAMs and mPOS products, as well as the production of mPOS devices. We have around six years of relationship with each of these major subcontractors.

We conduct an initial assessment of potential subcontractors before certifying them to conduct our assembly. This initial assessment usually involves trial production sample testing and on-site evaluation of the subcontractors’ equipment, facilities and manufacturing capabilities. Certified subcontractors are reassessed on a regular basis to ensure that they meet our standards for quality and security. Our agreements with subcontractors usually have a term of one year, subject to renewal. We provide our subcontractors with the main components needed for the production of our products. Such components sourced from vendors will have to pass our internal quality inspections before they are passed on to subcontractors to ensure the quality of materials used for our products. We also have quality control staff stationed full-time at our subcontractors’ facilities to conduct standard quality inspections and to closely monitor subcontractors’ whole production process involving our products, as well as the related storage and delivery arrangements. This is not only to ensure the quality of our products, but also to safeguard our product security and proprietary knowhow when involved in these outsourced processes.

By outsourcing certain part of the production process, we reduce the cost of owning and operating our own manufacturing facility and are able to focus our resources and operations on improving chipset, software and hardware design and innovating solutions for our customers. Subcontracting fees are assessed with each individual product order we place, which is mainly based on product type and purchase volume. Subcontracting fees accounted for approximately 13.5%, 14.3% and 12.5% of our total cost of sales for the year ended 31 December 2013, 2014 and 2015, respectively.

Product Information Security Management

Due to the nature of our security devices, we have implemented various measures to ensure that our product security, proprietary know-how, technologies and intellectual property rights are effectively protected, especially when certain stages of our production process are outsourced to third-party subcontractors and we provide chipset design to some of our vendors. For instance, we have entered into confidentiality agreement with SMIC for protecting the knowhow contained in the chipset design that we provide to SMIC for wafer production. In addition, for each batch of chipsets we further send to subcontractors for assembly, we perform strict stock take of the assembled products

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to ensure no misappropriation of the chipsets we dispatched. Any product from our subcontractors not meeting our quality standards will need to be sent back to our facilities to be disposed. Moreover, we have our own staff stationed at our subcontractors who also oversee the safe storage and proper handling of our inventory at our subcontractors' places.

Separately, we also allow, upon request, our CA providers to inspect and audit our facilities and internal control systems that are related to the handling of their CA technologies. In addition, we utilise self-designed encryption systems in production process to ensure the safe transmission of client data and technological knowhow. Moreover, for any software-burned PCBAs involving third-party licensing technology, such as the CA technologies, we need to follow strict protocols as requested by our CA providers to properly dispose any defective PCBAs.

Quality Control

We have received ISO9001:2008 certification, which is valid to October 2017 and subject to renewal. We also have a dedicated quality control team responsible for carrying out the quality control procedures based on the ISO9001:2008 standards. As at 31 December 2015, our quality control team comprised of six staff, including two personnel designated to station full-time at our subcontractors to mainly oversee their production process and to conduct necessary quality inspections. Our quality control staff have an average of seven years of related industry experience.

We conduct quality control measures at multiple steps in the production process. All of our vendors and subcontractors must undergo various inspections including site visits and research and development audits, before we will approve them for use. This ensures that the components we purchase will meet our standards for quality and security. We work closely with our vendors and subcontractors to expedite the assembly process and identify best practices so that we may offer high quality products to our customers. We perform in-house quality inspections of the components we source from suppliers before they are dispatched to next step of production so as to ensure the quality of materials used for our products.

Our outsourced production processes are strictly supervised by our own quality control personnel, who are stationed with our subcontractors full-time. For details, please refer to the section headed "Business — Production — Suppliers — Subcontractors" in this prospectus. We also operate in-house testing and quality control systems to ensure the consistent quality and security of our products and proprietary technology. These procedures primarily include functionality and tamper resistance tests, and packing inspections.

We did not encounter any instances of major product defects, product recalls or defective product claims during the Track Record Period and up to the Latest Practicable Date.

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Inventory and Logistics

Our inventory includes components, work-in-progress and finished products. We maintain a safety inventory of commonly used components in our production process to support our production needs as well as to make prototypes for our own research and development purposes. For details on our inventory levels, inventory management and provisioning policies, please refer to the section headed “Financial Information — Description of Selected Consolidated Statement of Financial Position Items — Inventories” in this prospectus.

Our production process is supported by the enterprise resource planning, or ERP system, which allows us to more accurately and efficiently plan our purchase and production, improve inventory management, reduce logistical bottlenecks and enhance our overall operational efficiency. Our entire production process, from the acceptance of purchase orders to the procurement of components and the arrangement of subcontracting, production and delivery of our final products, are maintained and monitored through our ERP system.

As regards to our logistics arrangements, we engage third-party logistics services providers to deliver our products. We are generally responsible for and bear the risks of delivering our products by road to our customers in the PRC, or to a carrier in a PRC location designated by our customers. We sometimes arrange for maritime transportation to overseas customers as well. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material loss in the delivery of our products and also did not experience any material delays or adverse effects due to the actions of any logistics services providers.

KEY INDUSTRY AWARDS, ACHIEVEMENTS AND MEMBERSHIPS

The table below sets out our key industry related awards, achievements and memberships for our innovation and development of quality products and services:

Year	Event
2014 - current	We participated in the drafting of the DVB-CI+ 2.0 standard
2013	We were the first to commercially launch CI+1.3 CAMs in Europe
2011 - 2015	We participated in the drafting of the DVB-CI+ 1.4 standard
2011 - current	We had membership in Hybrid Broadcast Broadband TV Association, an industry association primarily for the convergence of broadcasting and broadband delivery of content for hybrid digital TVs
2011	We were awarded “Guangdong Province Top 100 Software and IC Design Supported Corporation” by Guangdong Province Economic and Information Technology Commission
2011	We participated in the revision of the CI+ 1.3 standard
2011	We were awarded “Technology Fast500 Asia Pacific 2011” by Deloitte Touche Tohmatsu Limited
2011 - current	We had membership in CI Plus LLP, which is a consortium of industry participants for the promotion of CI+ standards for digital television broadcasting

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Year	Event
2010	We were awarded “Best Market Performance Award” by the Fifth Annual ChinaChip for our proprietary SM1660 chipset
2009	We were the first to commercially launch CAMs compatible with the CI+ standards in Europe
2007 - current	We had membership in Digital Video Broadcasting Association, which is an industry association for formulating and promoting the DVB standards for digital television broadcasting globally
2006	We were the first to commercially launch CAMs compatible with the DTV-CI 1.0 standard in China

COMPETITION

CAM Competitive Landscape

The CAM industry is characterised by relatively high barriers to entry. Because of the nature of the industry and the sensitivity of encryption knowledge, a great deal of time and effort is required for a new entrant to adequately establish relationships with broadcasting operators and CA providers. For instance, CA providers often impose a rigorous certification process which requires a multi-year lead time. Moreover, the technical ability and security level inherent in the creation of CAM products require significant investment in research and development. These entry barriers result in a market with relatively few participants.

Our principal competitors in the global CAM market are SmarDTV and Neotion. SmarDTV is headquartered in Switzerland and is a subsidiary of the Kudelski Group. SmarDTV works with several CA providers associated with the Kudelski Group. We believe this affiliation may discourage other CA providers from working with SmarDTV due to concerns over sharing CA technologies with a competitor. Our other global CAM competitor is Neotion which is a CAM provider headquartered in France.

Although there are high barriers to entry, additional competitors may enter the CAM industry. We believe that potential competitors include STB manufacturers who have technical expertise in content security solutions and relationships with certain key market participants. We may also see competition from CAM suppliers who work exclusively with CA providers that are related companies. However, we believe that we have the advantage of having expertise in both security chipset design, meeting stringent technical and certification requirements of CA providers, and content security solutions, which allows us to better customise for the specific needs of, and establish strong relationships with, our customers, in particular, broadcasting operators and CA providers.

For further details, please refer to the sections headed “Industry Overview — The Global CAM Market Overview — CAM Competitive Landscape” and “Industry Overview — The Global CAM Market Overview — CAM Entry Barriers” in this prospectus.

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mPOS Competitive Landscape

The mPOS market in China is fragmented and decentralised. According to Frost & Sullivan, we were the second largest mPOS supplier in China in terms of sales volume for the first half of 2015. Apart from a few top players, there are quite a number of companies offering mPOS products in China, who generally focus on traditional POS terminals and their percentage share of the mPOS market is fairly small ranging from 0.1% to 1.0% in terms of sales volume, according to Frost & Sullivan. Less competitive mPOS devices providers are likely to be gradually eliminated as the PRC mPOS market is facing an industry consolidation. Moreover, our hardware-based mPOS technology may also face competition from related sectors, including software-based payment solutions, such as Tenpay and Alipay.

For further details, please refer to the sections headed “Industry Overview — The China mPOS Market Overview — mPOS Competitive Landscape” and “Industry Overview — The China mPOS Market Overview — mPOS Entry Barriers” in this prospectus.

EMPLOYEES

As at 31 December 2015, we had a total of 261 employees, of whom 254 were based in Shenzhen, five in Hong Kong and two in Munich, Germany. All of our employees are full-time. The table below provides the breakdown of our employees as at 31 December 2015:

Function	Number of employees
Research and development	112
Sales and marketing	46
Operations	44
Quality control	6
Administration	34
Finance	19
Total	261

We have entered into employment agreements with all of our full time employees. Certain senior management and key research and development personnel have signed confidentiality agreements and non-competition agreements with us. Each executive officer has agreed to hold, both during and after the time of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with his or her employment, any confidential information, trade secrets or know-how of our company or the confidential information of any third party received by us. Additionally, each executive officer has agreed to be bound by non-competition restrictions for a period of two years following the term of his or her employment.

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Our success depends on our ability to attract, retain and motivate qualified personnel. We have generally been able to attract and retain qualified personnel and maintain a stable core management team. We are dedicated to the training and development of our employees. We leverage the resources of our research and development centre, our research laboratories and our project management team to ensure that each employee maintains a current skill-set through continuous training on topics ranging from our technologies, solutions and services to our clients, our markets and our industry. We provide introductory training and orientation for all new employees, as well as on-the-job training to continually improve our employees' technical, professional and management skills.

We believe that we maintain a good working relationship with our employees and we have not experienced any significant labour disputes or disputes with the labour department of the PRC government since our inception.

Social Insurance and Housing Provident Fund Contribution

Pursuant to applicable PRC laws and regulations, employers are required to make contributions to, and employees including migrant workers from rural areas are required to participate in, a number of social security funds, including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and the housing provident fund. For more information, please refer to the section headed “Regulatory Overview — Laws and Regulations in relation to Labour Law and Social Security” in this prospectus. During the Track Record Period and up to the Latest Practicable Date, we had not received any complaint from our employees for insufficient contributions by us to any social insurance or housing provident fund nor had we received any order or notice from the regulatory authorities requesting contributions to any social insurance or housing provident fund. During the Track Record Period and up to the Latest Practicable Date, as confirmed by our PRC Legal Adviser, we had made full provision for contributions to all social welfare and housing provident funds in compliance with applicable PRC laws.

Occupation Health and Safety

We are subject to the production safety laws, PRC labour laws and other relevant laws, administrative regulations, national standards and industrial standards in the PRC which stipulate the requirements to maintain safe production conditions and to protect the occupational health of employees. Pursuant to these requirements, any entity that is not sufficiently facilitated or equipped to ensure safe production shall not engage in production and business operation activities. Entities operating in the PRC must provide production safety education and training programmes, as well as a safe working environment to employees. The design, manufacture, installation, use, inspection and maintenance of production facilities and equipment are required to conform to applicable national or industrial standards.

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We have implemented safety measures at our in-house production facilities to ensure compliance with applicable regulatory requirements and to minimise the risk of injury of employees. We conduct periodic inspections of operating facilities to ensure that our production operations are in compliance with existing laws and regulations. Furthermore, we require new employees to receive work safety training.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material or prolonged stoppages of production due to equipment failure and we did not experience any severe accidents in the course of our operations, or any personal or property damages and compensation paid to employees arising from such accidents. As at the Latest Practicable Date, our in-house production facilities had complied with all applicable laws, regulations and standards in the PRC as confirmed by our PRC Legal Adviser.

INSURANCE

We maintain insurance coverage on marine cargo and certain motor vehicles owned by us, and employer's liability insurance generally covering personal accidents of our employees. We do not have insurance coverage on our other assets, inventories, business and product liability, interruption of business or key-employees. Please refer to the section headed "Risk Factors — We may not have adequate commercial insurance coverage and this could expose us to significant costs and business disruptions" in this prospectus. We believe that our insurance coverage is adequate and is in line with industry practice.

During the Track Record Period and up to the Latest Practicable Date, we have not had any material claims or liabilities arising from any accidents relating to our operations, nor did we experience any material production interruptions or product liability incidents. During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any insurance claims which are of a material nature to us.

ENVIRONMENTAL PROTECTION

We are subject to certain laws and regulations in relation to environmental protection. Please refer to the section headed "Regulatory Overview — Applicable Laws and Regulations in the PRC — Environmental Protection" in this prospectus for further information about these laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we had not received any notice or warning in relation to pollution in respect of our production, nor had we been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof.

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PROPERTIES

Our principal place of business in the PRC is located at SSMEC Building, Gao Xin Nan First Avenue, High-Tech Park South, Nanshan District, Shenzhen, China, where we lease approximately 3,722 sq. m. of office, research and development and assembly space in the building. We lease this venue from an associate of a connected person of our Company, which constitutes a continuing connected transaction pursuant to the Listing Rules. For details, please refer to the section headed “Continuing Connected Transaction” in this prospectus. We also lease a warehouse of approximately 1,214 sq. m. at 5th floor, Deli Industrial Building 139 Yi Yuan Road, Ma Jia Long, Nanshan District, Shenzhen. In addition, we lease approximately 293 sq. m. of office space in Hong Kong and 68 sq. m. of office space in Germany. We do not own any real property. The landlords for all of our lease properties have obtained the relevant ownership certificates. We believe that our leased facilities are adequate to meet our needs for the foreseeable future, and that we will be able to obtain adequate facilities, principally through leasing, to accommodate our future expansion. Our aggregate rental expenses for the year ended 31 December 2013, 2014 and 2015 were approximately US\$1.5 million, US\$1.2 million and US\$1.1 million, respectively.

As at the Latest Practicable Date, no single property interest forming part of our non-property activities had a carrying amount of 15% or more of our total assets. Accordingly, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests. As such, according to section 6(2) of Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) under paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires us to include a valuation report for all of our interests in land or buildings.

REGULATORY COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, as advised by the PRC Legal Adviser, we had obtained all the requisite governmental licences, permits, approvals and certifications, as well as renewals thereof which are necessary for its operations in the PRC, and had complied, in all material aspects, with all applicable PRC laws and regulations. The following table sets forth details of our material licenses and permits in the PRC as at the Latest Practicable Date:

<u>Licence/permit</u>	<u>Granting Authority</u>	<u>Grant Date</u>	<u>Expiry Date</u>
Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in People's Republic of China	People's Government of Shenzhen Municipality	14 March 2013	—
Business Licence	Market Supervision Administration of Shenzhen Municipality	7 March 2016	—

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Licence/permit	Granting Authority	Grant Date	Expiry Date
Tax Registration Certificate	Shenzhen Provincial Office, SAT & Shenzhen Local Taxation Bureau	21 November 2010	—
Foreign Exchange Registration Certificate	Shenzhen Branch of SAFE	—	—
Registration Certificate of Declaring Entity	Shenzhen Customs District	25 November 2014	—
Record-Filing Form of Foreign Trade Operators	Economy, Trade and Information Commission of Shenzhen Municipality	9 September 2008	—
Record-Filing Registration Certificates of Entities Declaring Self-Inspection	Entry-Exit Inspection and Quarantine Bureau of Shenzhen Shekou	29 February 2008	—
Recognition Certificate of IC Design Enterprises	Ministry of Industry and Information Technology of the PRC	15 December 2010	—
High-Tech Enterprise Certificate	Science & Technology Innovation Commission of Shenzhen Municipality; Finance Commission of Shenzhen Municipality; Shenzhen Provincial Office, SAT; Shenzhen Local Taxation Bureau	30 September 2014	29 September 2017

INTERNAL CONTROL AND RISK MANAGEMENT

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. We have established internal control measures which cover corporate governance, operations, management, legal matters, finance and auditing, for example:

- we have appointed Haitong International Capital Limited as our compliance adviser with effect from the Listing Date to advise on ongoing compliance with Listing Rules issues and other applicable securities laws and regulations in Hong Kong;
- our legal advisers as to Hong Kong laws have provided trainings to the Directors of our Company on the continuing obligations of a listed company in Hong Kong and on directors' responsibilities and liabilities, and will provide trainings or regular seminars and updates on these topics to the Directors and senior management of our Company after the Listing;
- we regularly monitor our sales performance and take active measures to measure our procurement and inventory levels. Before implementing our new business plan, we typically collect market data and forecast and prepare budget plans;

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- we have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. The audit committee consists of three Directors of our Company, namely Mr. Woo Kar Tung, Raymond, Mr. Zeng Zhijie and Mr. Kwan, Allan Chung-yuen. Mr. Woo Kar Tung, Raymond serves as the chairman of our audit committee. For the qualifications and experience of these audit committee members, please refer to the section headed “Directors and Senior Management” in this prospectus. We have prepared written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set forth in Appendix 14 of the Listing Rules.

We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. As is commonly the case, in preparation for the Listing, we have engaged an external internal control advisory firm to carry out an internal control review according to the agreed scope, which covers (i) entity-level controls and business process controls over financial closing and reporting, sales, purchases, inventory, treasury, and general information technology controls; and (ii) a report to our Company on factual findings and recommendations for improvement on our internal control system over the abovementioned processes and procedures. As at the Latest Practicable Date, we have implemented the relevant internal control measures based on the recommendation of the external internal control consultant.

Separately, we have also appointed an internal audit manager as head of our internal audit department to monitor, evaluate and improve the effectiveness of our internal control system in the running of our daily business. The internal audit manager has approximately 10 years of experience in accounting and received a bachelor’s degree in accounting. As our business continues to expand, we will refine and enhance our internal control systems to respond to the evolving requirements of our expanded operations as appropriate. We will continue to review our internal control systems to ensure compliance with Hong Kong and other applicable regulatory requirements.

We utilise an integrated risk management system to minimise and protect against a range of strategic, business, financial and legal risks. Through our risk management system, we seek to manage and reduce risks, encourage effective and reliable communication, maintain legal compliance and improve the efficiency of our business and management.

Our risk management system is implemented on three levels. Its implementation starts with the general manager of each department who is responsible for organising the daily work associated with the relevant policies. The second level involves the active role of our internal audit department headed by our internal audit manager which centralises our risk management policies and supervises the individual departments through periodic audits. Finally, the highest level involves decision-making regarding key risk management matters by our risk management committee, which consists of our chairman and chief executive officer Mr. Huang Xuiliang, our president and chief operating officer Mr. Shuai Hongyu and our executive vice president and chief financial officer Mr. Loong, Manfred Man-tsun. The risk management committee is supervised by and reports on an annual basis to our audit committee of the Board. The relevant personnel at these three levels for risk management are in frequent communication in order to ensure accurate information is shared between all parties.

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In order to formulate and implement effective policies, our risk management system emphasises continuous information gathering. Our risk management system collects data on a variety of business, financial and legal risks such as market demand, technological trends and innovations, comparisons with our competitors, our financial performance and results of operation, product inventories and costs of sales, changes in intellectual property law, company laws and possible legal disputes.

The information gathered is used for risk assessment. Our risk assessment procedures take into account our Company's overall risk philosophy and seek to accurately evaluate how a potential risk may affect our objective in the strategic, business, compliance and financial reporting areas. We seek to identify both internal risks, such as employee ethics, our financial condition or product quality, as well as external risks, such as economic and legal developments, technology advances and environmental factors. Identified risks are assessed on the basis of likelihood of occurrence and the degree of influence it may have on our business. Risks with a high probability of occurring are more closely examined in order to ensure accurate results. We then determine what counter measures should be implemented in order to avoid, absorb or reduce such risks and any negative consequences.

Sanctions Related Undertakings and Risk Management

We undertake to the Stock Exchange that (i) we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate any activities or business, directly or indirectly, relating to or with any Sanctioned Person or any other person or entity that is a target of any International Sanctions, and (ii) we will not undertake any sanctionable transactions that would expose our Group, or any person or entity, including our Group's investors, the Stock Exchange, the Listing Committee, the HKSCC and the HKSCC Nominees, to the risk of being sanctioned. If we breach any of these undertakings to the Stock Exchange after the Global Offering, it is possible that the Stock Exchange may delist our Shares.

We will continuously monitor and evaluate our business and take measures to comply with our aforesaid undertakings to the Stock Exchange and to protect the interest of our Group and our Shareholders. We have adopted the below measures to monitor and evaluate our business activities in connection with possible International Sanctions risks:

- we have set up a risk management committee, comprising our senior management, whose responsibilities include, among others, monitoring our exposure to sanctions risks and export controls and our implementation of the related internal control procedures;
- we will evaluate sanctions risks prior to determining whether we should embark on any business opportunities in the Sanctioned Countries and with Sanctioned Persons;
- as and when the risk management committee considers necessary, we will retain after the Listing an external International Sanctions legal adviser with necessary expertise and experience in International Sanctions matters for recommendations and advice; and

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- the external International Sanctions legal adviser, once engaged by us after the Listing, will provide training sessions relating to the sanctions laws to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations.

Our Directors are of the view that the risk management measures set out above will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material International Sanctions risk so as to protect the interests of our Company and our Shareholders. With regard to these measures, after undertaking relevant due diligence, and subject to the full implementation and enforcement of these measures, the Sole Sponsor is also of the view that these measures will provide a reasonably adequate and effective framework to assist our Group in identifying and monitoring any material International Sanctions risks.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

We may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of our business such as proceedings in respect of disputes with suppliers or customers, labour disputes or infringement of intellectual property rights. During the Track Record Period and up to the Latest Practicable Date, there were no material legal proceedings, regulatory inquiries or investigations made or pending or threatened against us.

CONTINUING CONNECTED TRANSACTION

CONTINUING CONNECTED TRANSACTION

Upon Listing, we will continue to have a transaction which constitutes a continuing connected transaction as defined by the Listing Rules. Set out below is a summary of the transaction and the waiver the Company has applied for and has been granted by the Stock Exchange.

<u>Connected Person</u>	<u>Transaction type</u>	<u>Applicable Listing Rule</u>	<u>Waiver applied for and granted</u>
Shenzhen State Micro Science and Technology Co. Ltd (深圳市國微科技有限公司), (“ State Micro Science and Technology ”) an associate of our Director	Property leasing	Rule 14A.76(2)	Waiver from the announcement requirements

State Micro Science and Technology is controlled as to approximately 65.89% by Mr. Huang Xueliang, an executive Director, and is therefore an associate of a connected person of our Company under the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS

Property Leasing Framework Agreement

A property leasing framework agreement dated 28 August 2015 (the “**Property Leasing Framework Agreement**”) was entered into between State Micro Science and Technology as landlord and our Group company, SMIT Shenzhen as tenant in respect of the premises located at 1-2F SSMEC Building, Room A, 1F and 2F of the Annex Building of SSMEC Building, 15, Gaoxinnan 1st Avenue, High-tech Park South, Nanshan District, Shenzhen, China (serial number: 4403050070040700001000001) (the “**State Micro Science and Technology Premises**”) with an area of approximately 3,722 sq.m. (subject to adjustment as required by the business needs of the Group). The lease is for a term of three years commencing on 1 September 2015 and expiring on 31 August 2018 at a rent of RMB60 per sq.m with reference to the prevailing market rates for similar properties (e.g. with respect to floor space and age of the building) in the vicinity and the rent guidelines set out in the city housing tenancy management department policy in Shenzhen, the PRC. The State Micro Science Technology Premises consist of the major operation site of SMIT Shenzhen. During the term of the Property Leasing Framework Agreement, State Micro Science and Technology Premises cannot terminate the Property Leasing Framework Agreement unilaterally, whereas SMIT Shenzhen may terminate the Property Leasing Framework Agreement by giving three months’ written notice without subject to any penalty.

CONTINUING CONNECTED TRANSACTION

Historical transaction value

For the year ended 31 December 2013, 2014 and 2015, the rent paid by the Group in respect of part of the State Micro Science and Technology Premises amounted to RMB2,363,505, RMB3,189,652 and RMB2,800,194, respectively. For the year ended 31 December 2013, 2014 and 2015, the rent paid by the Group in respect of the State Micro Science and Technology Premises and the costs and fees relating to air-conditioning and public utilities amounted to RMB4,219,019, RMB4,814,300 and RMB4,262,740 respectively.

Annual Cap

In consideration of our anticipated business needs, the Company estimates that the gross floor area of the State Micro Science and Technology Premises and other premises to be occupied by the Company under the Property Leasing Framework Agreement for the year ending 31 December 2016, 2017 and 2018 will be approximately 3,722 sq.m., 3,722 sq.m. and 3,722 sq.m., respectively. The maximum amount of rent and costs and fees relating to air-conditioning and public utilities payable by the Group to State Micro Science and Technology under the Property Leasing Framework Agreement for the year ending 31 December 2016, 2017 and 2018, respectively shall not exceed the annual caps set out below:

	Proposed annual cap		
	2016	2017	2018
			(RMB)
Property Leasing Framework Agreement	3,782,594	3,782,594	2,521,730 (until the expiration of the Property Leasing Framework Agreement on 31 August 2018)

In arriving at the above annual caps, the Directors have considered (i) the actual rent payable by us to State Micro Science and Technology pursuant to the Property Leasing Framework Agreement; (ii) the estimated costs and fees relating to air-conditioning and public utilities; and (iii) the estimated area to be leased according to the business needs of the Group.

LISTING RULES IMPLICATIONS

The Directors expect that the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Property Leasing Framework Agreement on an annual basis will be less than 25% and the total

CONTINUING CONNECTED TRANSACTION

consideration is less than HK\$10,000,000. Therefore, the continuing connected transaction under the Property Leasing Framework Agreement is exempted from the circular and shareholders' approval requirements but is subject to the annual review, reporting and announcement requirements under Chapter 14A of the Listing Rules.

As the continuing connected transaction described above is expected to continue on a recurring basis after the Listing, our Directors consider that it would not be practical, and would add unnecessary administrative costs to us, to make disclosure of such transaction in compliance with the announcement requirements in Rule 14A.35 of the Listing Rules.

Accordingly, pursuant to Rule 14A.105 of the Listing Rules, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, the waiver from strict compliance with the relevant announcement requirements in respect of the Property Leasing Framework Agreement.

The Company has complied and will continue to comply with the written agreement requirement under Rule 14A.34 of the Listing Rules, the annual reporting requirement under Rule 14A.49 of the Listing Rules and other requirements applicable under Chapter 14A of the Listing Rules.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) consider that the transaction under the Property Leasing Framework Agreement has been entered into in the ordinary and usual course of business and on normal commercial terms and that the terms of the Property Leasing Framework Agreement and the annual caps set out above are fair and reasonable and in the interests of our Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

Based on the relevant information and historical figures prepared and provided by our Company and the Sole Sponsor's participation in due diligence and discussions with the management of our Company, the Sole Sponsor is of the view that (i) the non-exempt continuing connected transaction under the Property Leasing Framework Agreement has been entered into in the ordinary and usual course of business of our Group on normal commercial terms and (ii) the non-exempt continuing connected transaction under the Property Leasing Framework Agreement and the proposed annual caps are fair and reasonable and are in the interests of our Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of six members, comprising one executive Director, two non-executive Directors and three independent non-executive Directors. Our Directors were all elected at the Shareholders' meetings, who are subject to retirement, re-election and re-appointment in accordance with the Articles. Our executive Director has entered into a service contract with our Group.

The duties and powers conferred on our Board include, among other matters:

- performing the corporate governance duties;
- convening Shareholders' meetings and reporting its work to Shareholders;
- implementing Shareholders' resolutions;
- formulating our Company's business plans and investment plans, and formulating our Company's annual budget and final accounts;
- formulating our Company's proposals for profit distributions and recovery of losses;
- formulating our Company's proposals for the increase or reduction of registered capital; and
- exercising other duties and powers as conferred by the Articles.

Our Board is responsible and has general powers for the management and conduct of our business.

The following table sets forth information regarding the current Directors.

Name	Age	Position	Date of Appointment to the Board	Month of Joining our Group	Principal Responsibilities
Huang Xueliang (黃學良)	53	Chairman, executive Director and chief executive officer	29 June 2015	January 2002	Responsible for the overall strategic planning and overseeing the general management of our Group
Zeng Zhijie (曾之傑)	47	Non-executive Director	20 September 2015	September 2015	Attending meetings of our Board to perform director's duties, but not participating in the day-to-day management of our business operations

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Appointment to the Board	Month of Joining our Group	Principal Responsibilities
Kwan, Allan Chung-yuen (關重遠)	57	Non-executive Director	20 September 2015	September 2015	Attending meetings of our Board to perform director's duties, but not participating in the day-to-day management of our business operations
Zhang Junjie (張俊傑)	45	Independent non-executive Director	6 March 2016	March 2016	Attending meetings of our Board to perform director's duties, but not participating in the day-to-day management of our business operations
Woo Kar Tung, Raymond (胡家棟)	46	Independent non-executive Director	6 March 2016	March 2016	Attending meetings of our Board to perform director's duties, but not participating in the day-to-day management of our business operations
Jin Yufeng (金玉豐)	54	Independent non-executive Director	6 March 2016	March 2016	Attending meetings of our Board to perform director's duties, but not participating in the day-to-day management of our business operations

Executive Director

Mr. Huang Xueliang (黃學良), aged 53, is the chairman, an executive Director and the chief executive officer of our Company and the Founder of our Group. He was appointed as the chairman, executive Director and the chief executive officer of our Company with effect from 20 September 2015. He is the chairman of SMIT Shenzhen and also a director of each of SMIT Hong Kong and SMIT Shenzhen of our Company. Mr. Huang is primarily responsible for the overall strategic planning and overseeing the general management of our Group. He has over 15 years of management experience in the IC design industry.

From March 1989 to December 1991, Mr. Huang worked in the China National Electronic Devices Corp., Shenzhen branch* (中國電子器件公司深圳公司), a company primarily engaged in distributing and selling computer related components and other electronic components. From January 1992 to February 1993, Mr. Huang worked as the vice manager in Shenzhen Xianke Mechatronics Corporation* (深圳市先科機械電子公司), a company engaged in the processing of various electronic modules and components. Mr. Huang is the director of Shenzhen State Micro Science and Technology Co. Ltd.* (深圳市國微科技有限公司), a company engaged in the research and development of integrated circuit design, since 1993. Mr. Huang was previously a director of Tongfang Guoxin

DIRECTORS AND SENIOR MANAGEMENT

Electronics Co., Ltd.* (同方國芯電子股份有限公司) (SZSE: 2049), a quartz crystal units manufacturer listed on the Shenzhen Stock Exchange, between October 2013 and January 2016. He has served as the deputy director of China Semiconductor Industry Association IC Design Branch* (中國半導體行業協會集成電路設計分會) since November 2005.

Mr. Huang obtained a bachelor's degree in semiconductor from Xidian University (formerly known as North-western Telecommunications Engineering School* (西北電訊工程學院)) in July 1984 and a master's degree in electrical engineering from Southeast University in April 1989.

Non-executive Directors

Mr. Zeng Zhijie (曾之傑), aged 47, is a non-executive Director of our Company. Mr. Zeng joined our Group in September 2015 and was appointed as a non-executive Director with effect from 20 September 2015. Mr. Zeng has been a director of SMIT Corporation since February 2008.

Between January 2001 and December 2007, Mr. Zeng served as a managing director of Walden International, whose affiliated investment entities hold shares in our Company, which was mainly responsible for venture investments in China and other Asian countries. Since his resignation as the managing director in 2008, Mr. Zeng has continued to serve as an advisor to Walden International. Mr. Zeng has been the general manager of Kaixin Investment, a venture capital fund jointly founded by China Development Bank Corporation and CITIC Capital Holdings Limited, since December 2008. Mr. Zeng has been the senior managing director of CITIC Capital Holdings Limited since February 2010. Mr. Zeng served as the independent director of Shanghai AJ Group Co., Ltd.* (上海愛建股份有限公司) (SHSE: 600643), a property developer in the PRC listed on the Shanghai Stock Exchange, from June 2006 to January 2013; the director of Talkweb Information System Co., Ltd.* (拓維信息系統股份有限公司) (SZSE: 2261), a system integration and software company listed on the Shenzhen Stock Exchange, from June 2010 to May 2013; and the independent non-executive director of Great Wall Technology Company Limited (HKSE: 0074), an IT products manufacturer listed on the Stock Exchange, from June 2011 until the company was withdrawn from listing in July 2014. From July 2009 to June 2015, Mr. Zeng served as an independent director of Vimicro International Corporation (NASDAQ: VIMC), a video technology company formerly listed on the NASDAQ Global Select Market. Since April 2003, Mr. Zeng has served as an independent non-executive director of ChinaSoft International Limited (HKSE: 354), a comprehensive provider of end-to-end software and information services, ranging from consulting to solution, outsourcing and IT talent training. He has also served as an independent director of E-House (China) Holdings Limited (NYSE: EJ), a PRC real estate company listed on the New York Stock Exchange, since August 2008. Mr. Zeng was an independent director of AutoNavi Holdings Limited (NASDAQ: AMAP), a digital map content and navigation company listed on the NASDAQ Global Select Market until the trading was suspended upon completion of a merger in July 2014. He has also served as a non-executive director of AAG Energy Holdings Limited (HKSE: 2686), a coalbed methane producer in the PRC, since January 2015.

Mr. Zeng obtained a bachelor's degree in economics from the University of Nagasaki, Japan in March 1996 and a master of science degree in management from Stanford University in June 2001.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kwan, Allan Chung-yuen (關重遠), aged 57, is a non-executive Director of our Company. Mr. Kwan joined our Group in September 2015 and was appointed as a non-executive Director with effect from 20 September 2015. Mr. Kwan has been a director of SMIT Corporation since February 2008.

He served as the regional vice president and managing director of North Asia from July 2001 to January 2006 and the vice president from January 2006 to April 2007 in Yahoo! International. Mr. Kwan has been a venture partner of Oak Management Corporation, a venture capital firm which is an affiliate of Oak Investment Partners X, L.P., since April 2007. He has served as a director since November 2008 and was a member of the audit committee for NeoPhotonics Corporation (NYSE: NPTN), a designer and manufacturer of photonic integrated circuit based modules listed in the New York Stock Exchange until November 2015.

Mr. Kwan obtained a bachelor's degree in mechanical engineering from the University of British Columbia in May 1982, a master of business administration degree from the Wharton School of University of Pennsylvania in May 1987, and a master of arts degree from the University of Pennsylvania in May 1987.

Independent Non-executive Directors

Mr. Zhang Junjie (張俊傑), aged 45, is an independent non-executive Director of our Company. Mr. Zhang joined the Group on 6 March 2016, and was appointed as an independent non-executive Director with effect from 6 March 2016.

Mr. Zhang has over 10 years of experience in the investment banking industry. Mr. Zhang has served as the general manager in the business department of the investment bank, Guosen Securities Company Limited since February 2005.

Mr. Zhang received a bachelor's degree in oil development and drilling engineering from the Jiangnan Petroleum University (now known as Yangtze University) in June 1992. He received a master's degree in industrial economics from Wuhan University of Technology in June 1999. Mr. Zheng also received an executive master of business administration degree from Cheung Kong Graduate School of Business in October 2012.

Mr. Woo Kar Tung, Raymond (胡家棟), aged 46, is an independent non-executive Director of our Company. Mr. Woo joined the Group on 6 March 2016, and was appointed as an independent non-executive Director with effect from 6 March 2016.

Mr. Woo has over 8 years of experience in the accounting and financial services industry. From August 2007 to June 2010, Mr. Woo served as a director in the investment banking department of Credit Suisse (Hong Kong) Limited, a leading financial services company. Mr. Woo joined IRC Limited (HKSE: 1029), an industrial commodities producer listed on the Main Board of the Stock Exchange as an executive director between June 2010 to March 2015 and he has since then been re-designated as a non-executive director of IRC Limited. Mr. Woo has served as an independent non-executive director and a member of the audit committee of Yuanda China Holdings Limited (HKSE: 2789), a company principally engaged in the manufacturing and sale of curtain walls listed

DIRECTORS AND SENIOR MANAGEMENT

on the Main Board of the Stock Exchange, since April 2011. Mr. Woo has served as an executive director and chief financial officer of Jinheng Automotive Safety Technology Holdings Limited (HKSE: 872), an automotive safety company listed on the Main Board of the Stock Exchange, since September 2015.

Mr. Woo received a bachelor's degree of commerce in the University of New South Wales, Australia in April 1992. Mr. Woo became a certified practising accountant of the Australian Society of Certified Practising Accountants in November 1996, and a fellow member of the Hong Kong Institute of Certified Public Accountants in April 2005.

Mr. Jin Yufeng (金玉豐), aged 54, is an independent non-executive Director of our Company. Mr. Jin joined the Group on 6 March 2016, and was appointed as an independent non-executive Director with effect from 6 March 2016.

Mr. Jin has over 12 years of research experience in the electronic engineering industry. From April 1985 to March 1999, Mr. Jin worked as an engineer and senior engineer in the 55th Research Institute of China Electronics Technology Group Corporation* (中國電子科技集團公司第五十五研究所), which is specialised in the research and development on electronic components. From April 1999 to February 2001, Mr. Jin was a post-doctoral research fellow in the Institute of Microelectronics, Peking University (北京大學微電子學研究院). From November 2001 to November 2004, Mr. Jin served as a senior research engineer of Singapore Institute of Manufacturing Technology. He has been a professor in the School of Electronics Engineering and Computer Science* (信息科學技術學院) in Peking University since August 2006. Currently, Mr. Jin is the head of the National Key Laboratory of Science and Technology on Micro/nano Fabrication* (國家微米納米加工技術重點實驗室), the deputy head of the Institute of Microelectronics (微電子學研究院) and the Institute of Advanced Technology* (先進技術研究院) in Peking University. Mr. Jin was a consultant of the Hong Kong Applied Science and Technology Research Institute Company Limited from August 2007 to November 2007. Mr. Jin has also served as a director of Jiaying Synergy Micro-Electronics Technology Co., Ltd* (嘉興市納傑微電子技術有限公司) since February 2012. Mr. Jin has served as an independent director of Shanghai Belling Co., Ltd* (上海貝嶺股份有限公司) (SHSE: 600171), an IC designer and application developer listed on the Shanghai Stock Exchange, since December 2013. Mr. Jin has also been a visiting professor at University of Electronic Science and Technology of China since July 2013.

Mr. Jin received his bachelor's degree in electronic engineering and master's degree in electronic engineering from Southeast University (previously known as Nanjing Institute of Technology (南京工學院)) in July 1982 and July 1985 respectively. He received his doctorate degree in physics and electronics from Southeast University in March 1999.

Save as disclosed above and in the paragraph headed "Statutory and General Information — 11. Directors — (d) Interests of the Directors and Chief Executive of our Company" in this prospectus, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management

DIRECTORS AND SENIOR MANAGEMENT

or substantial or controlling shareholders of our Company as at the Latest Practicable Date; (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date; (iv) did not have any interest in our Shares within the meaning of Part XV of the SFO as at the Latest Practicable Date.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

None of our Directors or any of their respective associates had interests in any other companies as at the Latest Practicable Date that may, directly or indirectly, compete with our business and would require disclosure under Rule 8.10 of the Listing Rules.

SENIOR MANAGEMENT

Our senior management is responsible for day-to-day management of our business and comprises each of our executive Directors and the executives described below.

Name	Age	Position	Month of Joining our Group	Principal Responsibilities
Shuai Hongyu (帥紅宇)	55	President and chief operating officer of the Company, director of SMIT Hong Kong and SMIT Shenzhen	October 2005	Co-leading, with the chairman and chief executive officer, business operation and overseeing strategic technologies of our Group
Loong, Manfred Man-tsun (龍文駿)	60	Executive vice president and chief financial officer of the Company	July 2013	Management of the overall financial and accounting affairs of our Group

Mr. Shuai Hongyu (帥紅宇), aged 55, is the president and the chief operating officer of our Company. Mr. Shuai joined the Group in October 2005. He is primarily responsible for co-leading, with Mr. Huang Xueliang, our business operation and overseeing strategic technologies. Mr. Shuai is also a director of SMIT Hong Kong and SMIT Shenzhen. Mr. Shuai has more than 20 years of industry experience related to image processing and digital television technologies.

From 1987 to 1989, Mr. Shuai has been the engineer in the computer department of the Sichuan Province Remote Sensing Center* (四川省遙感中心計算室). From 1989 to 2000, Mr. Shuai was the vice president of the Southwest Branch of China Council for the Promotion of Applied Technology Exchange with Foreign Counties* (中國對外應用技術交流促進會西南分會). From 2000 to 2001, Mr. Shuai worked as the vice president of Beijing Zhongshilian Digital System Co., Ltd.* (北京中視聯數字系統有限公司). Between March 2001 to March 2004, Mr. Shuai was the general manager of DTVIA Conditional Access System (CHINACRYPT) Co., Ltd.* (北京中視聯條件接收系統有限公司), a

DIRECTORS AND SENIOR MANAGEMENT

conditional access joint-venture between Philips Cryptoworks (China) Limited and China Digital TV Holding Co., Ltd. Between July 2004 and October 2005, Mr. Shuai worked as the general manager of Beijing Pu'aode Digital Technology Co., Ltd.* (北京浦奧得數碼技術有限公司), a company engaged in the design and development of digital television system.

Mr. Shuai obtained a bachelor's degree in wireless communication in July 1982 and a master's degree in engineering in January 1987 from Xindian University (formerly known as North-western Telecommunications Engineering School* (西北電訊工程學院)).

Mr. Loong, Manfred Man-tsun (龍文駿), aged 60, is the executive vice president and chief financial officer of our Company. Mr. Loong joined our Group in July 2013. Mr. Loong is primarily responsible for the management of the overall financial and accounting affairs of our Group.

Mr. Loong has extensive experience in accounting and related financial management. Prior to 2006, Mr. Loong had extensive experience working at Lucent Technologies (China) Co., Ltd.. Between April 2006 and July 2009, he served as the chief financial officer and chief operating officer at UTStarcom Telecom Co., Ltd., the subsidiary of UTStarcom Holdings Corp. (NASDAQ: UTSI), a global telecom infrastructure provider, focused on delivering innovative carrier-class broadband transport and access (both Wi-Fi and fixed line) products and solutions, optimised for mobile backhaul, metro aggregation, broadband access and Wi-Fi data offloading. Between January 2010 to May 2012, Mr. Loong was the chief financial officer of China Ming Yang Wind Power Group Ltd. (NYSE: MY), a wind turbine manufacturer in China, listed on the New York Stock Exchange, focusing on designing, manufacturing, selling and servicing megawatt-class wind turbines.

Mr. Loong graduated from the University of Washington with a bachelor of arts degree in business administration in June 1978 and was qualified as a certified public accountant in New Jersey in the United States in February 1990.

COMPANY SECRETARY

Mr. Cheng Kai Pui, Eric (鄭啟培), aged 31, is the company secretary of our Company. Mr. Cheng has approximately 9 years of experience in accounting and related financial management. Mr. Cheng worked in the audit department of Kreston CAC CPA Limited (previously named as Chan and Chan) from September 2006 and left the firm as an assistant audit supervisor in May 2011. Between May 2011 and August 2012, he worked as a senior accountant and subsequently as a finance manager in Icicle Production Company Limited. Between October 2012 and March 2013, he served as an audit manager of L & P CPA Limited. From May 2013 to July 2014, Mr. Cheng served as an assistant accounting manager of ASR Logistics Holdings Limited (HKSE: 1803), a company listed on the Main Board of the Stock Exchange. Mr. Cheng obtained a bachelor of commerce degree in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 2006. Mr. Cheng received a master of professional accounting degree from Hong Kong Polytechnic University in October 2012. He has been registered as a certified public accountant of the Hong Kong Institute of Certified Public Accountants since May 2010.

DIRECTORS AND SENIOR MANAGEMENT

STAFF

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes.

Benefits

As required by the PRC regulations on social insurance and housing provident funds, our PRC subsidiaries participate in the social insurance, which include basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and housing provident fund schemes operated by the relevant local government authorities.

As required by the employment laws in Hong Kong, our Hong Kong subsidiaries participate in the mandatory provident fund scheme to provide retirement benefits for our Hong Kong staff. Our Hong Kong staff is also entitled to medical welfare and discretionary bonus provided by our Group.

In Germany, we are required to make certain mandatory contributions to the statutory social security authorities on behalf of each employee which are calculated as a percentage of an employee's gross monthly salary. The contributions relate to statutory pension, unemployment, health and nursing insurance, not more than half of which is paid by the employer and the remaining by the employee.

Compensation

The aggregate remuneration (including basic salaries, allowances, benefits in kind, discretionary bonuses, share-based payments retirement benefit defined contribution plan) of our Directors in 2013, 2014, 2015 were US\$730,671, US\$497,200 and US\$602,481, respectively. Details of the arrangement for remuneration are set out in note 8 to our consolidated financial statements in the Accountant's Report included in Appendix I to this prospectus. Under such arrangement and pursuant to our Directors' service agreements and letters of appointment referred to in the section headed "Statutory and General Information — Further Information about Directors and Shareholders — 11. Directors — (b) Particulars of Directors' service contracts" as set out in Appendix IV to this prospectus, the aggregate remuneration (excluding discretionary bonus) payable to our Directors for the year ending 31 December 2016 is estimated to be approximately US\$600,000, excluding any discretionary bonuses.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind discretionary bonuses and/or share-based payments relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management. After the Listing, our remuneration committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies,

DIRECTORS AND SENIOR MANAGEMENT

time commitment and responsibilities of our Directors and the performance of our Group. During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or our Group's five highest paid employees as an inducement to join or upon joining our Group or as compensation for loss of office.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee on 6 March 2016 with its written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system (including risk management), nominate and monitor external auditors and provide advice and comments to the Board on matters related to corporate governance.

Our audit committee consists of three members, being Mr. Woo Kar Tung, Raymond, Mr. Zeng Zhijie and Mr. Kwan, Allan Chung-yuen. Mr. Woo Kar Tung, Raymond currently serves as the chairman of our audit committee.

Remuneration Committee

Our Company established a remuneration committee on 6 March 2016 with its written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration of our Directors and senior management.

Our remuneration committee consists of three members, being Mr. Zhang Junjie, Mr. Jin Yufeng and Mr. Zeng Zhijie. Mr. Zhang Junjie currently serves as the chairman of our remuneration committee.

Nomination Committee

Our Company established a nomination committee on 6 March 2016 with its written terms of reference by reference to the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board on the selection of candidates for any Director and senior management positions.

Our nomination committee consists of three members, being Mr. Huang Xueliang, Mr. Jin Yufeng and Mr. Woo Kar Tung, Raymond. Mr. Huang Xueliang currently serves as the chairman of our nomination committee.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Haitong International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we will consult the compliance adviser in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that described in this prospectus or where the business activities, developments or results of operations of our Company deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the year ending 31 December 2017 (being the annual report for the first full financial year commencing after the Listing Date), or until its appointment is terminated, whichever is earlier.

CODE ON CORPORATE GOVERNANCE PRACTICES

Our Company considers that having Mr. Huang Xueliang acting as both our Chairman and our chief executive officer will provide a strong and consistent leadership to us and allow for more effective planning and management for our Group. Pursuant to A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, in view of Mr. Huang Xueliang's extensive experience in the industry, personal profile and critical role in our Group and its historical development, our Company considers that it is beneficial to the business prospects of our Group that Mr. Huang Xueliang continues to act as both our Chairman and our chief executive officer after the Listing.

Save as disclosed above, our Directors consider that, as at the Latest Practicable Date, our Company has fully complied with the applicable code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at the date of this prospectus and immediately following the completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme), the following persons will have an interest or short position in the Shares or underlying Shares which will be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Capacity/nature of interest	As at the date of this prospectus		Immediately following the completion of the Global Offering	
		Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding	Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding
Statemicroelectronics	Beneficial owner	10,810,310	7.09%	15,957,463	5.32%
Huang Xueliang ⁽²⁾	Beneficial owner and interest in a controlled corporation	28,454,519	18.67%	42,002,445	14.00%
Zhu Changhua ⁽³⁾	Interest in a controlled corporation	15,247,615	10.00%	22,507,521	7.50%
Junjie International ⁽⁷⁾	Beneficial owner	12,966,750	8.51%	19,140,656	6.38%
Gong Jun ⁽⁴⁾	Interest in a controlled corporation	13,906,750	9.12%	20,528,226	6.84%
Pacven Walden Ventures V, L.P.	Beneficial owner	17,464,245	11.46%	25,779,560	8.59%
Pacven Walden Management V Co. Ltd ⁽⁵⁾	Interest in a controlled corporation	18,657,655	12.24%	27,541,195	9.18%
Mayfield XI Qualified, a Delaware Limited Partnership	Beneficial owner	13,341,600	8.75%	19,693,985	6.56%
Mayfield XI Management, L.L.C. ⁽⁶⁾	Interest in a controlled corporation	15,406,000	10.11%	22,741,317	7.58%
GSR Ventures I, L.P.	Beneficial owner	30,900,210	20.27%	45,612,840	15.20%
GSR Partners I, L.P. ⁽⁷⁾	Interest in a controlled corporation	31,855,885	20.90%	47,023,545	15.67%

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Capacity/nature of interest	As at the date of this prospectus		Immediately following the completion of the Global Offering	
		Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding	Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding
GSR Partners I, Ltd. ⁽⁸⁾	Interest in a controlled corporation	31,855,885	20.90%	47,023,545	15.67%
Oak Investment Partners X, L.P.	Beneficial owner	38,596,080	25.32%	56,972,972	18.99%
Oak X Associates, LLC ⁽⁹⁾	Interest in a controlled corporation	38,596,080	25.32%	56,972,972	18.99%

Notes:

- (1) All interests stated are long positions.
- (2) Mr. Huang Xueliang holds share options to subscribe for 12,079,833 Shares immediately following the completion of the Global Offering. Mr. Huang Xueliang also holds a 100% interest in Infortune International and a 50% interest in Statemicroelectronics. Mr. Huang Xueliang is therefore deemed to be interested in the 13,965,149 Shares and 15,957,463 Shares held by Infortune International and Statemicroelectronics respectively immediately following the completion of the Global Offering.
- (3) Mr. Zhu Changhua holds share options to subscribe for 568,314 Shares immediately following the completion of the Global Offering. Mr. Zhu Changhua also holds a 100% interest in Capital Tower and a 50% interest in Statemicroelectronics. Mr. Zhu Changhua is therefore deemed to be interested in the 5,981,744 Shares and 15,957,463 Shares held by Capital Tower and Statemicroelectronics respectively immediately following the completion of the Global Offering.
- (4) Mr. Gong Jun holds share options to subscribe for 1,387,570 Shares immediately following the completion of the Global Offering. Mr. Gong Jun also holds a 100% interest in Junjie International. Mr. Gong Jun is therefore deemed to be interested in the 19,140,656 Shares held by Junjie International immediately following the completion of the Global Offering.
- (5) To the best of our Directors' knowledge, Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. are limited partnerships each controlled by a general partner, Pacven Walden Management V Co. Ltd.. Pacven Walden Management V Co. Ltd. is deemed to be interested in the 25,779,560 Shares, 89,454 Shares, 485,855 Shares, 593,163 Shares and 593,163 Shares held by Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. respectively immediately following the completion of the Global Offering.
- (6) To the best of our Directors' knowledge, (A) each of Mayfield XI, a Delaware Limited Partnership, Mayfield XI Qualified, a Delaware Limited Partnership and Mayfield Associates Fund VI, a Delaware Limited Partnership is controlled by a sole general partner, Mayfield XI Management, L.L.C. and (B) Mayfield Principals Fund II, a Delaware LLC Including Multiple Series is controlled by the sole managing director, Mayfield XI Management, L.L.C.. Mayfield XI Management, L.L.C. is deemed to be interested in the 1,228,033 Shares, 19,693,985 Shares, 409,340 Shares and 1,409,959 Shares held by Mayfield XI, a Delaware Limited Partnership, Mayfield XI Qualified, a Delaware Limited Partnership, Mayfield Associates Fund VI, a Delaware Limited Partnership and Mayfield Principals Fund II, a Delaware LLC Including Multiple Series respectively immediately following the completion of the Global Offering.

SUBSTANTIAL SHAREHOLDERS

- (7) To the best of our Directors' knowledge, GSR Ventures I, L.P. and GSR Principals Fund I, L.P. are limited partnerships each controlled by a general partner, GSR Partners I, L.P.. GSR Partners I, L.P. is deemed to be interested in the 45,612,840 Shares and 1,410,705 Shares held by GSR Ventures I, L.P. and GSR Principals Fund I, L.P. respectively immediately following the completion of the Global Offering.
- (8) To the best of our Directors' knowledge, GSR Partners I, L.P. is a limited partnership controlled by a general partner, GSR Partners I, Ltd.. Each of GSR Partners I, Ltd. and GSR Partners I, L.P. is deemed to be interested in the 45,612,840 Shares and 1,410,705 Shares held by GSR Ventures I, L.P. and GSR Principals Fund I, L.P. respectively immediately following the completion of the Global Offering.
- (9) To the best of our Director's knowledge, Oak Investment Partners X, L.P. is a limited partnership controlled by a general partner, Oak Associates X, LLC. Oak Associates X, LLC is deemed to be interested in the 56,972,972 Shares held by Oak Investment Partners X, L.P. immediately following the completion of the Global Offering.

Save as disclosed above, the Directors are not aware of any person who will, immediately following the completion of the Global Offering but without taking into account any Shares which may be taken up or acquired under the Global Offering and any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme, have an interest or short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other new member of our Group.

The Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

CORNERSTONE INVESTORS

The Cornerstone Placing

We, the Sole Sponsor and the Sole Global Coordinator have entered into cornerstone investment agreements with the following investors (the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe for the Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) that may be purchased for an aggregate amount of approximately US\$21.0 million (assuming an Offer Price of HK\$3.10 per Offer Share) to US\$24.1 million (assuming an Offer Price of HK\$3.88 per Offer Share) (the “**Cornerstone Placing**”), at the Offer Price.

Assuming an Offer Price of HK\$3.10 per Offer Share (being the low-end of the indicative Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 55,079,000 Shares, representing approximately 73.4% of the Offer Shares and 18.4% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.49 per Offer Share (being the mid-point of the Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 52,275,000 Shares, representing approximately 69.7% of the Offer Shares and 17.4% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.88 per Offer Share (being the high-end of the Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 50,036,000 Shares, representing approximately 66.7% of the Offer Shares and 16.7% of the Shares in issue immediately following completion of the Global Offering.

	Total number of Shares to be subscribed by the Cornerstone Investors (rounded down to the nearest whole board lot of 1,000 Shares)	Approximate percentages of the International Offer Shares	Approximate percentages of the Offer Shares	Approximate percentages of the Shares in issue immediately following completion of the Global Offering
Assuming an Offer Price of HK\$3.10 per Offer Share (being the low-end of the indicative Offer Price range set out in this prospectus)	55,079,000	81.6%	73.4%	18.4%
Assuming an Offer Price of HK\$3.49 per Offer Share (being the mid-point of the indicative Offer Price range set out in this prospectus)	52,275,000	77.4%	69.7%	17.4%
Assuming an Offer Price of HK\$3.88 per Offer Share (being the high-end of the indicative Offer Price range set out in this prospectus)	50,036,000	74.1%	66.7%	16.7%

CORNERSTONE INVESTORS

The Cornerstone Placing will form a part of the International Offering. The number of Offer Shares to be subscribed by certain of the Cornerstone Investors may be adjusted, if necessary, to comply with applicable requirements of the Stock Exchange and the Listing Rules (including any mandatory reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering effected pursuant to paragraph 4.2 of Practice Note 18 to the Listing Rules). The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Shares then in issue upon completion of the Global Offering and to be listed on the Stock Exchange, and will be counted towards the public float of our Shares. Immediately following completion of the Global Offering, none of the Cornerstone Investors will have any representation on the Board, nor will any of the Cornerstone Investors become a substantial shareholder of our Company (as defined under the Listing Rules).

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and is independent from each other. Each of the Cornerstone Investors is independent from our Company, the connected persons of the Company and their associates. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering other than pursuant to the relevant cornerstone investment agreements disclosed in this section. No special rights have been granted to the Cornerstone Investors as part of the Cornerstone Placing.

Our Cornerstone Investors

A brief description of the Cornerstone Investors is set out below:

Xinxin (Hongkong) Capital Co., Limited (“Xinxin Capital”)

Pursuant to the cornerstone investment agreement entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and Xinxin Capital dated 9 March 2016, Xinxin Capital has agreed to subscribe (by itself or through a wholly-owned subsidiary of Xinxin Capital) for such number of our Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares), which may be purchased for an aggregate amount of US\$16 million (approximately HK\$124 million) at the Offer Price, but provided that such number of Offer Shares shall be less than 10% of the Shares in issue immediately following completion of the Global Offering.

On the basis of 29,999,000 Offer Shares to be subscribed by Xinxin Capital, such Offer Shares represent approximately 40.0% of the Offer Shares and 9.9% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.10 per Offer Share (being the low-end of the indicative Offer Price range set out in this prospectus), the aggregate investment amount by Xinxin Capital shall be HK\$92,996,900. Assuming an Offer Price of HK\$3.49 per Offer Share (being the mid-point of the Offer Price range set out in this prospectus), the aggregate investment amount by Xinxin Capital shall be HK\$104,696,510. Assuming an Offer Price of HK\$3.88 per Offer Share (being the high-end of the Offer Price range set out in this prospectus), the aggregate investment amount by Xinxin Capital shall be HK\$116,396,120.

Xinxin Capital is an investment company incorporated with limited liability in Hong Kong, and is an indirect wholly-owned subsidiary of China Integrated Circuit Industry Investment Fund Co., Ltd. (“China IC Fund”). China IC Fund is an investment company established under the laws of the PRC.

CORNERSTONE INVESTORS

It mainly invests in the value chain of integrated circuit industry via various approaches, primarily in IC chip manufacturing as well as chip designing, packaging test and equipment and materials. The shareholders of China IC Fund include the Ministry of Finance of China, China Development Bank Capital Corporation Ltd., China National Tobacco Corporation, Beijing Yizhuang International Investment and Development Co., Ltd. and China Mobile Communications Corporation.

Beijing Integrated Circuit Industry International Fund L.P. (“BICI Cayman”)

Pursuant to the cornerstone investment agreement entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and BICI Cayman dated 9 March 2016, BICI Cayman has agreed to subscribe (by itself or through a wholly-owned subsidiary of BICI Cayman) for such number of our Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares), which may be purchased for an aggregate amount of US\$4.0 million (approximately HK\$31.0 million) at the Offer Price.

Assuming an Offer Price of HK\$3.10 per Offer Share (being the low-end of the indicative Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by BICI Cayman would be 10,000,000 Shares, representing approximately 13.33% of the Offer Shares and 3.33% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.49 per Offer Share (being the mid-point of the Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by BICI Cayman would be 8,882,000 Shares, representing approximately 11.8% of the Offer Shares and 3.0% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.88 per Offer Share (being the high-end of the Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by BICI Cayman would be 7,989,000 Shares, representing approximately 10.7% of the Offer Shares and 2.7% of the Shares in issue immediately following completion of the Global Offering.

BICI Cayman is a private equity fund focused on investment in the integrated circuit industry, the semiconductor industry and related areas. The ultimate controlling shareholder of BICI Cayman is Hua Capital Cayman L.P. (“**Hua Capital Cayman**”), which is controlled by the management team of Hua Capital Cayman. Hua Capital Cayman is organized and founded by an experienced semiconductor industry investment team. The team consists of both PRC and non-PRC semiconductor industry entrepreneurs who are experienced within the semiconductor industry.

Shanghai SummitView Venture Capital Limited Partnership (“Shanghai SummitView”)

Pursuant to the cornerstone investment agreement entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and Shanghai SummitView dated 9 March 2016, Shanghai SummitView has agreed to subscribe (by itself or through a wholly-owned subsidiary of Shanghai SummitView) for such number of our Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares), which may be purchased for an aggregate amount of HK\$39.0 million (approximately US\$5.03 million) at the Offer Price.

Assuming an Offer Price of HK\$3.10 per Offer Share (being the low-end of the indicative Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by Shanghai SummitView would be 12,580,000 Shares, representing approximately 16.8% of the

CORNERSTONE INVESTORS

Offer Shares and 4.2% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.49 per Offer Share (being the mid-point of the Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by Shanghai SummitView would be 11,174,000 Shares, representing approximately 14.9% of the Offer Shares and 3.7% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.88 per Offer Share (being the high-end of the Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by Shanghai SummitView would be 10,051,000 Shares, representing approximately 13.4% of the Offer Shares and 3.4% of the Shares in issue immediately following completion of the Global Offering.

Shanghai SummitView is a professional fund under the SummitView Capital platform and managed by Shanghai SummitView High-technology Industry Investment Management Limited Partnership, focusing on high-tech fields and emerging industries of venture investment, including new generation information technology industry, clean energy technology, energy saving and environment friendly technology and bio-medical technology.

SVIC No. 30 New Technology Business Investment L.L.P (“Samsung Investment”)

Pursuant to the cornerstone investment agreement entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and Samsung Investment dated 9 March 2016, Samsung Investment has agreed to subscribe (by itself or through a wholly-owned subsidiary of Samsung Investment) for such number of our Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares), which may be purchased for an aggregate amount of US\$1.0 million (approximately HK\$7.75 million) at the Offer Price.

Assuming an Offer Price of HK\$3.10 per Offer Share (being the low-end of the indicative Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by Samsung Investment would be 2,500,000 Shares, representing approximately 3.33% of the Offer Shares and 0.8% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.49 per Offer Share (being the mid-point of the Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by Samsung Investment would be 2,220,000 Shares, representing approximately 2.96% of the Offer Shares and 0.7% of the Shares in issue immediately following completion of the Global Offering. Assuming an Offer Price of HK\$3.88 per Offer Share (being the high-end of the Offer Price range set out in this prospectus), the total number of Offer Shares to be subscribed for by Samsung Investment would be 1,997,000 Shares, representing approximately 2.66% of the Offer Shares and 0.6% of the Shares in issue immediately following completion of the Global Offering.

Samsung Investment is a professional fund under the Samsung Venture Investment platform and managed by Samsung Venture Investment Company Ltd., focusing on high-tech fields and emerging industries of venture investment, including mobile devices, mobile health, automotive electronics and semi-conductors.

CORNERSTONE INVESTORS

Conditions Precedent

The subscription by the Cornerstone Investors is subject to, among other things, the satisfaction of certain conditions precedent, including the following:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional, and not having been terminated, by no later than the respective times and dates specified therein;
- (b) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and that such approval having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and
- (c) the Cornerstone Investors shall have taken all corporate actions and have obtained all requisite approvals, consents and authorisations from governmental and regulatory authorities and other third parties required for the Cornerstone Investors to enter into and perform its obligations under the cornerstone investment agreements.

Pursuant to the cornerstone investment agreements, if any of the conditions precedent has not been fulfilled or waived by the parties to the relevant agreement (except for the condition in (b) above, which cannot be waived), the obligation of the relevant Cornerstone Investor to subscribe for Offer Shares shall cease and the relevant cornerstone investment agreement will terminate.

Restriction on Disposal by the Cornerstone Investors

Each of the Cornerstone Investors has agreed and has undertaken to our Company and the Sole Global Coordinator that, unless it has obtained the prior written consent of each of our Company, the Sole Sponsor and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of the Shares subscribed for by it under the relevant cornerstone investment agreements (the “**Relevant Shares**”) or any interest in any company or entity holding any of the Relevant Shares, nor will any Cornerstone Investor agree or contract to, or publicly announce any intention to, enter into any transaction described above.

In the event any Cornerstone Investor disposes of any Relevant Shares at any time after expiration of the Lock-up Period, such Cornerstone Investor (i) will use all reasonable endeavours to ensure that any such disposal will not create a disorderly or false market in the Shares and it otherwise in compliance with the Listing Rules and the SFO; and (ii) unless prior written consent is obtained from our Company, such Cornerstone Investor will not knowingly enter into any such transaction with any person who engages in a business that competes or is likely to compete with the business of our Group.

SHARE CAPITAL

Assuming that the Global Offering becomes unconditional, the authorised share capital of our Company is as follows:

US\$

Authorised share capital:

2,500,000,000 Shares of US\$0.00002 each	50,000
	<u>50,000</u>

The issued share capital of our Company immediately following the completion of the Global Offering will be as follows:

		Approximate percentage of issued share capital (%)	
<i>Issued and to be issued, fully paid or credited as fully paid, upon the completion of the Capitalisation Issue and the Global Offering:</i>		US\$	
152,425,225	Shares in issue as at the date of this prospectus	3,048.50	50.81
72,574,775	Shares to be issued under the Capitalisation Issue	1,451.50	24.19
<u>75,000,000</u>	Shares to be issued under the Global Offering	<u>1,500</u>	<u>25.00</u>
<u>300,000,000</u>	Shares in total	<u>6,000.00</u>	<u>100.00</u>

ASSUMPTIONS

The above tables take no account of (i) any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme or (ii) any Shares which may be issued or repurchased by our Company pursuant to the general mandate given to the Directors to allot and issue or repurchase Shares as described below.

RANKING

The Offer Shares will rank pari passu in all respects with all other existing Shares in issue as described in this prospectus and, in particular, will be entitled to all dividends and other distributions to be declared, paid or made on the Shares after the date of this prospectus save for entitlements under the Capitalisation Issue.

PRE-IPO SHARE OPTION SCHEME

We assumed 2008 Share Plan as the Pre-IPO Share Option Scheme on 15 September 2015. Under the Pre-IPO Share Option Scheme, the eligible participants of the scheme, including employees, directors and consultants of our Company may be granted options which entitle them to subscribe for Shares. Further details of the terms of the Pre-IPO Share Option Scheme are summarised in the section headed “Statutory and General Information — Other Information — 14. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE

The Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value not exceeding the sum of (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately after completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme; and (ii) the aggregate nominal amount of the share capital of our Company which may be repurchased by our Company pursuant the Repurchase Mandate.

The Directors may, in addition to the Shares which they are authorised to issue under the General Mandate, allot, issue and deal with Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of our Company, scrip dividends or similar arrangements or the exercise of options granted under the Pre-IPO Share Option Scheme. The aggregate nominal value of the Shares which the Directors are authorised to allot and issue under this General Mandate will not be reduced by the allotment and issue of such Shares.

This General Mandate will expire:

- (i) at the conclusion of our Company's next annual general meeting; or
- (ii) the date by which the next annual general meeting of our Company is required by the Articles, the Companies Law or the applicable Cayman Islands law to be held; or
- (iii) the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors;

whichever is the earliest.

For further details of the General Mandate, see the section headed "Statutory and General Information — Information about our Company — 3. Resolutions in writing of the Shareholders passed on 6 March 2016" in Appendix IV to this prospectus.

REPURCHASE MANDATE

The Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares having an aggregate nominal value of not more exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering.

SHARE CAPITAL

This Repurchase Mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in the section headed “Statutory and General Information — Information about our Company — 7. Securities repurchase mandate” in Appendix IV to this prospectus.

This Repurchase Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) the date by which the next annual general meeting of our Company is required by the Articles, the Companies Law or the applicable Cayman Islands law to be held; or
- (iii) the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors,

whichever is earlier.

For further information about this Repurchase Mandate, see the section headed “Statutory and General Information — Information about our Company — 3. Resolutions in writing of the Shareholders passed on 6 March 2016” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of shareholders (i) increase its authorised share capital; (ii) consolidate and divide its authorised share capital into Shares of larger amount; (iii) subdivide its Shares into Shares of smaller amount; and (iv) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken. In addition, the Company may reduce its authorised share capital or any capital redemption reserve by shareholders’ special resolution, subject to confirmation by the Grand Court of the Cayman Islands. For further details, please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — 2.5 Alteration of Capital” in Appendix III to this prospectus.

SHARE CAPITAL

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to our Shares or any class of our Shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the Shares of that class. For further details, please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — 2.4 Variation of Rights of Existing Shares or Classes of Shares” in Appendix III to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes set out in the Accountant's Report included in Appendix I to this prospectus. The Accountant's Report contains our audited consolidated financial statements as at and for the year ended 31 December 2013, 2014 and 2015. Our consolidated financial statements have been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions. This discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in the section headed "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a leading security devices provider for the pay TV broadcasting access industry globally and mobile payment point-of-sale systems in China. We design, develop and market security devices worldwide primarily for the pay television industry through sales of our conditional access module, or CAM, products which provide end users with access to pay TV content. According to Frost & Sullivan, we have established a leading position in the global CAM market, with the largest market share by sales volume and revenue in 2014 and for the first half of 2015. In 2013, we entered the fast-growing hardware-based mobile payment market in the PRC with our mobile point-of-sale, or mPOS, devices. According to Frost & Sullivan, we ranked second in terms of sales volume among mPOS suppliers in the PRC in 2014 and for the first half of 2015.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 29 June 2015. We underwent a reorganisation in anticipation of the Global Offering (as further described in the section headed "History, Reorganisation and Corporate Structure" and note 1.2 of the Accountant's Report in Appendix I), pursuant to which our Company became the holding company of the operating companies that were controlled by SMIT Corporation during the Track Record Period. The Reorganisation was completed on 13 November 2015.

The Company and its subsidiaries are principally engaged in the development and sales of CAM products and mPOS devices (collectively, the "**Listing Business**"). Prior to the incorporation of the Company and the Reorganisation as described below, the Listing Business was carried out by the operating subsidiaries (the "**Operating Subsidiaries**") which were held by SMIT Corporation during the Track Record Period.

During the Track Record Period, other than conducting the Listing Business, the Operating Subsidiaries also conducted online video business and internet-based integrated application business (the "**Excluded Business**") which were dissimilar to the Listing Business and were run by divisions separated from those divisions within the Operating Subsidiaries which operate the Listing Business. The Excluded Business was operated by separate management, maintained separate accounting books and records, and had no more than incidental common facilities and costs sharing with the Listing

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Business. In 2014, the Excluded Business was disposed of by the Operating Subsidiaries to two companies in which SMIT Corporation retained a minority interest, and the relevant subsidiary and a branch of an Operating Subsidiary which previously operated the Excluded Business were deregistered in 2015.

For the purpose of the Accountant's Report and this Financial Information section, the consolidated financial statements of the Group have been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for each of the years ended 31 December 2013, 2014 and 2015 have been prepared using the financial information of the companies engaged in the Listing Business under the common control of SMIT Corporation that now comprise our Group as if the current group structure had been in existence throughout each of the years ended 31 December 2013, 2014 and 2015.

The consolidated statements of financial position include assets and liabilities that are directly related and clearly identified to the Listing Business and the consolidated statements of comprehensive income include all revenues, related costs, expenses and charges directly generated or incurred by the Listing Business. The financial information has not included the assets, liabilities and results of operations of the Excluded Business as described above. Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations are affected by a number of factors, including those set out below:

Our Relationship with Key Customers

Our five largest customers for 2015 collectively accounted for 73.1% of our total revenue and our largest customer accounted for 42.3% of our total revenue. Our largest customer was iBoxpay, which was our key mPOS device customer in 2015. The other four largest customers were CAM customers, such as CA providers and distributors. The customer mix of these largest customers may change from year to year owing to variation in demand at different periods. For further information, see the section headed "Business — Customers, Sales and Marketing" in this prospectus.

Our financial condition and results of operations are affected by our ability to remain as a preferred vendor for iBoxpay and our CAM customers and to continue to receive purchase orders from them. Our ability to do so is, in turn, affected by factors such as our design and development

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capability, our quality control standards, the success of new product introductions and our customers' own business and market performance. For more information about our concentration risk with iBoxpay and other key customers, please see the sections:

- “Risk Factors — Risks Relating to our Business and Industry — We derive a substantial portion of our revenue from a small number of major customers and from certain geographic markets. Any decrease in our sales to any of these customers and in any such geographic market, or any adverse changes in these customers and geographic markets could materially and adversely affect our business, financial condition and results of operations.”
- “Risk Factors — Risks Relating to our Business and Industry — We sell substantially all of our mPOS products to iBoxpay. Any adverse changes in iBoxpay's business or financial condition could adversely affect our revenue from iBoxpay, which in turn would materially and adversely affect our business, financial condition and results of operations.”

Selling Prices and Margins Impacted by Product and Geographic Mix

During the Track Record Period, our revenue was derived from the sales of CAMs and mPOS devices. CAMs accounted for 96.9%, 77.2% and 57.3% of our total revenue in 2013, 2014 and 2015, respectively. Starting in July 2013, we began expanding into the mobile payment sector with mPOS devices and sales of our mPOS devices have increased significantly, accounting for 3.1%, 22.8% and 42.7% of our total revenue for 2013, 2014 and 2015, respectively. Because of the increased revenue contribution of sales of mPOS devices, which generally have a lower gross margin (approximately 20%-26%) compared to CAM products (between approximately 46%-51%), our overall gross profit margin has decreased from 49.7% in 2013 to 37.0% for 2015.

We initially price our products based on our estimated or actual costs incurred in its production plus a profit margin. For instance, as we do not incur royalty expenses for using certain CA providers' algorithms in the CAMs sold to those CA provider customers, we lower our selling prices for them. Selling prices are further affected by a variety of additional factors:

- The average selling prices of CAMs decreased from US\$21.13 in 2013 to US\$17.07 in 2015, while the average gross margins for our CAM products have decreased from 50.5% to 46.1% over the same period.
 - CAMs are sold throughout the world and selling prices and gross margins are affected by the economic development and technology advancement of the region as well as local competition and our market position. For example, the pricing of CAMs in developing markets such as Kazakhstan and India tend to be lower, reflecting the status of their economic development for consumer electronics. In China, we have a market-leading position for our CAM products, resulting in higher selling prices. Regional current events and macroeconomic trends, such as currency fluctuations, also affect pricing. Our sales in Russia in particular have been impacted by its economic slowdown and the depreciating Russian Rouble relative to the USD starting in 2014 despite its growing use of CAM technologies.

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- The type of CAMs sold also affects pricing. Professional PCAMs, which are more sophisticated, tend to be priced higher, while our new UCAM products are priced more competitively to stimulate market interest. However, during the Track Record Period, sales of professional PCAMs and UCAMs only contributed a relatively insignificant proportion of our total revenue. While sales of these CAMs affected regional selling prices and margins, they did not and are not expected to have a material impact on our overall selling prices and margins.
- We currently only sell mPOS devices in China, so our mPOS selling prices and gross profit margins are not affected by different geographic market factors or currency fluctuations. As a result, our mPOS gross profit margins are largely determined by the selling prices of our product offerings, which in turn are primarily affected by the competitive nature of the fast-growing Chinese hardware-based mobile payment industry. The average selling prices of mPOS devices increased from US\$8.65 per unit in 2013 to US\$13.06 per unit in 2014, and to US\$19.56 per unit in 2015 as we ramped-up development and improved the functionality of our mPOS devices. The gross profit margin of mPOS devices was 19.6% and 24.8% in 2014 and 2015, respectively, reflecting our increasing pricing power as we offered more sophisticated products.

As different products generally have different demand, prices and margins and are sold in different regions of the world, our results of operations will be affected by the mix of products we sell in a particular period. Our profitability is also affected by our ability to accurately estimate and account for our costs of production under our cost-plus pricing structure. Changes in the average costs of our components may also affect our profitability to the extent we cannot or do not pass on the changes to our customers. Components, in particular, electronics such as chipsets and PCBs, are the major raw materials for CAMs and mPOS devices and accounted for approximately 57% to 75% of our total costs of sales during the Track Record Period. Electronic components have experienced a decrease in prices over the years and is expected to undergo continued steady decrease over the next few years, according Frost & Sullivan. For more information, see the section headed “Industry Overview — Component Costs and Selling Prices — Component Costs” in this prospectus. Please also refer to the following sections for more information:

- “Financial Information — Description of Selected Income Statement Line Items — Revenue” for further information of selling prices by geography over the Track Record Period as well as our pricing policies with respect to CAM and mPOS products.
- “Financial Information — Description of Selected Income Statement Line Items — Cost of Sales” for further information of our cost of sales over the Track Record Period as well as a sensitivity analyses of our cost of sales and cost of components.
- “Financial Information — Results of Operations” for a discussion for the reasons for changes in Revenue, Cost of Sales and Gross Profit / Margin over the Track Record Period.

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Market Demand for Our Products

We historically generated the majority of revenue from the sale of CAMs, which accounted for 77.2% of our total revenue in 2014 and 57.3% in 2015. As such, our results of operations are affected by the general market demand for CAMs, which, in turn, depends to a large extent on the continued digitisation of global television broadcasting. According to Frost & Sullivan, global CAM market size by sales volume is expected to continue to grow at a CAGR of 17.9% from 2015 to 2019. However, market demand for our CAM products also depends on growth in the number of pay television content subscribers and competition from other technological solutions. For more information, see “Industry Overview — The Global CAM Market Overview” and “Risk Factors — Risks Relating to our Business and Industry — Growth of the CAM markets depends on the continuation of certain industry trends that are beyond our control. If such trends do not continue at the pace we expect or become otherwise unfavourable to us, our business and growth prospects would be materially and adversely affected”. As such, our results of operations will depend on industry trends and our ability to maintain or increase our market share.

Our business and results of conditions are also affected by the general market demand for our new products, namely our mPOS devices. For example, according to Frost & Sullivan, the China mPOS terminal market size by sales volume is expected to grow significantly at a CAGR of 39.7% from 2015 to 2019. However, the mobile payments market in the PRC is relatively new, and evolving technological advances and industry standards may make our mPOS devices unattractive or obsolete. See “Industry Overview — The China mPOS Market Overview” and “Risk Factors — Risks Relating to our Business and Industry — If we fail to timely respond to evolving technological changes, industry standards and customers’ preferences by developing new and enhanced products and solutions, our products may become unattractive or obsolete, which may materially and adversely affect our business, results of operations and market share” for more information. As we seek to expand further into the mobile payment business and other potential business sectors, our future growth will depend on industry trends as well as continued demand by mobile payment solutions providers, such as iBoxpay, which utilise our mPOS devices.

Competitiveness in Product Design and Technologies

Our business and the markets in which we operate are subject to continuous technological changes and evolving industry standards. For our CAM business, as digital broadcasting becomes increasingly common worldwide, industry participants are likely to seek more sophisticated CA technology that offers them greater security, functionality and flexibility in delivering both protected content and value-added services. Likewise, our mPOS business relies on our ability to keep up with the technological trends in the mobile payment business which sets increasingly high standards for transaction and data security and compatibility to fulfil the needs of business and individuals. Such technological trends can include industry standards which may be enforced by government mandates or otherwise expected as a matter of industry practice, such as the different versions of the CI standards for CAMs.

Design and development of security chipsets, algorithms, software and hardware are therefore key to the success of our products and our business. We focus on continually enhancing our product planning and research and development capabilities to enable us to introduce or improve products that can well address evolving consumer needs. As existing competitors introduce new and more competitive offerings and new competitors, including leading consumer electronics brands with

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competitive proprietary technologies, enter the market, we expect competition to intensify in the future. In the CAM industry, we compete primarily with suppliers of STBs, which are hardware devices that provide similar functions as CAMs, and to a lesser extent, software-based solutions. In the mPOS sector, we compete with traditional POS suppliers who have expanded into mPOS products and new entrants to the mPOS sector. Our hardware-based mPOS technology may also face competition from related sectors, including application-based payments solutions, such as Tenpay and Alipay. As a result, our ability to offer competitive product design and technologies and compete effectively with our existing and new products will have a significant impact on our results of operations.

Gain on Settlement of Available-for-Sale Financial Assets

In 2013, 2014 and 2015, we recorded gains on settlement of available-for-sale financial assets in the amounts of US\$2.1 million, US\$1.1 million and US\$0.7 million, respectively. Our available-for-sale financial assets represent RMB-denominated structured deposits, some of which did not guarantee the return of principal upon maturity.

The performance of such investments were determined not only by our management's investment decisions and judgements, which are based on our assessments of existing market conditions, but also the changes in market conditions which we cannot control. However, since September 2015, we have stopped investing in structured deposits and do not plan to invest in such structured deposits going forward. We will only invest in financial products which we deem to be low risk. Accordingly, our profitability may be impacted by investing in more conservative financial products. For further information on our available-for-sale financial assets, including a discussion of our risk management policies, please see the section headed "Description of Selected Consolidated Statement of Financial Position Items — Available-for-Sale Financial Assets" in this section.

Consumption Patterns for CAMs

Our business is affected by the electronics buying patterns of end users in the various geographic regions we sell to. In general, local macroeconomic conditions may affect sales prices and consumer demand. For instance, the status of the real estate market affects our CAM business because when people buy new homes, they often also buy new TVs and TV-related products. Additionally, when customers anticipate the adoption of a new or updated industry standard, they may refrain from purchasing products that adhere to older standards and then purchase newer models in bulk, with only a smaller supplementary order the next year. As such, our revenues may be affected by customer purchasing habits in the markets where we sell our products.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management to make subjective and complex judgement based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our significant accounting policies, (ii) the judgement

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and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgement used in the preparation of our consolidated financial statements. Our significant accounting policies, judgement and estimates, which are important for an understanding of our consolidated financial condition and results of operations, are set out in further detail in notes 2 and 4 to our consolidated financial statements in the Accountant's Report included in Appendix I to this prospectus.

Inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. To minimise the risk of building up aged inventories, management carries out an inventory review and an ageing analysis on a quarterly basis. We make provision for obsolete and slow-moving inventories that are no longer suitable for use in production or sale. We take into account a number of factors including historical and forecast consumption as well as marketability of our products.

Share-based Compensation

Under our equity-settled, share-based compensation plans, we received contributions from certain of our employees, directors and consultants as consideration for option of our Group. The fair value of such contributions received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted (i) including any market performance conditions, (ii) excluding the impact of any service and non-market performance vesting conditions and (iii) including the impact of any non-vesting conditions. At the end of each reporting period, we revise the estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions.

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to vest. Where the outcome of the number of options that are vested is different, such difference will impact the consolidated income statement in the subsequent remaining vesting period of the relevant share options.

Available-for-Sale Financial Assets

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are estimated or valued based on quoted market prices at the close of trading on the period end date. For instruments for which there is no active market, management uses a variety of methods and makes assumptions that are based on market conditions existing at each period end date.

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We classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. During the Track Record Period, our financial assets and liabilities measure at fair value consisted of available-for-sale financial assets which were all measured at level 3. The fair value of structured deposits that are not traded in an active market is determined by reference to the expected return from the structure deposits which is a pre-determined rate when the structure deposits are acquired.

Available-for-sale financial assets are assessed at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, if any such evidence exists, then the cumulative loss is removed from equity and recognised in profit or loss. For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, then the cumulative loss is removed from equity and recognised in profit or loss. Please see notes 3.3 and 15 of the Accountant's Report in Appendix I to this prospectus for further details.

Estimated Impairment of Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Please see note 22 of the Accountant's Report in Appendix I to this prospectus for further details.

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Taxes

We are mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

We are principally engaged in the design and development of security devices. Our revenue is primarily attributable to sales of our CAM products and mPOS devices. While we historically generated the majority of our revenue from the sale of our CAM products, our sales of mPOS devices has grown rapidly during the Track Record Period.

By Product

The following table sets out the breakdown of our revenue by product type for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	US\$'000	% of total revenue	US\$'000	% of total revenue	US\$'000	% of total revenue
Product type						
CAM ¹	45,710	96.9	43,230	77.2	37,352	57.3
mPOS devices ²	1,471	3.1	12,777	22.8	27,789	42.7
Total	<u>47,181</u>	<u>100.0</u>	<u>56,007</u>	<u>100.0</u>	<u>65,141</u>	<u>100.0</u>

Notes:

1. CAM includes a small amount of UCAM sales. We began UCAM sales in May 2014 and UCAMs were only sold in China. Sales of UCAMs constituted 0.1% and 1.7% of our total revenue in 2014 and 2015, respectively.
2. We commenced sales of mPOS devices in July 2013. mPOS devices are only sold in China.

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Revenue from our CAM business amounted to US\$45.7 million, US\$43.2 million and US\$37.4 million in 2013, 2014 and 2015, respectively. Revenue from CAMs has decreased during the Track Record Period primarily because sales in the European Market have slowed due to maturation of the digitisation process and because exchange rate fluctuations of the Euro and the Rouble against the USD have negatively impacted our average selling prices. However, overall sales volume has remained stable as we were able to maintain sales volume in the European Market while expanding sales in other countries.

We began sales of our mPOS devices in 2013 and revenue from mPOS devices amounted to US\$1.5 million, US\$12.8 million and US\$27.8 million in 2013, 2014 and 2015, respectively. Sales of mPOS products increased rapidly during the Track Record Period and as we continue to develop our mPOS line of business, we expect that mPOS sales and contribution will continue to increase in future periods.

Average Selling Price and Volume

The following table sets out the breakdown of our revenue, sales volume and average selling price by product type for the periods indicated:

	Year ended 31 December								
	2013			2014			2015		
	Revenue	Sales Volume	Average Selling Price ¹	Revenue	Sales Volume	Average Selling Price ¹	Revenue	Sales Volume	Average Selling Price ¹
	US\$'000	'000 units	US\$ per unit	US\$'000	'000 units	US\$ per unit	US\$'000	'000 units	US\$ per unit
Product type									
CAM	45,710	2,163	21.13	43,230	2,231	19.38	37,352	2,188	17.07
mPOS devices	1,471	170	8.65	12,777	978	13.06	27,789	1,421	19.56
Total	<u>47,181</u>	<u>2,333</u>	<u>—</u>	<u>56,007</u>	<u>3,209</u>	<u>—</u>	<u>65,141</u>	<u>3,609</u>	<u>—</u>

Notes:

1. Average selling price, for each respective period, equals the revenue generated by each product type divided by the sales volume of that product type.

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CAM Revenue Drivers

We believe our CAM business is affected by the following revenue drivers:

- *Sales volume.* Our revenues correspond with the number of CAMs we sell, which is in turn dependent on the demand in the CAM markets where we sell our products and our relationships with industry participants.

Additionally, the rate of digitisation may affect market demand as the size of CAM market depends on the availability of digital TV broadcasting. Adoption of industry standards such as DVB-CI may also affect sales volume as consumers may refrain from purchasing CAMs if a new standard is expected to be forthcoming and subsequently purchase bulk amounts once new standards roll out.

- *Price.* Our revenues are directly dependent on the prices at which we are able to sell our CAMs. We take into consideration costs and market forecasts when determining our prices and we generally re-assess and re-negotiate pricing on a yearly basis. Our prices are initially based on costs plus profit margin but exact prices for our CAMs are affected by factors such as product type and geographic market differences in economic development, consumer habits, technological advancement, competition and currency rates.

MPOS Revenue Drivers

We believe our mPOS business is affected by the following revenue drivers:

- *Sales volume.* Our revenues correspond with the number of mPOS devices we sell, which is in turn dependent on the demand in China for mPOS devices and our relationships with industry participants, in particular iBoxpay, our key mPOS customer. Furthermore, the mPOS market in China is fragmented among many competitors which impacts our market share and sales volume.
- *Price.* Our mPOS prices are determined based on costs plus a margin and adjusted depending upon the model of the product and overall market conditions. Because of the fragmented nature of the mPOS market in China, selling prices for mPOS products are subject to competitive pressures. As mPOS devices are a relatively new line of business, we closely monitor market prices, sales performance and forecasts and adjust prices accordingly, re-negotiating prices every six months. New models are generally priced higher when they first become available.

By Geographic Market

During the Track Record Period, our CAM products were sold primarily in the European Market, with additional sales in Russia, China and other countries such as Kazakhstan, Uzbekistan and India. During the Track Record Period, we sold our mPOS devices only in China.

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The following table sets out the breakdown of our CAM revenue by geographic markets based on final location of delivery for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
		% of CAM		% of CAM		% of CAM
	US\$'000	revenue	US\$'000	revenue	US\$'000	revenue (unaudited)
Geographic markets						
European Market ¹	20,370	44.6	24,308	56.2	19,389	51.9
Russia	14,402	31.5	9,817	22.7	10,355	27.7
China	8,861	19.4	5,613	13.0	5,007	13.4
Others ²	2,077	4.5	3,492	8.1	2,601	7.0
CAM Total	45,710	100.0	43,230	100.0	37,352	100.0

Notes:

1. The European Market consists mainly of Germany, Norway, Austria and the Netherlands.
2. Others primarily include countries such as Kazakhstan, Uzbekistan, India, Vietnam and Azerbaijan.

Average Selling Price and Sale Volume

The following table sets out the breakdown of our CAM sales volume, revenue and average selling price by geographic markets for the periods indicated:

	Year ended 31 December								
	2013			2014			2015		
	Average		Revenue	Average		Revenue	Average		Revenue
	Sales	Selling		Sales	Selling		Sales	Selling	
	Volume	Price ¹		Volume	Price ¹		Volume	Price ¹	
	'000 US\$'000	US\$ per unit	US\$'000	'000 units	US\$ per unit	US\$'000	'000 units	US\$ per unit	US\$'000
Geographic markets									
European Market	20,370	951	21.43	24,308	1,213	20.04	19,389	1,105	17.54
Russia	14,402	777	18.53	9,817	622	15.78	10,355	754	13.74
China	8,861	359	24.67	5,613	219	25.70	5,007	194	25.83
Others	2,077	76	27.16	3,492	177	19.74	2,601	135	19.19
CAM Total	45,710	2,163	21.13	43,230	2,231	19.38	37,352	2,188	17.07

Note:

1. Average selling price, for each respective period, equals the revenue generated by each product type divided by the sales volume of that product type.

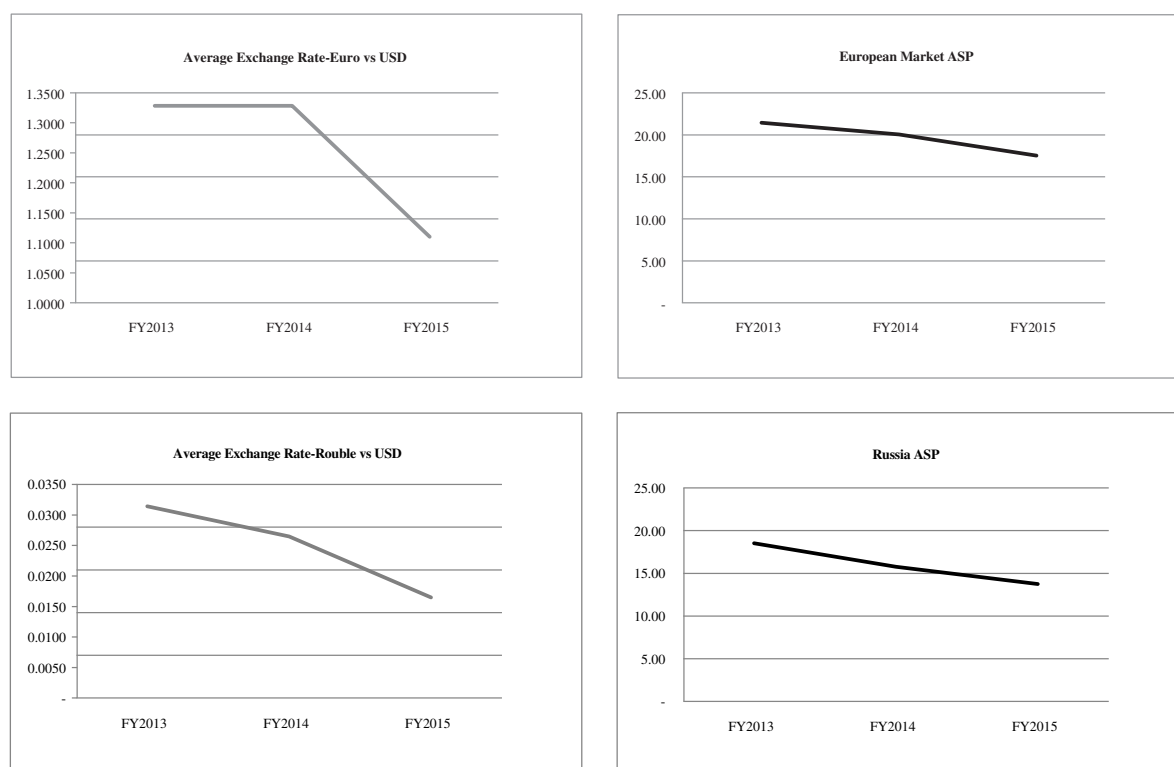
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The core geographic market of our CAM business is the European Market, primarily in Germany, Norway, Austria and the Netherlands. During the Track Record Period, we have also promoted our sales in Russia, China and other countries undergoing the digitisation process, such as India, Kazakhstan, Uzbekistan and Vietnam. As the types of CAMs sold, price ranges, gross profit margins, competition and macroeconomic conditions differ among geographic markets, changes in our geographic focus may affect our revenues.

Currency Exchange Rates and Average Selling Prices of CAMs

The strengthening USD against the Euro and Rouble had a negative impact on our average selling price of CAMs during the Track Record Period, particularly in the European Market and in Russia. This was mainly due to the weakening of the Euro and Rouble against the USD leading us to lower our selling prices to maintain the competitiveness of our CAM products in those markets.

The following charts show our average selling prices of CAMs in the European Market compared to the Euro/USD exchange rate and our average selling prices of CAMs in Russia as compared to the Rouble/USD exchange rate over the Track Record Period.



Our selling prices of CAMs are initially based on costs plus a profit margin and the exact prices of our CAMs are affected by various factors, including currency exchange rates, the product type, geographic market differences in economic development, consumer habits, technological advancement and competition. We negotiated the prices with customers on an case-by-case basis and there may not necessarily be a direct or immediate correlation between selling prices and changes in currency exchange rates.

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Cost of Sales

Cost of sales represents costs and expenses directly attributable to the manufacture of our products and comprises components, royalties/licensing fees, subcontracting fees, rental and offices expenses, inventory impairment and direct labour. The following table sets out the breakdown of cost of sales for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>US\$'000</i>	<i>% of total cost of sales</i>	<i>US\$'000</i>	<i>% of total cost of sales</i>	<i>US\$'000</i>	<i>% of total cost of sales</i>
Components	13,572	57.2	21,072	63.4	30,607	74.6
Subcontracting fees	3,204	13.5	4,747	14.3	5,126	12.5
Royalties/licensing fees	5,061	21.3	4,553	13.7	3,178	7.7
Direct labour ¹	855	3.6	857	2.6	995	2.4
Rental and office expenses	291	1.2	311	0.9	286	0.7
Inventory impairment	380	1.6	1,507	4.5	600	1.5
Others ²	370	1.6	203	0.6	225	0.6
Total	<u>23,733</u>	<u>100.0</u>	<u>33,250</u>	<u>100.0</u>	<u>41,017</u>	<u>100.0</u>

Notes:

1. Direct labour includes share-based compensation.
2. Others mainly includes depreciation and amortisation.

Cost of components for CAM and mPOS products represents the cost of chipsets, PCBs, flash memory, CAM casings and other components required for the production of our products. We source components from our preferred vendors. Other costs of sales relating to production include subcontracting fees for the assembly of the semi-product, royalties/licensing fees for third party intellectual property used in our products and direct labour costs for our in-house burning of sensitive security software and final assembly.

The following table sets out the breakdown of component costs by key components:

	Year ended 31 December					
	2013		2014		2015	
	<i>US\$'000</i>	<i>%</i>	<i>US\$'000</i>	<i>%</i>	<i>US\$'000</i>	<i>%</i>
Chipsets	3,812	28.1	7,263	34.5	11,228	36.7
Flash memory	1,384	10.2	1,718	8.2	1,801	5.9
PCBs	1,761	13.0	1,940	9.2	2,226	7.3
Casings	2,350	17.3	2,984	14.2	4,392	14.3
Other	4,265	31.4	7,167	33.9	10,960	35.8
Total component costs	<u>13,572</u>	<u>100.0</u>	<u>21,072</u>	<u>100.0</u>	<u>30,607</u>	<u>100.0</u>

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Costs of chipsets and the percentage of chipset costs increased during the Track Record Period. This increase was primarily due to the release of our handheld keypad version of the mPOS device which requires more sophisticated and thus more expensive chipsets than the non-keypad module version. The costs of flash memory, PCBs, casings and other components also increased as overall component costs increased due to increasing sales volume throughout the Track Record Period. Component costs as a percentage of revenue increased during the Track Record Period from 28.8% in 2013 to 47.0% for 2015, mainly as a result of the production and sale of mPOS devices which have a lower gross profit margin than CAMs.

The following sensitivity analyses illustrates the impact of hypothetical fluctuations in (i) the cost of sales and (ii) the cost of components, which accounts for the largest percentage of our cost of sales, on our profit during the Track Record Period. Fluctuations are assumed to be 1%, 5% and 10% for the periods indicated, which correspond to the range of historical fluctuations of our components during the Track Record Period.

	Percentage change in the cost of sales					
	-10%	-5%	-1%	+1%	+5%	+10%
	<i>(US\$'000, except percentages)</i>					
Year ended 31 December 2013						
Change in cost of sales	-2,373	-1,187	-237	237	1,187	2,373
Change in profit for the year	2,136	1,068	214	-214	-1,068	-2,136
Percentage change in profit for the year	80%	40%	8%	-8%	-40%	-80%
Year ended 31 December 2014						
Change in cost of sales	-3,325	-1,663	-333	333	1,663	3,325
Change in profit for the year	2,993	1,496	299	-299	-1,496	-2,993
Percentage change in profit for the year	55%	27%	5%	-5%	-27%	-55%
Year ended 31 December 2015						
Change in cost of sales	-4,102	-2,051	-410	410	2,051	4,102
Change in profit for the year	3,486	1,743	349	-349	-1,743	-3,486
Percentage change in profit for the year	105%	52%	10%	-10%	-52%	-105%

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Percentage change in the cost of components					
-10%	-5%	-1%	+1%	+5%	+10%

(US\$'000, except percentages)

Year ended 31 December 2013

Change in components	-1,357	-679	-136	136	679	1,357
Change in profit for the year	1,221	611	122	-122	-611	-1,221
Percentage change in profit for the year	46%	23%	5%	-5%	-23%	-46%

Year ended 31 December 2014

Change in components	-2,107	-1,054	-211	211	1,054	2,107
Change in profit for the year	1,896	948	190	-190	-948	-1,896
Percentage change in profit for the year	35%	17%	3%	-3%	-17%	-35%

Year ended 31 December 2015

Change in components	-3,061	-1,530	-306	306	1,530	3,061
Change in profit for the year	2,602	1,301	260	-260	-1,301	-2,602
Percentage change in profit for the year	78%	39%	8%	-8%	-39%	-78%

Other Gains/(Losses)

Other gains and losses consist of net exchange gains or losses. The following table sets out the breakdown of other gains/(losses) for the periods indicated:

	Year ended 31 December		
	2013	2014	2015
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Exchange gain/(loss), net	(113)	(588)	662

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Other Income

Other income includes government grants, gain on settlement of available-for-sale financial assets and others. The following table sets out the breakdown of other income for the periods indicated:

	Year ended 31 December		
	2013	2014	2015
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Government grants	138	625	622
Gain on settlement of available-for-sale financial assets	2,100	1,135	716
Others	166	—	36
Total	<u>2,404</u>	<u>1,760</u>	<u>1,374</u>

Our government grants represent one-off grants given to us for general use or purchase of equipment related to designated research and development projects. Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and attached conditions will be complied with.

Our available-for-sale financial assets represent our short-term investments in structured deposits at financial institutions. These structured deposits are mainly denominated in RMB and held at banks or at trust for a fixed interest rate return. The durations for these deposits vary from 30 days to six months and certain of these structured deposits do not guarantee return of principal upon maturity. Other income includes our gain upon maturity of these structured deposits. For further information, please see “Description of Selected Consolidated Statements of Financial Position Items — Available-for-Sale Financial Assets” in this Financial Information section below.

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Research and Development Expenses

Research and development expenses include mainly salaries and benefits of our research and development staff, rental and office expenses, CA certification fees, professional service fees and transportation and lodging. The following table sets out the breakdown of our research and development expenses for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	US\$'000	% of R&D	US\$'000	% of R&D	US\$'000	% of R&D
Salaries and benefits ¹	3,909	56.0	3,805	63.9	4,381	59.4
Rental and office expenses	623	8.9	568	9.5	555	7.5
CA certification fees	1,239	17.7	444	7.4	339	4.6
Professional service fees ²	314	4.5	423	7.1	1,005	13.6
Transportation and lodging	332	4.7	261	4.4	218	3.0
Others ³	573	8.2	456	7.7	873	11.9
Total	<u>6,990</u>	<u>100.0</u>	<u>5,957</u>	<u>100.0</u>	<u>7,371</u>	<u>100.0</u>

Notes:

1. “Salaries and benefits” includes share-based compensation.
2. “Professional service fees” primarily includes fees for external consultants and patent applications.
3. “Others” consists of depreciation and testing fees.

Research and development expenses are not generally capitalised as they are primarily considered as expenditures to upgrade existing technical know-how, and do not fulfil the strict capitalisation criteria in accordance with HKFRS. During the Track Record Period, the Company incurred certain research and development expenditures which related mainly to the upgrade of the existing technical know-how embodied in the Company’s security products and creation of new versions of CAM products. In accordance with HKFRS, expenditures incurred to maintain the expected future economic benefits embodied in an existing technical-how are not eligible for capitalisation. Management has therefore expensed research and development costs as incurred. As such, research and development costs are generally recognised as expenses in the period in which they are incurred. For the years ended 31 December 2013, 2014 and 2015, our research and development expenses were approximately 14.8%, 10.6% and 11.3% of our total revenue, respectively. We expect research and development expenses to increase as we expand sales to support our ongoing research and development projects.

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Selling and Distribution Expenses

Selling and distribution expenses include mainly salaries and benefits of our sales and marketing staff, marketing, training and promotion expenses, travel and entertainment and rental and office expenses. The following table sets out the breakdown of selling and distribution expenses for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>US\$'000</i>	<i>% of S&D</i>	<i>US\$'000</i>	<i>% of S&D</i>	<i>US\$'000</i>	<i>% of S&D</i>
Salaries and benefits ¹	2,221	33.2	1,961	34.9	1,403	42.0
Marketing, training and promotion expenses	2,176	32.5	1,999	35.5	809	24.2
Travel and entertainment	1,033	15.4	832	14.8	590	17.7
Rental and office expenses	962	14.4	551	9.8	333	10.0
Others ²	307	4.5	282	5.0	206	6.1
Total	<u>6,699</u>	<u>100.0</u>	<u>5,625</u>	<u>100.0</u>	<u>3,341</u>	<u>100.0</u>

Notes:

1. “Salaries and benefits” includes share-based compensation.
2. “Others” consists of depreciation, professional service fees and bank charges.

Our selling and distribution expenses were approximately 14.2%, 10.0% and 5.1% of our total revenue for the years ended 31 December 2013, 2014 and 2015, respectively. We expect our selling and distribution expenses will slightly decrease as we redistribute our marketing efforts to optimise resources and enhance efficiency.

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General and Administrative Expenses

General and administrative expenses mainly include salaries and benefits of our management, administrative and finance staff, share-based compensation for our general and administrative staff, professional service fees, rental and office expenses, provision for doubtful debts, and travel and entertainment. The following table sets out the breakdown of our general and administrative expenses for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	US\$'000	% of G&A	US\$'000	% of G&A	US\$'000	% of G&A
Salaries and benefits	2,659	29.5	3,156	46.4	3,751	32.6
Share-based compensation	3,708	41.1	634	9.3	1,332	11.6
Professional service fees	523	5.8	644	9.5	3,809	33.1
Rental and office expenses	754	8.4	870	12.8	923	8.0
Provision for doubtful debts	(23)	(0.3)	538	7.9	196	1.7
Travel and entertainment	733	8.1	533	7.8	636	5.5
Others ¹	662	7.4	430	6.3	868	7.5
Total	9,016	100.0	6,805	100.0	11,515	100.0

Note:

1. “Others” consists of other taxes, depreciation and bank charges.

For the years ended 31 December 2013, 2014 and 2015, general and administrative expense accounted for approximately 19.1%, 12.2% and 17.7% of our total revenue, respectively. The higher general and administrative expenses in 2015 was mainly a result of additional professional service fees from our Global Offering.

Finance Income

Finance income consists of interest income on short-term bank deposits. Our net finance income was US\$0.1 million, US\$0.2 million and US\$0.2 million in 2013, 2014 and 2015, respectively.

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Income Tax Expense

Income tax expense consists of PRC corporate income tax, Hong Kong profits tax and overseas tax for our PRC, Hong Kong and German subsidiaries. The following table sets out the breakdown of income tax (expense)/credit for the periods indicated:

	Year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
PRC corporate income tax			
Current year	442	517	1,158
Over-provision in prior year due to change in applicable tax rate	(348)	—	(15)
Hong Kong profits tax			
Current year	302	—	87
Over-provision in prior year	(81)	—	—
Overseas tax	59	—	—
Deferred taxation	133	(246)	(412)
Total	<u>507</u>	<u>271</u>	<u>818</u>

PRC

Our PRC subsidiary, SMIT Shenzhen, was established in the Shenzhen Special Economic Zone in the PRC. In 2013, SMIT Shenzhen was approved as a Key Software Integrated Circuit Design Enterprise for a four year period from 2011 to 2014, thus was entitled to a reduced tax rate of 10% for that period. Hence, an EIT tax rate of 10% was retrospectively applied for the years ended 31 December 2011 and 2012. The tax credit as a result of the retrospective application of 10% EIT tax rate was reflected in 2013. For the year ended 31 December 2015, SMIT Shenzhen was entitled to a reduced EIT tax rate of 15% because it was approved as a High and New Technology Enterprise for the period from 2014 to 2016.

Hong Kong

During the Track Record Period, we provided for Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong. No Hong Kong profits tax has been provided for the year ended 31 December 2014 as the Hong Kong subsidiary operated at a loss for that year.

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Cayman Islands

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gain tax. In addition, payment of dividends by us to our Shareholders is not subject to withholding tax in the Cayman Islands.

Germany

Our wholly-owned subsidiary established in Germany in 2010, SMIT Germany, was subject to Germany profits tax at a rate of 35% for the year ended 31 December 2013 on its assessable profits. SMIT Germany did not pay any profit taxes during 2012 as tax expenses were offset by previous tax losses. SMIT Germany did not pay any profit taxes in 2014 and 2015 because it did not have assessable profits.

Translation Differences under Other Comprehensive Income

Translation differences under other comprehensive income resulted from translating financial statements of our subsidiaries from their respective functional currencies to our presentation currency upon consolidation. It consisted mainly of the translation differences upon translating the financial statements of SMIT Shenzhen from RMB, its functional currency, into USD, the presentation currency of the consolidated financial statements. We recorded a positive translation difference of US\$1.6 million in 2013, a negative translation difference of US\$0.1 million in 2014 and a negative translation difference of US\$3.5 million in 2015. The positive translation difference in 2013 was due to the appreciation of RMB against USD while the negative translation differences in 2014 and 2015 were due to the depreciation of RMB against USD. The significant negative translation difference recorded in 2015 was due to depreciation of RMB against USD by approximately 6% during the year.

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RESULTS OF OPERATIONS

The following table sets out our selected consolidated statements of comprehensive income for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	<i>US\$'000</i>	<i>% of total revenue</i>	<i>US\$'000</i>	<i>% of total revenue</i>	<i>US\$'000</i>	<i>% of total revenue</i>
Revenue	47,181	100.0	56,007	100.0	65,141	100.0
Cost of sales	(23,733)	(50.3)	(33,250)	(59.4)	(41,017)	(63.0)
Gross profit	<u>23,448</u>	<u>49.7</u>	<u>22,756</u>	<u>40.6</u>	<u>24,124</u>	<u>37.0</u>
Add: Other gains	(113)	(0.2)	(588)	(1.1)	662	1.0
Other income	2,404	5.1	1,760	3.1	1,374	2.1
Less: Research and development expenses	(6,990)	(14.8)	(5,957)	(10.6)	(7,371)	(11.3)
Selling and distribution expenses	(6,699)	(14.2)	(5,625)	(10.0)	(3,341)	(5.1)
General and administrative expenses	(9,016)	(19.1)	(6,805)	(12.2)	(11,515)	(17.7)
Finance income - net	<u>149</u>	<u>0.3</u>	<u>189</u>	<u>0.3</u>	<u>206</u>	<u>0.3</u>
Profit before tax	<u>3,182</u>	<u>6.7</u>	<u>5,731</u>	<u>10.2</u>	<u>4,141</u>	<u>6.4</u>
Income tax expense	<u>(507)</u>	<u>(1.1)</u>	<u>(271)</u>	<u>(0.5)</u>	<u>(818)</u>	<u>(1.3)</u>
Profit for the year attributable to owners of the Company	<u><u>2,675</u></u>	<u><u>5.7</u></u>	<u><u>5,460</u></u>	<u><u>9.7</u></u>	<u><u>3,323</u></u>	<u><u>5.1</u></u>

For the years ended 31 December 2013, 2014 and 2015, we had two product lines: (i) CAM products and (ii) mPOS devices. Revenue from sales of CAM products accounted for 96.9%, 77.2% and 57.3% of our total revenue in the years ended 31 December 2013, 2014 and 2015, respectively, and revenue from our mPOS business accounted for 3.1%, 22.8% and 42.7%, respectively. The CAM business comprises primarily the sale of CAMs to CA providers, broadcasting operators, TV manufacturers and distributors globally. The mPOS business comprises primarily sales of mPOS devices to iBoxpay in China. Our management assess the performance of the product lines based on a measure of revenue and gross profit for each product line. Operating expenses are common costs incurred for the operating segments as a whole and therefore are not included in the measure of the product line profit that is used by our Board as a basis for resource allocation and assessment of product line performance.

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The following table sets forth our revenues, gross profit and gross profit margin by product type for the periods indicated.

	Year ended 31 December								
	2013			2014			2015		
	Revenue		Gross profit margin	Revenue		Gross profit margin	Revenue		Gross profit margin
	US\$'000	US\$'000	%	US\$'000	US\$'000	%	US\$'000	US\$'000	%
Product type									
CAM	45,710	23,072	50.5	43,230	20,256	46.9	37,352	17,225	46.1
mPOS devices	1,471	376	25.6	12,777	2,500	19.6	27,789	6,899	24.8
Total	47,181	23,448	49.7	56,007	22,756	40.6	65,141	24,124	37.0

Because of the increased revenue contribution of mPOS sales, which generally have a lower gross profit margin (approximately 20-26%) compared to CAM products (between approximately 46%-51%), our overall gross profit margin has decreased from 49.7% in 2013 to 37.0% for 2015. Despite the decrease in overall gross profit margin, the mPOS business is nonetheless a profitable product for our Company as sales volume and revenue have increased significantly over the Track Record Period. To maintain mPOS gross profit margin, we negotiate with mPOS suppliers to reduce component costs and subcontracting fees when our purchases reach certain amounts. We also enhance the functionality of our mPOS devices that better appeal to our mPOS customers which allows us to negotiate higher selling prices. The table below shows our average selling price, average unit cost and average unit production cost by product type for the periods indicated.

	Year ended 31 December								
	2013			2014			2015		
	Average Selling Price		Average Unit Production Cost	Average Selling Price		Average Unit Production Cost	Average Selling Price		Average Unit Production Cost
	Price	Unit Cost	Cost	Price	Unit Cost	Cost	Price	Unit Cost	Cost
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Product type									
CAM	21.13	10.46	7.95	19.38	10.30	7.60	17.07	9.20	7.48
mPOS devices	8.65	6.44	6.44	13.06	10.51	10.47	19.56	14.70	14.70

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NON-HKFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use adjusted net profit and adjusted EBITDA as additional financial measures. We present these financial measures because they are used by our management to evaluate our operating performance. We also believe that these non-HKFRS measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted Net Profit

Adjusted net profit eliminates the effect of equity settled share-based compensation expenses, other income (net of tax) (which primarily consists of government grants and gain or settlement of available-for-sale financial assets) and listing expenses, which have been and may continue to be significant recurring factors in our business prior to the completion of the Global Offering. The term of adjusted net profit is not defined under HKFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year.

Adjusted EBITDA

Adjusted EBITDA, as we present it, represents operating profit, adjusted to exclude equity settled share-based compensation expenses, other income (net of tax), listing expenses, depreciation and amortisation. The use of adjusted EBITDA has certain limitations because it does not reflect all items of income and expenses that affect our operations. Items excluded from adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Equity settled share-based compensation expenses, listing expenses, other income (net of tax) (which primarily consists of government grants and gain or settlement of available-for-sale financial assets), depreciation and amortisation have been and may continue to be incurred in our business and are not reflected in the presentation of adjusted EBITDA. Each of these items should also be considered in the overall evaluation of our results. Additionally, adjusted EBITDA does not consider changes in working capital, capital expenditures and other investing activities and should not be considered as a measure of our liquidity. The term of adjusted EBITDA is not defined under HKFRS, and adjusted EBITDA is not a measure of profit for the year, operating profit or liquidity presented in accordance with HKFRS.

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We compensate for these limitations by reconciling the financial measures to the nearest HKFRS performance measure, all of which should be considered when evaluating our performance. The following table reconciles our adjusted net profit and adjusted EBITDA for the years/periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is net profit and operating profit:

	Year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Profit for the period	2,675	5,460	3,323
Add:			
Share-based compensation expenses	4,410	971	1,902
Listing expenses	—	165	3,358
Subtract:			
Other income (net of tax)	(2,164)	(1,584)	(1,168)
Adjusted net profit (unaudited)	<u>4,921</u>	<u>5,012</u>	<u>7,415</u>
Operating profit	3,033	5,542	3,934
Add:			
Share-based compensation expenses	4,410	971	1,902
Depreciation of plant, property and equipment	350	428	658
Amortisation of intangible assets	464	348	311
Listing expenses	—	165	3,358
Subtract:			
Other income (net of tax)	(2,164)	(1,584)	(1,168)
Adjusted EBITDA (unaudited)	<u>6,093</u>	<u>5,870</u>	<u>8,995</u>

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider adjusted net profit or adjusted EBITDA in isolation or as a substitute for our profit for the year, operating profit or any other operating performance measure that is calculated in accordance with HKFRS. In addition, because these measures may not be calculated in the same manner by all companies, they may not be comparable to other similar titled measures used by other companies.

Year Ended 31 December 2015 Compared to Year Ended 31 December 2014

Revenue

Revenue increased by 16.3% from US\$56.0 million in 2014 to US\$65.1 million in 2015. This increase was mainly attributable to an increase of US\$15.0 million in sales of mPOS devices, partially offset by a decrease of US\$5.9 million in sales of CAMs.

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CAMs

Revenue from sales of CAMs decreased by 13.6% from US\$43.2 million in 2014 to US\$37.4 million in 2015 driven by a decrease in overall average selling price of 11.9% from US\$19.38 per unit to US\$17.07 per unit combined with a decrease in overall sales volume of 1.9% from 2.23 million units in 2014 to 2.19 million units in 2015.

European Market

Revenue from the European Market decreased by 20.2% from US\$24.3 million in 2014 to US\$19.4 million in 2015 mainly driven by:

- a 8.9% decrease in sales volume primarily as a result of (i) decreased sales from the Netherlands as a major broadcasting operator was undergoing re-structuring in 2015, causing lower demand for its CAMs, (ii) decreased sales from Austria as a major broadcasting operator is in the process of transitioning its broadcasting technology and (iii) the depreciation of the Euro against the USD leading to increased competition as our sales are mostly USD-denominated while our main competitors are Euro-denominated.
- and a decrease in average selling price from US\$20.04 per unit to US\$17.54 per unit resulting from the depreciation of the Euro against the USD, leading to the need for us to lower selling prices to remain competitive.

Russia

Revenue from Russia increased by 5.5% from US\$9.8 million in 2014 to US\$10.4 million in 2015 mainly driven by a 21.1% increase in sales volume reflecting the continued digitisation process, while average selling price decreased from US\$15.78 per unit to US\$13.74 per unit as we needed to lower our selling prices to maintain market share because (i) the Russian Rouble continued to weaken against the USD in first half of 2015; and (ii) poor economic conditions in the market.

China

Revenue from China decreased by 10.8% from US\$5.6 million in 2014 to US\$5.0 million in 2015 primarily due to a decrease in sales volume of 11.2% in sales of CAM products overall, reflecting a significant decrease in PCAM sales volume from 212.6 thousand units in 2014 to 143.0 thousand units in 2015 due to two of our TV manufacturer customers ordering fewer PCAMs, which was partially offset by increased sales of UCAM products from 5.8 thousand units in 2014 to 50.8 thousand units in 2015. Average selling price remained relatively stable at US\$25.83 per unit in 2015 compared to US\$25.70 in 2014.

Other Countries

Revenue from other countries decreased 25.5% from US\$3.5 million in 2014 to US\$2.6 million in 2015 mainly reflecting a decrease in sales volume of 23.4% in sales of CAM products primarily resulting from (i) a general decrease in sales across various developing CAM countries, particularly

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India and Vietnam, and to a lesser extent, countries in Central Asia such as Kazakhstan and Uzbekistan, as we are still in the process of establishing a stable, long-term customer base in these markets, and (ii) a decrease in average selling price from US\$19.74 per unit to US\$19.19 per unit to encourage adoption by end users in these new markets.

MPOS

Revenue from sales of mPOS devices increased significantly from US\$12.8 million in 2014 to US\$27.8 million in 2015. The average selling price of mPOS devices also increased significantly from US\$13.06 per unit to US\$19.56 per unit, because sales of our more expensive mPOS model increased as a new model was released in September 2014 and subsequent upgraded versions were released in 2015. Sales volume of mPOS devices increased 45.3% from 0.98 million units in 2014 to 1.4 million units in 2015, reflecting increased demand from iBoxpay and its customers as acceptance and adoption of mPOS devices by end users and merchants further expanded across the China market.

Cost of sales

Cost of sales increased by 23.4% from US\$33.3 million in 2014 to US\$41.0 million in 2015. The increase in costs of sales was mainly attributable to a US\$9.5 million increase in the cost of components and a US\$0.4 million increase in subcontracting fees as a result of increased orders for mPOS devices. Our cost of sales for CAMs decreased by 12.4% due to a decrease in average unit cost resulting from decreased cost of components and reduced royalty fees. Our cost of sales for mPOS devices increased by US\$10.6 million, primarily due to increased sales volume and increased production costs for the upgraded model of mPOS devices released in September 2014.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by 6.0% from US\$22.8 million in 2014 to US\$24.1 million in 2015. Gross profit margin decreased from 40.6% for 2014 to 37.0% for 2015, which was primarily due to increased sales of our mPOS devices, which have a gross profit margin of 24.8% in 2015 compared to our CAM products which had a gross profit margin of 46.1% during that same period.

The overall gross profit margin for CAMs decreased slightly from 46.9% for 2014 to 46.1% for 2015 mainly because of a decrease in revenue due to the CAM average selling price decreasing from US\$19.38 per unit in 2014 to US\$17.07 per unit in 2015 primarily as a result of the weakening of the Russian Rouble and the Euro against the USD between the two periods, partly offset by lower average unit cost for CAMs as a result of decreased cost of CAM components.

Our cost of sales for CAMs amounted to US\$23.0 million and US\$20.1 million in 2014 and 2015, which included inventory impairment amounting to US\$1.5 million and US\$0.6 million in the same periods, respectively. Because inventory impairment cannot be reasonably allocated to a specific geographic market, these amounts are excluded in calculating gross profit margin by geographic market. Our gross profit margin for sales of CAMs in the European Market decreased slightly from 49.7% in 2014 to 48.3% in 2015. This was primarily due to the decrease in average selling price to remain competitive while the Euro depreciated against the USD, partially offset by decreased average

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unit costs from decreased cost of components. Our gross profit margin for sales of CAMs in Russia decreased from 43.0% in 2014 to 36.0% in 2015. This was mainly because of a decrease in average selling price resulting from the exchange rate impact and economic slowdown in Russia. In China, our gross profit margin decreased from 65.4% in 2014 to 63.7% in 2015, primarily due to the increased proportion of UCAM sales which have a lower gross profit margin compared to PCAMs. Our gross profit margin in sales of CAMs in other countries increased slightly from 52.6% in 2014 to 53.7% in 2015.

The gross profit margin for mPOS devices increased from 19.6% in 2014 to 24.8% in 2015, reflecting increased average selling price, as we were able to improve our pricing power by offering improved and upgraded products, as discussed above.

Other gains and losses

We recorded other gains of US\$0.7 million in 2015 compared to other losses of US\$0.6 million in 2014. This was primarily attributable to net exchange rate gains resulting from fluctuations in the exchange rate of the USD against RMB, which benefited our trade receivables and other financial assets denominated in USD.

Other income

Other income decreased by 21.9% from US\$1.8 million in 2014 to US\$1.4 million in 2015. This decrease was primarily attributable to a decrease of US\$0.4 million in gains on settlement of available-for-sale financial assets.

Research and development expenses

Research and development expenses increased by 23.7% from US\$6.0 million in 2014 to US\$7.4 million in 2015. Research and development expenses as a percentage of revenue increased from 10.6% for 2014 to 11.3% for 2015. The increase in research and development expenses was primarily due to an increase of US\$0.6 million in professional service fees related to the development of our latest CAM chipset SM1680 which is scheduled to be released in August 2016 and an increase of US\$0.6 million in salaries and benefits as we increased salaries of existing research and development staff.

Selling and distribution expenses

Selling and distribution expenses decreased by 40.6% from US\$5.6 million in 2014 to US\$3.3 million in 2015 while selling and distribution expenses as a percentage of revenue decreased from 10.0% in 2014 to 5.1% in 2015. This decrease in selling and distribution expenses was mainly attributable to a decrease of US\$1.2 million in marketing, training and promotion expenses as we further reduced our promotional efforts in Europe and a decrease of US\$0.6 million in salaries and benefits as we streamlined our sales and marketing personnel as our market position in Europe has matured and stabilised.

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General and administrative expenses

General and administrative expenses increased 69.2% from US\$6.8 million in 2014 to US\$11.5 million in 2015. General and administrative expenses as a percentage of revenue increased from 12.2% in 2014 to 17.7% in 2015. This increase was mainly from an increase of US\$3.2 million in professional service fees relating to this Global Offering and an increase of US\$0.7 million in share-based compensation expenses recorded as a result of the modifications to the terms of options from our 2008 Share Plan being adopted as the Pre-IPO Share Option Scheme as part of the Reorganisation. For more details, please refer to Note 28 of the Accountant's Report in Appendix I.

Net finance income

Net finance income increased 9.2% from US\$189 thousand in 2014 to US\$206 thousand in 2015. This increase was mainly attributable to increased interest income from bank deposits.

Income tax expense

Income tax expense increased significantly from US\$0.3 million in 2014 to US\$0.8 million in 2015. Our effective tax rate increased from 4.7% in 2014 to 19.8% in 2015 due to the expiration of SMIT Shenzhen's status as a Key Software and Integrated Circuit Design Enterprise for a four-year period from 2011 to 2014, which had entitled it to apply a reduced tax rate of 10%, and an increase in expenses which are non-deductible for tax purposes.

Profit for the year

As a result of the foregoing, profit for the year decreased 39.1% from US\$5.5 million in 2014 to US\$3.3 million in 2015. Our adjusted net profit increased by 47.9% from US\$5.0 million in 2014 to US\$7.4 million in 2015 and our adjusted net profit margin increased from 8.9% in 2014 to 11.4% in 2015. This increase was mainly due to an increase in gross profit resulting from increased sales of mPOS devices while operating expenses remained relatively stable as decreases in selling and distribution expenses were largely offset by increases in research and development and general and administrative expenses.

Year Ended 31 December 2014 Compared to Year Ended 31 December 2013

Revenue

Revenue increased by 18.7% from US\$47.2 million in 2013 to US\$56.0 million in 2014. This increase was mainly attributable to an increase of US\$11.3 million in sales of mPOS devices, partially offset by a decrease of US\$2.5 million in sales of CAMs.

CAMs

Revenue from sales of CAMs decreased by 5.4% from US\$45.7 million in 2013 to US\$43.2 million in 2014 driven by a decrease in overall average selling price of 8.3% from US\$21.13 per unit in 2013 to US\$19.38 per unit in 2014, which was partly offset by an increase in overall sales volume of 3.1% from 2.16 million units in 2013 to 2.23 million units in 2014.

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European Market

Revenue from the European Market increased by 19.3% from US\$20.4 million in 2013 to US\$24.3 million in 2014 mainly driven by a 27.6% increase in sales volume due to:

- certain major customers in Austria and Germany making greater purchase orders in 2014 after only placing smaller, supplementary orders in 2013; and
- a major broadcasting operator in the Netherlands adopting the use of CI+ 1.3 PCAMs to keep pace with the roll-out of the CI+ 1.3 standard in the latter half of 2013.

The effect of this increase in sales volume was partially offset by a decrease in average selling price from US\$21.43 per unit to US\$20.04 per unit as one of our major CA provider customers (which are generally given lower selling prices) made greater purchases.

Russia

Revenue from Russia decreased by 31.8% from US\$14.4 million in 2013 to US\$9.8 million in 2014 mainly driven by a 19.9% decrease in sales volume reflecting weaker sales due to their economic slowdown in 2014, coupled with a 14.8% drop in average selling price from US\$18.53 per unit to US\$15.78 per unit as we needed to lower our selling prices to maintain market share because the Russian Rouble weakened significantly against the USD starting in the second half of 2014.

China

Revenue from China decreased by 36.7% from US\$8.9 million in 2013 to US\$5.6 million in 2014 reflecting a 39.2% decrease in sales volume partly offset by a 4.2% increase in average selling price. Sales volume in 2013 was unusually high as the PRC government had introduced a subsidy to encourage purchases of energy-efficient electronics from mid-2012 to June 2013. UCAM sales began in May 2014 but revenue was negligible, amounting to US\$71 thousand in 2014 with average selling price of US\$12.23 per unit.

Other Countries

Revenue from other countries increased 68.2% from US\$2.1 million in 2013 to US\$3.5 million in 2014 as sales volume increased from 76 thousand units to 177 thousand units, which was partly offset by a decrease in average selling price from US\$27.16 per unit to US\$19.74 per unit. In particular, sales grew in developing countries such as Kazakhstan, Uzbekistan, Vietnam and India as the digitisation process moved forward and consumers continued to switch from analog to digital TVs. The drop in average selling price reflected the greater regional sales mix towards these developing CAM markets that generally have lower selling prices, coupled with a higher proportion of sales of consumer PCAMs in 2014, which are less sophisticated and cheaper than professional PCAMs.

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MPOS

We commenced sales of mPOS devices in July 2013 and our mPOS sales are only in China. Revenue from sales of mPOS devices increased significantly from US\$1.5 million in 2013 to US\$12.8 million in 2014. The average selling price of mPOS devices increased by 51.0% from US\$8.65 per unit in 2013 to US\$13.06 per unit in 2014, as we ramped up our development and production of mPOS devices in the latter part of 2013 and in 2014 and we released the handheld keypad versions of our mPOS devices in 2014, which have higher selling prices because these versions have greater functionality, such as near field communication, and are more expensive to produce compared to the smaller, non-keypad module released in 2013 as indicated by the 63.1% increase in average unit cost for mPOS devices from 2013 to 2014. Sales volume of mPOS devices increased significantly from 0.17 million units in 2013 to 0.98 million units in 2014, reflecting partial year sales in 2013 along with increased demand from iBoxpay and its customers.

Cost of sales

Cost of sales increased by 40.1% from US\$23.7 million in 2013 to US\$33.3 million in 2014. The increase in costs of sales was mainly attributable to a US\$7.5 million increase in the cost of components and a US\$1.5 million increase in subcontracting fees as a result of increased orders for mPOS devices. Our cost of sales for CAMs increased by 1.5% due to a slight increase in sales volume. Our cost of sales for mPOS devices increased by 8.4 times, primarily due to a significant increase in sales volume by 4.8 times as mPOS sales reflected sales during the full year 2014 compared to sales only during the second half of 2013, coupled with the release of an upgraded mPOS device which was more costly to produce.

Gross profit and gross profit margin

As a result of the foregoing, gross profit decreased by 2.9% from US\$23.4 million in 2013 to US\$22.8 million in 2014. Gross profit margin decreased from 49.7% in 2013 to 40.6% in 2014, which was primarily due to increased sales of our mPOS devices, which had a gross profit margin of 19.6% in 2014 compared to CAM products which had a gross profit margin of 46.9% in 2014.

The gross profit margin for CAMs decreased from 50.5% 2013 to 46.9% in 2014, driven by a decrease in revenue due to a decrease in CAM average selling price. CAM average selling price decreased from US\$21.13 per unit in 2013 to US\$19.38 per unit in 2014, reflecting the economic slowdown in Russia and greater proportion of sales to emerging CAM market countries as discussed above.

Our cost of sales for CAMs amounted to US\$22.6 million and US\$23.0 million in 2013 and 2014, which included inventory impairment amounting to US\$0.4 million and US\$1.5 million in the same periods, respectively. Because inventory impairment cannot be reasonably allocated to a specific geographic market, these amounts are excluded in calculating gross profit margin by geographic market. Our gross profit margin for sales of CAMs in the European Market remained stable at 49.7% in 2013 and 2014 as the decrease in average selling price was offset by a decrease in average unit costs from lower royalty expenses, as we sold more CAMs to CA providers which do not charge royalty expenses for CAMs sold to them. In Russia, our gross profit margin decreased from 45.3% in 2013

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to 43.0% in 2014, primarily because we lowered the average selling price to remain competitive when the Rouble depreciated against the USD. Our gross profit margin for the sale of CAMs in China increased from 61.8% in 2013 to 65.4% in 2014 mainly as a result of a decrease in cost of sales because of reduced cost of components, combined with an increase in average selling price. Our gross profit margin in sales of CAMs in other countries decreased from 63.4% in 2013 to 52.6% in 2014 mainly due to a decrease in average selling price as we expanded sales into developing CAM markets and increased sales of consumer CAMs which have a lower average selling price compared to professional CAMs.

The gross profit margin for mPOS devices decreased from 25.6% in 2013 to 19.6% in 2014, driven by the ramped-up development and improved functionality of our new mPOS models in 2014 which utilised more expensive components.

Other gains and losses

We recorded other losses of US\$0.6 million in 2014 compared to other losses of US\$0.1 million in 2013. This change was due to net exchange losses resulting from fluctuations in the exchange rate of the Euro against the USD which negatively impacted our financial assets denominated in Euros, primarily including cash and cash equivalents and restricted bank deposits.

Other income

Other income decreased by 26.8% from US\$2.4 million in 2013 to US\$1.8 million in 2014. This decrease was primarily attributable to a decrease of US\$1.0 million in gain on settlement of available-for-sale financial assets, which was mainly due to a decrease in investments in structured deposits because we did not renew some of our structured deposits in order to maintain more cash, and partially offset by an increase of US\$0.5 million in government grants received for promotion of technological development.

Research and development expenses

Research and development expenses decreased by 14.8% from US\$7.0 million in 2013 to US\$6.0 million in 2014, while research and development expenses as a percentage of revenue decreased from 14.8% in 2013 to 10.6% in 2014. The decrease in research and development costs was primarily due to a decrease of US\$0.8 million in CA certification fees because of additional CA certification fees incurred in 2013 for the development of our new CAM chipset.

Selling and distribution expenses

Selling and distribution expenses decreased by 16.0% from US\$6.7 million in 2013 to US\$5.6 million in 2014 while selling and distribution expenses as a percentage of revenue decreased from 14.2% in 2013 to 10.0% in 2014. This decrease in selling and distribution expenses was mainly attributable to:

- a decrease of US\$0.4 million in rental and offices expenses primarily due to the expiration of certain short-term leases for warehouses used for temporary storage overseas.

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- a decrease of US\$0.3 million in salaries and benefits primarily due to a decrease in share-based compensation because no share options were granted for selling and distribution personnel in 2014.
- a decrease of US\$0.2 million in travel and entertainment expenses due to reduced promotional efforts in Russia because of poor economic conditions.

General and administrative expenses

General and administrative expenses decreased by 24.5% from US\$9.0 million in 2013 to US\$6.8 million in 2014, while general and administrative expenses as a percentage of revenue decreased from 19.1% in 2013 to 12.2% in 2014. This decrease is mainly due to a decrease of US\$3.1 million in share-based compensation expenses because fewer options vested in 2014, and partially offset by an increase of US\$0.6 million in provisions for doubtful debts.

Finance income

Finance income increased by 27.0% from US\$0.1 million in 2013 to US\$0.2 million in 2014. This increase was attributable to an increased bank balance during 2014 because we did not renew all of our structured deposits upon maturity and placed certain amounts in bank deposits instead.

Income tax (expense)/credit

Income tax expense decreased by 46.6% from US\$0.5 million in 2013 to US\$0.3 million in 2014. This decrease was primarily attributable to an increase in deferred tax assets of US\$0.3 million relating to re-measurement of deferred tax assets based on the estimated applicable tax rate. As a result, our effective tax rate decreased from 15.9% in 2013 to 4.7% in 2014.

Profit for the year

As a result of the foregoing, profit for the year increased 104.1% from US\$2.7 million in 2013 to US\$5.5 million in 2014. Our adjusted net profit remained relatively stable, increasing from US\$4.9 million in 2013 to US\$5.0 million in 2014. Our adjusted net profit margin decreased from 10.4% in 2013 to 8.9% in 2014 primarily due to a decrease in gross profit margin reflecting the shift towards greater sales of mPOS devices, which have a lower margin compared to CAMs.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are to pay for working capital needs and capital expenditures for the expansion and upgrading of our facilities and operations. We meet these cash requirements by relying on bank deposits (including our cash and cash equivalents) and net cash flows from operating and investing activities as our principal source of funding. Following the completion of the Global Offering, we intend to continue to fund our cash requirements through a combination of the above as well as net proceeds from the Global Offering.

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The following table sets out our selected consolidated cash flow data for the periods indicated.

	Year ended 31 December		
	2013	2014	2015
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Net cash flows generated from/(used in) operating activities	7,952	(840)	5,435
Net cash flows generated from investing activities	20,106	15,538	12,778
Net cash flows generated from/(used in) financing activities	<u>(18,827)</u>	<u>2,866</u>	<u>(26,386)</u>
Net increase/(decrease) in cash and cash equivalents	9,231	17,564	(8,173)
Cash and cash equivalents at the end of the year	26,503	43,978	33,972

Cash Flows Used in/Generated from Operating Activities

Cash flows from operating activities consist of profit before tax adjusted for (i) certain non-cash or non-operating activities related items, including mainly gain on settlement of available-for-sale financial assets, share-based payments, provision for impairment of trade receivables and depreciation and (ii) the effect of changes in working capital; and (iii) tax payment.

Net cash generated from operating activities in 2015 was US\$5.4 million, reflecting cash generated from operations of US\$5.5 million, less income tax paid of US\$29.7 thousand. In 2015, our operating cash flow after adjusting for non-cash items (such as share-based payments of US\$1.9 million and gain on settlement of available-for-sale financial assets of US\$0.7 million) but before changes in working capital items was US\$6.9 million. Negative working capital adjustments for the year of US\$1.4 million consisted mainly of an increase in trade and other receivables of US\$5.9 million due to increased sales of mPOS devices to iBoxpay, which has a 180-day credit term, partially offset by (i) an increase in trade and other payables of US\$3.5 million we negotiated for longer credit terms with our suppliers and (ii) a decrease in inventories of US\$1.1 million resulting from deliveries of finished mPOS products due to greater sales.

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Net cash used in operating activities in 2014 was US\$0.8 million, reflecting cash used in operations of US\$0.7 million and income tax paid of US\$0.1 million. In 2014, our operating cash flow after adjusting for non-cash items (such as provision for impairment of inventories of US\$1.5 million and gain on settlement of available-for-sale financial assets of US\$1.1 million) but before changes in working capital items was US\$8.3 million. Negative working capital adjustments for the year of US\$9.1 million consisted mainly of (i) an increase in trade and other receivables of US\$9.6 million primarily due to increased sales of mPOS devices as we grant iBoxpay a 180-day credit term, and (ii) an increase in inventories of US\$4.0 million primarily as a result of the increase in components and finished goods to support increased demand for our mPOS products, partially offset by (i) an increase in trade and other payables of US\$3.3 million, primarily as a result of increased credit terms from our suppliers and increased purchases of components for mPOS products and (ii) an increase in deferred revenue of US\$1.2 million resulting from special government subsidies for research and development projects which were received but not yet utilised.

Net cash generated from operating activities in 2013 was US\$8.0 million, reflecting cash generated from operations of US\$8.1 million, less income tax paid of US\$0.1 million. In 2013, our operating cash flow after adjusting for non-cash items (such as share-based payment of US\$4.4 million and gain on settlement of available-for-sale financial assets of US\$2.1 million) but before changes in working capital items was US\$6.6 million. Positive working capital adjustments for the year of US\$1.5 million primarily consisted of an increase in trade and other payables of US\$1.9 million resulting from increased purchases of components to support the start of our mPOS device production and increased credit terms, which was partially offset by (i) an increase in inventories of US\$0.4 million, relating to components for production of mPOS devices and (ii) an increase in trade and other receivables of US\$0.2 million primarily as a result of increased credit terms for our mPOS and other PRC customers.

Cash Flows from Investing Activities

Net cash generated from investing activities in 2015 was US\$12.8 million. This mainly consisted of (i) the net settlement of available-for-sale financial assets amounting to US\$12.2 million as we settled all remaining available-for-sale financial assets in September 2015; and (ii) a decrease in deposit in restricted bank deposits of US\$1.1 million. This was partially offset by US\$0.4 million for purchases of property, plant and equipment relating to our research and development projects and US\$0.4 million for purchases of intangible assets relating to management software and data security technology.

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Net cash generated from investing activities in 2014 was US\$15.5 million. This mainly consisted of (i) the net settlements of available-for-sale financial assets amounting to US\$14.2 million from the maturity of structured deposits and (ii) US\$3.1 million from a decrease in restricted bank deposits which primarily related to a letter of credit facility that expired in 2014 which we did not renew. This was partially offset by purchases of property, plant and equipment of US\$1.5 million in connection with equipment used for research and development of our new chipsets and purchases of intangible assets of US\$0.5 million for intellectual property rights relating to new security chip technologies for digital television.

Net cash generated from investing activities in 2013 was US\$20.1 million. This consisted mainly of the net settlements of available-for-sale financial assets amounting to US\$24.2 million from the maturity of structured deposits. This was partially offset by (i) US\$3.0 million from an increase in restricted bank deposits which served as collateral for our letter of credit facility and (ii) US\$1.2 million used in the purchase of property, plant and equipment in connection with renovation of a new wing of our Shenzhen office and for new servers.

Cash Flows Used in/Generated from Financing Activities

Net cash used in financing activities in 2015 was US\$26.4 million. This consisted primarily of a decrease in amounts due to related parties of (i) US\$25.3 million consisting of a transfer of US\$22.0 million to SMIT Corporation for the Series C Repurchase and US\$3.3 million transferred to subsidiaries commonly controlled by SMIT Corporation and (ii) US\$1.1 million in payment for listing fee.

Net cash generated from financing activities in 2014 was US\$2.9 million. This consisted of a net decrease in balances with related parties and shareholders as the result of cash received in repayment for amounts owed by an entity commonly controlled by SMIT Corporation.

Net cash used in financing activities in 2013 was US\$18.8 million. This consisted primarily of a net increase in balances with related parties and shareholders in connection with funds transferred to entities commonly controlled by SMIT Corporation.

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Net Current Assets

The following table sets out our current assets, current liabilities and net current assets as at the dates indicated:

	As at 31 December			As at 31 January
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)
Current Assets				
Inventories	7,192	9,662	7,472	6,484
Trade and other receivables	11,138	20,124	25,417	23,096
Income tax recoverable	202	308	308	308
Available-for-sale financial assets	24,777	11,655	—	—
Amounts due from related parties	26,662	22,727	—	—
Restricted bank deposits - current	2,933	1,163	—	—
Cash and cash equivalents	26,503	43,978	33,972	37,036
	<u>99,407</u>	<u>109,617</u>	<u>67,169</u>	<u>66,924</u>
Current liabilities				
Trade payables	1,367	3,834	7,882	7,997
Other payables and accruals	6,353	7,185	5,829	4,285
Deferred revenue	595	1,768	1,553	1,509
Amounts due to shareholders	44,152	43,668	—	—
Income tax payable	241	438	1,497	1,437
	<u>52,708</u>	<u>56,893</u>	<u>16,761</u>	<u>15,228</u>
Net current assets	<u>46,699</u>	<u>52,724</u>	<u>50,408</u>	<u>51,696</u>
Adjusted net current assets ¹	<u>64,189</u>	<u>73,666</u>	<u>50,408</u>	<u>51,696</u>

Note:

1. Adjusted net current assets exclude “amounts due from related parties” and “amounts due to shareholders.”

We held a net current asset position as at each of 31 December 2013, 2014, 2015 and 31 January 2016. Amounts due from related parties represented primarily advances to entities commonly controlled by SMIT Corporation and amounts due to shareholders represented advances from SMIT Corporation. These balances were assumed by or assigned to the Company, as the case may be, and no longer appear on our consolidated balance sheet after the Reorganisation. See “Financial Information — Related Party Transactions” for further information.

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Excluding these items, our adjusted net current assets were US\$64.2 million, US\$73.7 million, US\$50.4 million and US\$51.7 million as at 31 December 2013, 2014, 2015 and 31 January 2016. Our net current assets position as at each of these dates was mainly attributable to our trade and other receivables, available-for-sale financial assets, and cash and cash equivalents, partially offset by our trade payables and other payables and accruals.

Our adjusted net current assets increased from US\$64.2 million as at 31 December 2013 to US\$73.7 million as at 31 December 2014, driven by an increase in cash and cash equivalents. Adjusted net current assets decreased from US\$73.7 million as at 31 December 2014 to US\$50.4 million as at 31 December 2015 as a result of the decrease in available-for-sale financial assets as we settled our remaining available-for-sale financial assets and decrease in cash and cash equivalents as a result of funds transferred to SMIT Corporation for the Series C Repurchase. Our adjusted net current assets increased slightly to US\$51.7 million as at 31 January 2016.

Working Capital

We held a strong net current assets position as at the end of each period during the Track Record Period. Throughout the Track Record Period, our cash and cash equivalents position remained strong and we maintained a net current asset position. To preserve our liquidity, we regularly review our customers' payment history and aging of our trade receivables. Our accounting department issues a trade receivable monitoring report on a weekly basis for our sales staffs to follow up on trade receivables collection from customers, in particular, those customers with large sales and longer credit terms, such as iBoxpay. We have also been able to improve our liquidity by extending credit terms with most of our suppliers from 30 days in 2013 to 60 days in 2015. Additionally, we can take further mitigating measures, if necessary, by negotiating for shorter credit terms with iBoxpay or by obtaining credit lines with banks. We recorded positive operating cash flows for the years ended 31 December 2013 and 2015. We incurred insignificant net cash outflows from operating activities for the year ended 31 December 2014. Our Directors have confirmed that we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus, taking into account our cash flows from operating activities and our net current assets. In addition, we expect to receive estimated net proceeds of US\$29.9 million from the Global Offering.

INDEBTEDNESS

As at 31 December 2013 and 2014, amounts due to shareholders recorded as current liabilities on our consolidated balance sheet amounting to US\$44.2 million and US\$43.7 million, respectively, represented advances from SMIT Corporation to the Operating Subsidiaries, which are part of the Listing Business. Upon the completion of the Reorganisation, such amounts, after the repatriation of US\$23.0 million from the Group to SMIT Corporation, were assigned to the Company and no longer appear on our consolidated balance sheet. For more information, see "Recent Developments and No Material Adverse Change" in this section.

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We did not have any other outstanding indebtedness in the years 2013 or 2014. During 2015, we incurred US\$5.9 million in borrowings which we repaid in full in May 2015. As at 31 December 2015 and 31 January 2016, we did not have any outstanding indebtedness. We currently do not have any banking facilities. As at the Latest Practicable Date, we did not have any banking facilities or any outstanding or authorised but unissued debt securities, term loans, other borrowings or indebtedness in the nature of borrowing, acceptance credits, hire purchase commitments, mortgages and charges, contingent liabilities or guarantees outstanding.

Directors' Confirmation

Our Directors have confirmed that there is no material change in our indebtedness position since 31 December 2015 and up to the date of this prospectus.

DESCRIPTION OF SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Inventories

Inventories comprise raw materials (i.e. components), work-in-progress and finished goods. The following table sets out the breakdown of our inventories as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Raw materials	6,665	7,535	7,623
Work-in-progress	2,257	2,153	1,400
Finished goods	1,308	4,386	2,060
	<u>10,230</u>	<u>14,074</u>	<u>11,083</u>
Less: Provision for impairment of inventories	<u>(3,038)</u>	<u>(4,412)</u>	<u>(3,611)</u>
	<u>7,192</u>	<u>9,662</u>	<u>7,472</u>

During the Track Record Period, inventories increased from US\$7.2 million as at 31 December 2013 to US\$9.7 million as at 31 December 2014. The increase in inventories between 31 December 2013 and 2014 was also mainly attributable to an increase in raw materials and finished goods primarily due to increased sales orders of mPOS devices. Inventories decreased from US\$9.7 million as at 31 December 2014 and to US\$7.5 million as at 31 December 2015 primarily as a result of a decrease in finished goods reflecting increased sales and shipment of mPOS devices in 2015.

Provision for inventories

We recorded provisions for impairment of inventories of US\$3.0 million, US\$4.4 million and US\$3.6 million as at 31 December 2013, 2014 and 2015, respectively.

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We make specific impairments after considering the net realisable value of inventories. To minimise the risk of building up aged inventories, we carry out an inventory review and an ageing analysis on a regular basis. We make provision for obsolete and slow-moving inventories of raw materials and finished goods that are no longer suitable for use in production or sale. A number of factors including historical and forecast consumption of our components, as well as marketability of our products, are taken into account when we consider whether to make appropriate provision.

As at 31 January 2016, the subsequent sales and utilisation of our inventories as at 31 December 2015 was US\$5.3 million, or 47.5%.

Inventory turnover analysis

Average inventory turnover days indicates the average time required for us to sell our inventories. The following table sets out our average inventory turnover days for the periods indicated.

	Year ended 31 December		
	2013	2014	2015
Average inventory turnover days ⁽¹⁾	109.0	92.5	76.2

Note:

- (1) Average inventory turnover days for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of net inventories by cost of sales for the relevant period and then multiplied by the number of days in the relevant period.

Our average inventory turnover days decreased from 109.0 days in 2013 to 92.5 days in 2014 and then to 76.2 days in 2015, reflecting the increase in the production and delivery of mPOS devices. The average inventory turnover days for mPOS devices were 96 days, 73 days and 51 days for the year ended 31 December 2013, 2014 and 2015, respectively.

Trade Receivables

Trade receivables represent the amounts receivable from customers. We generally grant CAM customers credit terms ranging from 30 to 60 days. We grant our key mPOS customer, iBoxpay, a credit term of up to 180 days to help foster our relationship and secure market share for this new line of business. The following table sets out our trade receivables as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Trade receivables	7,758	17,010	24,760
Less: allowance for impairment of trade receivables	(155)	(796)	(961)
Net trade receivables	<u>7,603</u>	<u>16,214</u>	<u>23,799</u>

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The increase in trade receivables from US\$7.8 million as at 31 December 2013 to US\$17.0 million as at 31 December 2014 was primarily due to increased sales of mPOS devices to iBoxpay, which has a credit term of 180 days compared to most CAM customers, which have credit terms of 30 to 60 days. Gross trade receivables increased from US\$17.0 million as at 31 December 2014 to US\$24.8 million as at 31 December 2015 mainly due to the increased sales of mPOS devices to iBoxpay.

Ageing analysis

We seek to maintain strict control over our outstanding receivables. Overdue balances are reviewed regularly by senior management. The following table sets out an ageing analysis of our gross trade receivables, based on the invoice date, as at the dates indicated and our average trade receivables turnover days for the periods indicated:

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Less than 30 days	3,814	3,181	4,410
31 to 60 days	1,400	3,898	3,225
61 to 90 days	880	1,878	1,291
91 to 180 days	639	5,701	9,497
181 to 365 days	879	1,682	5,326
Over 365 days	146	670	1,011
	<u>7,758</u>	<u>17,010</u>	<u>24,760</u>

Provision for trade receivables

The following table shows the movements in provision for impairment of trade receivables during the Track Record Period.

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
As at 1 January	166	155	796
(Reversal of)/provision for impairment	(23)	642	196
Exchange difference	12	(1)	(31)
As at 31 December	<u>155</u>	<u>796</u>	<u>961</u>

FINANCIAL INFORMATION

We made provisions and reversals of impairment loss of trade receivables during the Track Record Period. Individually impaired trade receivables relate to receivables which are expected not to be recoverable, such as those for customers who have financial difficulties or are long overdue. Management makes periodic judgements on impairment of overdue receivables based on likelihood of collectability.

Our past due but not impaired trade receivables amounted to US\$2.7 million, US\$4.2 million and US\$5.8 million as at 31 December 2013, 2014 and 2015, respectively. Of the US\$5.8 million trade receivables that were past due but not impaired as at 31 December 2015, US\$5.2 million were from sales of mPOS devices to iBoxpay and the entire US\$5.2 million was settled in January 2016. Please see note 18 of the Accountant's Report in Appendix I to this prospectus for an ageing analysis of these amounts.

We recorded an allowance for impairment loss of trade receivables of US\$0.2 million, US\$0.8 million and US\$1.0 million as at 31 December 2013, 2014 and 2015, respectively. We believe our allowance for impairment loss is sufficient based on our management's assessment.

Our trade receivables as at 31 December 2015 amounted to US\$24.8 million, of which US\$9.1 million, or 36.8%, had been settled as at 31 January 2016.

Trade receivable turnover analysis

Average trade receivables turnover days indicates the average time required for us to collect cash payments from sales. The following table sets out our average trade receivable turnover days for the periods indicated.

	Year ended 31 December		
	2013	2014	2015
Average trade receivables turnover days ¹	56.3	77.6	112.1

Note:

1. Average trade and bills receivables turnover days for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of net trade receivables by revenue for the relevant period and then multiplied by the number of days in the relevant period.

The increase in average trade receivables turnover days from 56.3 in 2013 to 77.6 in 2014 then further to 112.1 in 2015 was mainly due to an increase in sales of mPOS devices and an increase in PRC customers, whom we generally provide longer credit terms in order to promote our PRC sales network.

FINANCIAL INFORMATION

Trade Payables

Trade payables represent the amounts due to our suppliers from which we are granted credit terms generally for 30 to 60 days. The following table sets out our trade payables as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Trade payables	1,367	3,834	7,882

The increase in trade payables from US\$1.4 million as at 31 December 2013 to US\$3.8 million as at 31 December 2014 was mainly due to increased purchases of components to support increased purchase orders for mPOS devices. The increase in trade payables from US\$3.8 million as at 31 December 2014 to US\$7.9 million as at 31 December 2015 is mainly attributable to increased purchases on credit as we negotiated for longer credit terms from our suppliers.

Ageing analysis

The following table sets out an aged analysis of our trade payables, based on the invoice date, as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Less than 30 days	1,010	3,485	4,248
31 to 90 days	228	293	3,508
91 to 180 days	—	21	46
181 to 365 days	92	— ¹	9
Over 365 days	37	35	71
	<u>1,367</u>	<u>3,834</u>	<u>7,882</u>

Note:

1. This amount was less than US\$1,000.

Our trade payables as at 31 December 2015 amounted to US\$7.9 million, of which US\$3.3 million, or 42.4%, had been settled as at 31 January 2016.

FINANCIAL INFORMATION

Trade payables turnover analysis

Average trade payables turnover days indicates the average time we take to make cash payments to suppliers. The following table sets out our average trade payables turnover days for the periods indicated:

	Year ended 31 December		
	2013	2014	2015
Average trade payables turnover days ¹	16.2	28.5	52.1

Note:

1. Average trade and bills payables turnover days for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of trade payables by cost of sales for the relevant period and then multiplied by the number of days in the relevant period.

The increase in average trade payables turnover days from 16.2 days in 2013 to 28.5 in 2014 was mainly due to a reduction in advanced payments because we negotiated for 30 to 60 day credit terms with some of our suppliers. The increase in average trade payables turnover days to 52.1 in 2015 was mainly because we were able to negotiate for 60 day credit terms with more of our suppliers.

Available-for-Sale Financial Assets

During the Track Record Period, we purchased available-for-sale investments in the form of structured deposits to earn a higher return on our cash balances. Our available-for-sale financial assets amounted to US\$24.8 million, US\$11.7 million and nil as at 31 December 2013, 2014 and 2015. Our last structured deposits were settled in September 2015. We have not since and have no plans to continue to invest in structured deposits. Going forward, we plan to only invest in financial products that are principal-guaranteed and meet our cash management policies as discussed further below. The following table sets out changes in our available-for-sale financial assets for the periods indicated:

	For the Year Ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
At 1 January	45,604	24,777	11,655
Addition during the year	209,211	92,599	68,741
Settlement during the year	(233,361)	(106,763)	(80,919)
Gain on settlement of available-for-sale financial assets	2,100	1,135	716
Fair value gain on available-for-sale financial assets	174	52	—
Exchange difference	1,049	(145)	(193)
At 31 December	24,777	11,655	—

FINANCIAL INFORMATION

Cash management policies

Our management makes decisions about our available-for-sale financial assets based on assessments of risk level, interest rates and forecasts of our business needs and liquidity. We purchase available-for-sale financial assets in order to maximise returns on cash balances beyond normal bank deposit interest rates while still ensuring adequate liquidity for our business operations. We have implemented our internal policies which provide the following guidelines, requirements and approval process with respect to our investment activities:

- *Type of investment.* All investments must be made in principal-guaranteed instruments issued or managed by major and reputable financial institutions. The maximum term of a proposed investment shall not be more than three months. In order to reduce risk, we have amended our treasury management policies and require that all investments shall be made only in low risk products which provide guaranteed capital preservation. At the end of each quarter, we will assess our cash flow available after accounting for operations based on the next quarter's forecast and budget. The investment amount at any time cannot exceed 20% of such available cash flow. The maximum amount invested in any bank at the same time shall not exceed RMB50 million.
- *Approval process.* When deciding to purchase financial assets, the treasury manager will make monthly assessments of available financial products based on interest rates, maturity lengths and the detailed terms of the products and then report to the vice-president of finance for approval. For certain types of investments and purchase amounts, approval by the CFO is also required.
- *Monitoring.* The treasury manager is responsible for monitoring the performance and redemption of financial products. Each month, the treasury manager will report the performance and expected returns of the financial products to the vice-president of finance and the CFO.

During the Track Record Period, we only invested in structured deposits from major reputable financial institutions in the PRC and we preserved all of our investment capital in these products and did not encounter any default by the issuing financial institutions.

Goodwill

As at 31 December 2013, 2014 and 2015, goodwill amounted to US\$7.0 million, US\$7.0 million and US\$6.6 million, respectively. Fluctuations in the amount of goodwill is the result of exchange differences in the RMB/USD exchange rate. We recorded goodwill of RMB42.9 million in April 2005 from the application of acquisition accounting to our purchase of SMIT Shenzhen. The goodwill amount relates to the value of expected future economic benefits of the business operated by SMIT Shenzhen and has an indefinite useful life subject to impairment. Our management has determined that there was no impairment of goodwill as at 31 December 2013, 2014 and 2015.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES

We incur capital expenditures mainly for purchases of equipment and intellectual property to support our research and development efforts. As at 31 December 2013, 2014 and 2015, the carrying amount of our property, plant and equipment was US\$1.8 million, US\$2.8 million and US\$2.4 million respectively, which consisted mainly of furniture, fixtures and equipment with net carrying amounts of US\$0.6 million, US\$ 1.7 million and US\$1.6 million, respectively.

The following table sets out our capital expenditures for the periods indicated:

	Year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Additions of property, plant and equipment	1,171	1,476	399
Additions of intangible assets	44	488	390

For more information on the uses of our capital expenditures on purchases of items of property, plant and equipment during the Track Record Period, see the section headed “— Liquidity and Capital Resources — Cash Flows from Investing Activities” above.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table sets out our contractual obligations and their payment schedule as at 31 December 2015:

	Payment schedule			Total
	Not later than one year	1 to 5 years	Later than 5 years	
	US\$'000	US\$'000	US\$'000	US\$'000
Future aggregate minimum lease payments	484	78	—	562

We lease from landlords, including third parties and connected persons, certain of our office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years. The minimum lease payments which we had contracted for under non-cancellable operating leases as at 31 December 2015 were US\$0.6 million. For more information on leases from connected persons, see the section headed “Continuing Connected Transaction”.

As at 31 January 2016, we did not have any material capital commitments.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations of any third parties.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we leased our offices in Shenzhen, China from a company which Mr. Huang Xueliang, our chief executive officer, had an interest. Our operating lease payments and the costs and fees relating to air-conditioning and public utilities in respect of properties of this related party was US\$0.7 million, US\$0.8 million and US\$0.7 million for 2013, 2014 and 2015. For more information, see note 33 to our consolidated financial statements in the Accountant's Report included in Appendix I to this prospectus.

These related party transactions were conducted in accordance with terms as agreed between us and the respective related parties. Our Directors have confirmed that all related party transactions during the Track Record Period were conducted on normal commercial terms that are reasonable and in the interest of our Group as a whole. Our Directors have further confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance.

Amounts due from related parties amounted to US\$26.7 million, US\$22.7 million and nil as at 31 December 2013, 2014 and 2015 primarily represented advances to entities commonly controlled by SMIT Corporation. Upon the Reorganisation, such amounts were assumed by us and no longer appear on our consolidated balance sheet. There is no income statement or cash flow effect from such assumption by us.

Amounts due to shareholders amounted to US\$44.2 million, US\$43.7 million and nil as at 31 December 2013, 2014 and 2015 represented advances from SMIT Corporation. Such receivables balances of SMIT Corporation were assigned to us upon completion of the Reorganisation and the amounts due to shareholders no longer appear on our consolidated balance sheet. We have not issued any Preferred Shares to our Shareholders. There is no income statement impact or cash flow impact as a result of such assignment of receivables.

OFF BALANCE SHEET TRANSACTIONS

During the Track Record Period, we did not have any material off-balance sheet arrangements or any variable interest in any other entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

FINANCIAL INFORMATION

FINANCIAL RATIOS

The following table sets out certain financial ratios relating to our Group as at the dates or for the periods indicated:

	As at / Year ended 31 December		
	2013	2014	2015
Current ratio ¹	1.89	1.93	4.01
Quick ratio ²	1.69	1.74	3.56
Return on assets ³	4.4%	4.1%	9.4%
Return on equity ⁴	8.3%	7.7%	11.9%

Notes:

1. Current ratio is calculated by dividing total current assets by total current liabilities.
2. Quick ratio is calculated by dividing total current assets less inventories and restricted bank deposits by total current liabilities.
3. Return on assets is calculated by dividing adjusted net profit by total assets.
4. Return on equity is calculated by dividing adjusted net profit by total equity.

Current and Quick Ratios

Our current ratio as at 31 December 2013, 2014 and 2015 was 1.89, 1.93 and 4.01, respectively, and our quick ratio as at those dates was 1.69, 1.74 and 3.56, respectively. The general increases in current and quick ratios during the Track Record Period was primarily due to increases in (i) trade and other receivables due to increased contribution of sales of mPOS devices, and (ii) cash and cash equivalents. The significant increase in current and quick ratios in 2015 is primarily due to the elimination of our amounts due to shareholders as a result of the Reorganisation.

Return on Assets

Our return on assets in 2013, 2014 and 2015 was 4.4%, 4.1% and 9.4%, respectively. The decrease in return on assets from 2013 to 2014 was primarily due to an increase in total assets, which was mainly from an increase in trade and other receivables, while adjusted net profit remained relatively steady. Our return on assets increased significantly in 2015 primarily due to the increase in our adjusted net profit combined with a significant decline in our total assets as a result of the Reorganisation.

Return on Equity

Our return on equity in 2013, 2014 and 2015 was 8.3%, 7.7% and 11.9%, respectively. The slight decrease in return on equity from 2013 to 2014 was primarily due to a continued increase in total equity while adjusted net profit remained stable in 2014. Our return on equity increased between 2014 and 2015 mainly because of an increase in our adjusted net profit combined with a decrease in our total equity.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, including foreign currency risk, credit risk and liquidity risk. Our Directors review and agree policies for managing each of these risks.

Foreign Exchange Risk

We mainly operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the Euro. Foreign exchange risk arises from future commercial transactions or recognised financial assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2013, 2014 and 2015, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax profit and total equity would have been approximately US\$68,000, US\$445,000 and US\$65,000 lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of USD denominated trade receivables and cash and cash equivalents.

As at 31 December 2013, 2014 and 2015, if USD had strengthened/weakened by 5% against the Euro with all other variables held constant, the post-tax profit and total equity would have been approximately US\$189,000, US\$447,000 and US\$254,000 lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of Euro denominated trade receivables and cash and cash equivalents.

Sales of our CAMs were predominantly denominated in USD while sales of mPOS devices were denominated in RMB. Our costs of production are predominantly denominated in RMB. Denominating our CAM sales in USD terms help mitigate our currency risks as our presentation currency is also in USD. Nonetheless, significant fluctuations in currency exchange rates can adversely affect the competitiveness of our sales in local currency terms as we price our CAM sales in USD. We manage this risk by reviewing our pricing policy in each market and negotiate prices with our customers to maximize our sales and maintain our competitiveness to the extent practicable. During the Track Record Period, the weakening Euro and Rouble, each as compared to the USD, had affected the average selling price of our CAM products sold to the European Market and Russia because our selling prices in USD terms were lowered so as to remain competitive in these markets. For further information, please see "Financial Information — Description of Selected Income Statement Line Items — Revenue — Currency Exchange Rates and Average Selling Prices of CAMs."

We predominantly denominate our CAM products in USD which remained relatively stable against the RMB over the Track Record Period, and we did not use any derivative contracts to hedge against its exposure. Our management manages its currency risk by closely monitoring the movement of the foreign currency rates and may consider hedging significant foreign currency exposure should the need arise.

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Credit Risk

We trade only with third parties that we consider recognised and creditworthy. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

Credit risk is managed on a group basis. The credit risk mainly arises from cash and cash equivalents (excluding cash on hand) and deposits with banks, trade and other receivables and amounts due from related parties. Our management has policies in place to monitor the exposures to these credit risks on an on-going basis.

As at 31 December 2013, 2014 and 2015, cash and cash equivalents (excluding cash on hand) and deposits with banks are all deposited or traded with listed banks. We have not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

As at 31 December 2013, 2014 and 2015, our three largest customers accounted for approximately 10.1%, 68.7% and 82.3%, respectively, of our total trade receivables. We have set up long-term cooperative relationship with these customers. In view of the history of business dealings with these customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the outstanding receivable balance due from these customers.

Liquidity Risk

Our policy is to maintain sufficient cash and cash equivalents and have available funding through maintaining sufficient bank balances and committed credit lines available. For more information on the maturity profile of our trade and other payables, see notes 25 and 26 to our consolidated financial statements in the Accountant's Report included in Appendix I to this prospectus.

Capital Risk Management

With respect to capital management, our objectives include primarily (i) to safeguard our ability to continue as a going concern and (ii) to maintain healthy capital ratios in order to support our business and maximise shareholders' value.

We manage our capital structure and make adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

FINANCIAL INFORMATION

DIVIDENDS AND DIVIDEND POLICY

We did not declare any dividends during the Track Record Period and we currently do not have any plans to declare any dividends. We do not currently have a dividend payment plan or policy. Declaration of dividends is subject to the discretion of our Directors, depending on our results of operations, working capital and cash position, future business and earnings, capital requirements, contractual restrictions, if any, as well as any other factors which our Directors may consider relevant. In addition, any declaration and payment as well as the amount of the dividends will be subject to the provisions of (i) our Articles, which provides that our Shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our Directors, and (ii) the applicable laws of the Cayman Islands, which provides that dividends may be paid out of the profits of a company or out of sums standing to the credit of its share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts due in the ordinary course of business. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. Any future declarations and payments of dividends will be at the discretion of our Directors subject to applicable laws. Under applicable PRC law, our subsidiary in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations to the statutory reserves.

DISTRIBUTABLE RESERVES

Our Company's distributable reserves consist of share premium and retained earnings/accumulated loss. As at 31 December 2015, the Company had reserves of US\$63.3 million available for distribution to our Shareholders.

LISTING EXPENSES

During the Track Record Period, we incurred listing expenses of US\$4.6 million, of which US\$165 thousand was charged to our consolidated statement of comprehensive income in 2014, and US\$3.4 million was charged to our consolidated statement of comprehensive income for 2015, and the remaining amount of US\$1.1 million was recorded as prepayment which is to be net off with share premium after the Listing. We expect to further incur listing expenses (including underwriting commissions) of approximately US\$2.9 million (based on mid-point of our indicative price range for the Global Offering and without taking into account any discretionary incentive fees, if applicable) by the completion of the Global Offering, of which an estimated amount of approximately US\$1.5 million will be charged to our consolidated statement of comprehensive income for 2016 and an estimated amount of approximately US\$1.4 million will be capitalised upon listing.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2015 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at 31 December 2015 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to owners of the Company as at 31 December 2015	Unaudited pro forma adjusted net tangible assets per Share (Note 3)	
	USD	USD	USD	USD	HKD
Based on an Offer Price of HK\$3.88 per Share	<u>55,075,042</u>	<u>33,446,000</u>	<u>88,521,042</u>	<u>0.30</u>	<u>2.29</u>
Based on an Offer Price of HK\$3.10 per Share	<u>55,075,042</u>	<u>26,124,000</u>	<u>81,199,042</u>	<u>0.27</u>	<u>2.10</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of the Company as at 31 December 2015 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2015 of USD62,176,860 with an adjustment for the intangible assets and goodwill as at 31 December 2015 of USD7,101,818.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$3.88 and HK\$3.10 per Share after deduction of the underwriting fees and other related expenses payable (excluding listing expense of approximately USD3,523,000 which have been accounted for prior to 31 December 2015) by the Company.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 300,000,000 Shares were in issue assuming that the Global Offering has been completed on 31 December 2015.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2015.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in United States Dollars are converted into Hong Kong dollars at the rate of 7.75 HKD to 1 USD.

FINANCIAL INFORMATION

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Set forth below are certain developments or expected developments after 31 December 2015 regarding our business:

Post-Track Record Period Operational and Financial Events

- Total revenue for the one month ended 31 January 2016 decreased by around 16% as compared to the same period in 2015.
- Revenue from sales of CAMs decreased approximately 11% for the one month ended 31 January 2016 compared to the same period in 2015, primarily due to a decrease in sales volumes of around 19% resulting primarily from a decrease of sales in Russia combined with a few days of work stoppage in preparation of the Chinese New Year holidays, which occurred earlier in 2016 than in 2015. This was partly offset by an increase in average selling price of around 9% as a greater proportion of our sales came from other geographic markets which have higher average selling prices than Russia. The average selling price of CAMs for the one month ended 31 January 2016 was slightly higher than the average selling price for the year ended 31 December 2015.
- Revenue from sales of mPOS devices decreased by around 22% for the one month ended 31 January 2016 compared to the same period in 2015, mainly driven by a significant decrease in average selling prices of approximately 35% partly offset by an increase in sales volume of approximately 20% despite the work stoppage for Chinese New Year as noted above. The decrease in average selling prices was mainly because in the one month ended 31 January 2015, a higher proportion of our mPOS sales was for a new model released in September 2014 which had a higher selling price, whereas our sales in the one month ended 31 January 2016 included a greater proportion of sales of a different model with a lower selling price. However, average selling prices of mPOS devices for the one month ended 31 January 2016 remained relatively stable when compared to the average selling price for the year ended 31 December 2015.
- Gross profit and gross profit margin increased for the one month ended 31 January 2016 as compared to the same period in 2015. Gross profit for the one month ended 31 January 2016 increased by about 20% as compared to the same period in 2015 primarily due to lower average unit costs because a higher proportion of mPOS devices sold in the one month ended 31 January 2015 were for a newly released model as discussed above, which had more expensive components. Gross profit margin also increased, similarly reflecting the lower average unit costs for the one month ended 31 January 2016.

FINANCIAL INFORMATION

- Our trade receivables as at 31 December 2015 amounted to US\$24.8 million, of which US\$9.1 million, or 36.8%, had been settled as at 31 January 2016. Our trade payables as at 31 December 2015 amounted to US\$7.9 million, of which US\$3.3 million, or 42.4%, had been settled as at 31 January 2016.
- We expect further listing expenses of US\$1.5 million to be charged to our consolidated statement of comprehensive income in 2016.

Our Directors have confirmed that, since 31 December 2015 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements set out in the Accountant's Report included in Appendix I to this prospectus.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

We intend to continue to grow our business and enhance our market leading position. In doing so, we plan to further invest in product planning, research and development, sales and marketing to enhance our product and industry reputation, deepen relationships with key industry participants and to improve and expand our international sales network. We will carefully monitor our future plans in accordance with business needs and opportunities that arise from time to time.

Please refer to the section headed “Business — Business Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, are estimated to be approximately HK\$230.8 million, assuming an Offer Price of HK\$3.49 per Share, being the mid-point of the indicative Offer Price range of HK\$3.10 to HK\$3.88 per Share. We intend to use such net proceeds for the following purposes:

- Approximately HK\$92.3 million (approximately 40% of our total estimated net proceeds) for product planning and research and development, allocated as below:
- Approximately 30% of estimated net proceeds for product planning and development activities for CAMs and mPOS devices, including developing the next generation chipsets and increasing our product design efforts, in particular we plan to:
 - design and develop DVB-CI+ 1.4 CAMs, the earliest model of which is expected to be commercially launched by the second quarter of 2016. Preliminary product design was completed and on-site test is being carried out for this project.
 - co-design and develop next generation mPOS chipset with TMC, which is expected to be commercially launched by the second quarter of 2016. Chipset sample testing is currently being conducted for this project.
 - design and develop CAMs with SM1680 chipsets compatible with both the DVB-CI+ 1.4 standard and the upcoming DVB-CI+ 2.0 standard, which is expected to be completed by the third quarter of 2016. Chipset security evaluation is currently being carried out for this project.
 - develop smart and integrated mPOS system, which is expected to be commercially launched by the third quarter of 2016. Initial product design is currently being conducted for this project.

FUTURE PLANS AND USE OF PROCEEDS

- develop SM1690 CAM chipset compatible with the DVB-CI+2.0 standard, which is expected to be commercially launched by the third quarter of 2018. Project proposals are being prepared for this project.
- design software and hardware for the DVB-CI+2.0 CAM, which is expected to be commercially launched in 2018. Initial product design is currently being formulated for this project.
- Approximately 10% of estimated net proceeds for strengthening our research and development team, by conducting training programs for our personnel to stay at the forefront of industry technologies and recruiting high-quality talents and experienced professionals to expand our team.
- Approximately HK\$69.2 million (approximately 30% of our total estimated net proceeds) for sales and marketing expenditures, allocated as below:
 - Approximately 25% of estimated net proceeds for deepening our relationships with key industry participants by (1) conducting joint marketing and promotion activities with industry partners in China and other emerging markets to promote our industry reputation, (2) participating in trade exhibitions globally for CAMs and mPOS products, and (3) organising industry forums and workshops for our new mPOS products and related technologies to help expand our customer base;
 - Approximately 5% of estimated net proceeds for developing our sales network both domestically and overseas by (1) establishing local sales teams in growth-potential markets, such as India, (2) recruiting experienced marketing experts for promoting our mPOS products in China, and (3) conducting training programs for our sales and marketing team to improve effectiveness.
- Approximately HK\$46.2 million (approximately 20% of our total estimated net proceeds) for possible mergers and acquisitions. As at the Latest Practicable Date, we were not in negotiation with any specific acquisition targets and had not identified any targets.
- Approximately HK\$23.1 million (approximately 10% of our total estimated net proceeds) for working capital and general corporate purposes.

As at the Latest Practicable Date, we did not make any proposal to purchase or invest in, and had not identified, any target business. For more information on our acquisition strategy, see the section headed “Business — Business Strategies” in this prospectus.

If the Offer Price is set at the high end or low end of the indicative Offer Price range, the estimated net proceeds from the Global Offering will increase by approximately HK\$28.4 million or decrease by approximately HK\$28.4 million, respectively. In such event, we will adjust the intended use of the net proceeds for the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions for so long as our Directors consider it to be in our best interest.

UNDERWRITING

HONG KONG UNDERWRITERS

Sole Global Coordinator, Sole Bookrunner and Lead Manager

Haitong International Securities Company Limited

Co-lead Managers

Convoy Investment Services Limited

RHB Securities Hong Kong Limited

Alliance Capital Partners Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement. If, for any reason, the Offer Price is not agreed between the Company and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 7,500,000 Hong Kong Offer Shares and the International Offering of initially 67,500,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus.

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board of the Stock Exchange and such approval not having been withdrawn, and to certain other conditions set out in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator (on behalf of the Underwriters) and the Company agreeing upon the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

UNDERWRITING

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) has the right, in its sole and absolute discretion, to terminate the Hong Kong Underwriting Agreement if it sees fit upon the occurrence at any time prior to 8:00 a.m. (Hong Kong time) of any of the following events:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any event or circumstance, or series of events or circumstances, in the nature of *force majeure* (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, riots, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting the Cayman Islands, Hong Kong, the PRC, the United States, the United Kingdom, the European Union (as a whole), Japan or any other jurisdiction relevant to any member of the Group (collectively, the “**Relevant Jurisdictions**”, each a “**Relevant Jurisdiction**”); or
 - (ii) any change or development involving a prospective change, or any event or circumstance, or series of events or circumstances, likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any Relevant Jurisdiction; or
 - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange or the Tokyo Stock Exchange; or
 - (iv) any general moratorium on commercial banking activities in any Relevant Jurisdictions declared by the relevant authorities, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

UNDERWRITING

- (v) any new law or regulation, or any change or any development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws or regulations, in each case, in or affecting any Relevant Jurisdiction; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the Relevant Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material devaluation of the Hong Kong dollar or Renminbi against any foreign currency), or the implementation of any exchange control (except for the PRC), in any Relevant Jurisdiction; or
- (viii) any litigation or claim of any third party being instigated against any member of the Group; or
- (ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) the chairman or chief executive officer of the Company vacating his office; or
- (xi) an authority or a political body or organisation in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xii) a contravention by any member of the Group or any Director of the Listing Rules, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO, the Cayman Islands Company Law or applicable laws; or
- (xiii) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares pursuant to the terms of the Global Offering; or
- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or

UNDERWRITING

- (xv) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

- (1) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or
- (2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for any part of the Global Offering to proceed or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (4) has or will have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

UNDERWRITING

- (b) there has come to the notice of the Sole Global Coordinator:
- (i) that any statement contained in any of this prospectus and the Application Forms (the “**Hong Kong Public Offering Documents**”) and/or in any notices, announcements or advertisements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue or incorrect in any material respect or misleading, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Hong Kong Public Offering Documents and/or any notices, announcements or advertisements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of the Hong Kong Public Offering Documents and/or in any notices, announcements or advertisements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any material liability of the indemnifying party under the Hong Kong Underwriting Agreement; or
 - (v) any material adverse change, or any development involving a prospective material adverse change, in the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial, trading or otherwise, or performance of the Group as a whole; or
 - (vi) any breach of, or any matter, event or circumstance rendering untrue, incorrect or inaccurate in any material respect or misleading, any of the representations, warranties and undertakings given by the Company under the Hong Kong Underwriting Agreement; or
 - (vii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, that the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

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(viii) a withdrawal by the Company of this prospectus (and/or any other documents issued or used in connection with the Global Offering) or from the Global Offering.

Undertakings to the Stock Exchange Pursuant to the Listing Rules

Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the date on which the Company's securities first commence dealing on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

Undertakings by the Company

The Company has, pursuant to the Hong Kong Underwriting Agreement, undertaken to, inter alia, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters not to, and to procure each of the other member of the Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, except pursuant to the Global Offering, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”),

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable), or deposit any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or

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- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (c) enter into any transactions with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), the Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Indemnity

The Company has agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters’ Interests in the Company

Save for their obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interests in the Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in the Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

UNDERWRITING

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that the Company will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out therein, the International Underwriters would severally agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Undertakings pursuant to the Lock-up Undertakings

Each Lock-up Party has provided a lock-up undertaking in favour of the Company and the Sole Global Coordinator (the “**Lock-up Undertakings**”). As at the Latest Practicable Date, the Lock-up Parties held an aggregate of 105,135,225 Shares, representing 68.97% of the Company’s total issued share capital. Under the terms of the Lock-up Undertakings, each of the Lock-up Parties has undertaken to each of the Company and the Sole Global Coordinator that as an inducement for the Sole Global Coordinator to execute the Underwriting Agreements, each Lock-up Party will not, and will procure that none of its affiliates will, without the prior written consent of the Sole Global Coordinator and unless in compliance with the requirements of the Listing Rules, at any time during the six-month period commencing from the Listing Date:

- (a) offer, sell, offer, contract or agree to sell, mortgage, charge, pledge or otherwise dispose of, lend, sell or grant any option, warrant, contract or right to sell, grant or purchase any option, warrant, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, whether directly or indirectly, conditionally or unconditionally, any Shares or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable);
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above.

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Commissions and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 3% of the aggregate Offer Price payable for the Hong Kong Offer Shares offered under the Hong Kong Public Offering (excluding any Hong Kong Offer Shares reallocated to the International Offering). For unsubscribed Hong Kong Offer Shares reallocated to the International Offering and International Offer Shares reallocated to the Hong Kong Public Offering, if any, the Company will pay an underwriting commission at the rate applicable to the International Offering as set out in the International Underwriting Agreement, and such commission will be paid to the Sole Global Coordinator (for itself and on behalf of the International Underwriters), and no underwriting commission will be paid to the Hong Kong Underwriters for such reallocated Offer Shares. In addition, the Company may, at its sole and absolute discretion, also pay an incentive fee of up to 1% of the aggregate Offer Price in respect of all the Offer Shares offered under the Global Offering to the Sole Sponsor and/or the Sole Global Coordinator.

The Sole Sponsor will receive sponsor fees. The aggregate underwriting commissions, sponsor fees, Stock Exchange listing fees, SFC transaction levy of 0.0027%, the Stock Exchange trading fee of 0.005%, legal and other professional fees, together with applicable printing and other expenses relating to the Global Offering, are estimated to amount to approximately HK\$58.13 million in total (based on an Offer Price of HK\$3.49 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus) will be payable and borne by the Company.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the

UNDERWRITING

Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of initially 7,500,000 Shares (subject to adjustment as mentioned below) for subscription by the public in Hong Kong as described in the section headed “— The Hong Kong Public Offering” below; and
- (b) the International Offering of initially 67,500,000 Shares (subject to adjustment as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares available under the Global Offering represents approximately 25% of the enlarged share capital of the Company immediately after the Capitalisation Issue and the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised).

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares Initially Offered

We are initially offering 7,500,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.5% of the enlarged issued share capital of the Company immediately after the Capitalisation Issue and the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the section headed “Conditions of the Global Offering” below.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of the Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Offer Shares initially available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: Pool A and Pool B. The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 3,750,000 Hong Kong Offer Shares (being 50% of the 7,500,000 Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 7,500,000 Offer Shares, representing 10% of the Offer Shares available under the Global Offering;

STRUCTURE OF THE GLOBAL OFFERING

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 22,500,000 Offer Shares, representing 30% of the Offer Shares available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 30,000,000 Offer Shares, representing 40% of the Offer Shares available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 37,500,000 Offer Shares, representing 50% of the Offer Shares available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Sole Global Coordinator deems appropriate. If the International Offering is not fully subscribed, the Sole Global Coordinator may decide in their absolute discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

STRUCTURE OF THE GLOBAL OFFERING

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$3.88 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “Pricing and Allocation” below, is less than the maximum price of HK\$3.88 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

The International Offering will consist of an initial offering of 67,500,000 Shares, representing 90% of the total number of Offer Shares available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the section headed “Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and its shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

We have not granted and are not expected to grant an over-allotment option to the Sole Global Coordinator in connection with the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

STABILISATION

We do not expect any stabilisation activities to be undertaken in connection with the Global Offering.

STOCK BORROWING ARRANGEMENT

We do not expect any stock borrowing arrangement to be undertaken in connection with the Global Offering.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between the Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or about Monday, 21 March 2016 and in any event no later than Thursday, 24 March 2016.

The Offer Price will not be more than HK\$3.88 per Offer Share and is expected to be not less than HK\$3.10 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the Company’s consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the website of the Company (www.smit.com.cn) and the website of the Stock Exchange (www.hkexnews.hk) notices of the reduction. Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Company and the Sole Global Coordinator (on behalf of the Underwriters), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial

STRUCTURE OF THE GLOBAL OFFERING

information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between the Company and the Sole Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of and results of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on Tuesday, 29 March 2016 in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the website of the Company (www.smit.com.cn) and the website of the Stock Exchange (www.hkexnews.hk).

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares that may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed between the Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date;
- (c) the execution and delivery of the International Underwriting Agreement on or before the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between the Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Thursday, 24 March 2016, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the website of the Company (www.smit.com.cn) and the website of the Stock Exchange (www.hkexnews.hk) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

STRUCTURE OF THE GLOBAL OFFERING

Share certificates issued in respect of the Hong Kong Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms at any time prior to 8:00 a.m. on the Listing Date).

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares that may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme).

No part of the Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 30 March 2016, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 30 March 2016. The Shares will be traded in board lots of 1,000 Shares. The stock code of the Shares is 2239.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are a core connected person and/or a connected person (as such terms are defined in the Listing Rules) of the Company or will become a core connected person and/or connected person of the Company immediately upon completion of the Global Offering;
- are an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 16 March 2016 until 12:00 noon on Monday, 21 March 2016 from:

- (i) any of the following offices of the Hong Kong Underwriters:

Haitong International Securities Company Limited	22/F Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong
Alliance Capital Partners Limited	Unit 318, 3/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
Convoy Investment Services Limited	Room C, 24/F, @CONVOY, 169 Electric Road, North Point, Hong Kong
RHB Securities Hong Kong Limited	12/F, World-Wide House, 19 Des Voeux Road Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) or any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

Region	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui
	Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan
Kowloon	Mong Kok Branch	589 Nathan Road, Mong Kok
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
New Territories	City One Sha Tin Branch	Shop Nos.24-25, G/F, Fortune City One Plus, No.2 Ngan Shing Street, ShaTin
	Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long
	Citywalk Branch	Shop 65, G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 16 March 2016 until 12:00 noon on Monday, 21 March 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong, or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of China (Hong Kong) Nominees Limited — SMIT Holdings Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Wednesday, 16 March 2016 — 9:00 a.m. to 5:00 p.m.

Thursday, 17 March 2016 — 9:00 a.m. to 5:00 p.m.

Friday, 18 March 2016 — 9:00 a.m. to 5:00 p.m.

Saturday, 19 March 2016 — 9:00 a.m. to 1:00 p.m.

Monday, 21 March 2016 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 21 March 2016, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Cayman Islands Company Law, the Memorandum and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, the Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application unless you fulfil the criteria as mentioned in "14. Dispatch/Collection of Share Certificates and Refund Monies — Personal Collection" in this section to collect share certificate(s) / or refund cheque(s);
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Additional Instructions for YELLOW Application Forms

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “2. Who Can Apply” in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 16 March 2016 until 11:30 a.m. on Monday, 21 March 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 21 March 2016 or such later time under “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. The **White Form eIPO** Service Provider, will contribute HK\$2 for each “SMIT HOLDINGS LIMITED” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square,
8 Connaught Place,
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and the Hong Kong Share Registrar.

GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, the Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Cayman Islands Company Law, the Memorandum and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 16 March 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 17 March 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 18 March 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 19 March 2016 — 8:00 a.m. to 1:00 p.m.
Monday, 21 March 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 16 March 2016 until 12:00 noon on Monday, 21 March 2016 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 21 March 2016, the last application day or such later time as described in “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Lead Manager and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 21 March 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation”.

HOW TO APPLY FOR HONG KONG OFFER SHARES

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 21 March 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 21 March 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 29 March 2016 in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the Company’s website at www.smit.com.cn and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.smit.com.cn and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Tuesday, 29 March 2016;
- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, 29 March 2016 to 12:00 midnight on Monday, 4 April 2016;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, 29 March 2016 to Friday, 1 April 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 29 March 2016 to Thursday, 31 March 2016 at all the receiving bank designated branches.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$3.88 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Any refund of your application monies will be made on Tuesday, 29 March 2016.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on Tuesday, 29 March 2016. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 30 March 2016 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 29 March 2016 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 29 March 2016, by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 29 March 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 29 March 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- *If you are applying as a CCASS Investor Participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 29 March 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through the White Form eIPO service*

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 29 March 2016, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 29 March 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) *If you apply via Electronic Application Instructions to HKSCC*

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 29 March 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Tuesday, 29 March 2016. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 29 March 2016 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 29 March 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 29 March 2016.

HOW TO APPLY FOR HONG KONG OFFER SHARES

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the inclusion in this prospectus, received from the independent reporting accountant of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道

16 March 2016

The Directors
SMIT Holdings Limited

Haitong International Capital Limited

Dear Sirs,

We report on the financial information of SMIT Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”), which comprises the consolidated statements of financial position as at 31 December 2013, 2014 and 2015, the statement of financial position of the Company as at 31 December 2015 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2013, 2014 and 2015 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 16 March 2016 (the “Prospectus”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 29 June 2015 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed “Reorganisation” below, which was completed on 13 November 2015, the Company became the holding company of the subsidiaries now comprising the Group (the “Reorganisation”).

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

No statutory audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation other than the Reorganisation. The statutory audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1.2 of Section II.

The directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSAs”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1.3 of Section II below.

Directors’ Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1.3 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.3 of Section II below, a true and fair view of the state of affairs of the Company as at 31 December 2015 and of the state of affairs of the Group as at 31 December 2013, 2014 and 2015 and of the Group’s consolidated results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2013, 2014 and 2015, and for each of the years ended 31 December 2013, 2014 and 2015 (the “Financial Information”), presented on the basis set out in Note 1.3 of Section II below:

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December		
		2013	2014	2015
		USD	USD	USD
Revenue	6	47,180,984	56,006,825	65,141,051
Cost of sales	7	(23,733,224)	(33,250,459)	(41,016,720)
Gross profit		23,447,760	22,756,366	24,124,331
Other (losses)/gains, net	6	(112,966)	(588,278)	661,785
Other income	6	2,403,748	1,760,076	1,373,870
Research and development expenses	7	(6,990,017)	(5,956,750)	(7,370,615)
Selling and distribution expenses	7	(6,699,261)	(5,624,710)	(3,340,549)
General and administrative expenses	7	(9,016,275)	(6,805,123)	(11,514,682)
Operating profit		3,032,989	5,541,581	3,934,140
Finance income	9	148,921	189,090	245,101
Finance cost	9	—	—	(38,659)
Finance income — net		148,921	189,090	206,442
Profit before income tax		3,181,910	5,730,671	4,140,582
Income tax expense	10	(507,136)	(270,847)	(817,878)
Profit for the year attributable to owners of the Company		2,674,774	5,459,824	3,322,704
Other comprehensive income				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Translation differences		1,592,021	(146,528)	(3,496,471)
Fair value gain on available-for-sale financial assets, net of tax		2,073,325	1,068,373	644,720
Reserve released on settlement of available-for-sale financial assets, net of tax		(2,144,879)	(1,178,266)	(692,539)
Total comprehensive income for the year attributable to owners of the Company		4,195,241	5,203,403	(221,586)
Earnings per share attributable to owners of the Company for the year (expressed in USD per share) (Note)				
Basic earnings per share	11	0.018	0.036	0.022
Diluted earnings per share	11	0.016	0.033	0.020
Dividends	12	—	—	—

Note: The earnings per share presented above has not taken into account the proposed capitalisation issue pursuant to the shareholder resolutions dated 6 March 2016 because the proposed capitalisation issue has not been effected as of the date of this report.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
	Note	2013	2014	2015
		USD	USD	USD
ASSETS				
Non-current assets				
Property, plant and equipment	13	1,769,858	2,777,510	2,365,533
Other intangible assets	14	279,914	417,520	490,661
Goodwill	22	7,041,317	7,015,886	6,611,157
Restricted bank deposits	19	1,382,479	—	—
Prepayments and other receivables	18	332,532	195,729	208,529
Deferred income tax assets	21	1,500,804	1,754,967	2,093,095
		<u>12,306,904</u>	<u>12,161,612</u>	<u>11,768,975</u>
Current assets				
Inventories	16	7,191,939	9,662,243	7,471,869
Trade and other receivables	18	11,138,011	20,123,467	25,416,236
Income tax recoverable		201,792	308,022	308,022
Available-for-sale financial assets	15	24,776,930	11,655,488	—
Amounts due from related parties	33	26,662,456	22,726,724	—
Restricted bank deposits	19	2,932,638	1,163,800	—
Cash and cash equivalents	20	26,503,097	43,977,754	33,972,375
		<u>99,406,863</u>	<u>109,617,498</u>	<u>67,168,502</u>
Total assets		<u>111,713,767</u>	<u>121,779,110</u>	<u>78,937,477</u>
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	23	—	—	3,049
Combined capital	24	19,267,410	19,267,410	—
Share premium	23	—	—	63,331,486
Merger reserve	24	—	—	(48,810,141)
Share-based payment reserve	24	18,020,464	18,991,926	20,894,252
Statutory reserve	24	2,664,011	3,111,528	3,389,227
Retained earnings		11,416,147	16,428,454	19,473,459
Available-for-sale investments reserve		157,712	47,819	—
Capital reserve	24	1,154,067	859,659	1,212,543
Exchange reserve		6,325,984	6,179,456	2,682,985
Total equity		<u>59,005,795</u>	<u>64,886,252</u>	<u>62,176,860</u>
LIABILITIES				
Current liabilities				
Trade payables	25	1,366,733	3,833,549	7,881,504
Other payables and accruals	26	6,353,053	7,184,756	5,829,539
Deferred revenue	27	594,562	1,768,475	1,552,507
Amounts due to shareholders	33	44,152,562	43,668,199	—
Income tax payable		241,062	437,879	1,497,067
Total liabilities		<u>52,707,972</u>	<u>56,892,858</u>	<u>16,760,617</u>
Total equity and liabilities		<u>111,713,767</u>	<u>121,779,110</u>	<u>78,937,477</u>
Net current assets		<u>46,698,891</u>	<u>52,724,640</u>	<u>50,407,885</u>
Total assets less current liabilities		59,005,795	64,886,252	62,176,860

COMPANY STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2015 <i>USD</i>
ASSETS		
Non-current asset		
Investment in subsidiaries	34	69,706,459 -----
Current asset		
Amounts due from subsidiaries	34	8,232,138 -----
Total assets		<u><u>77,938,597</u></u>
LIABILITY		
Current liability		
Amount due to a subsidiary	34	12,980,053 -----
Total liability		<u><u>12,980,053</u></u>
EQUITY AND LIABILITY		
Equity attributable to owners of the Company		
Share capital	23	3,049
Share premium	23	63,331,486
Share-based payment reserve		1,628,908
Accumulated loss		(4,899) -----
Total equity		<u><u>64,958,544</u></u>
Total equity and liability		<u><u>77,938,597</u></u>
Net current liability		<u><u>(4,747,915)</u></u>
Total assets less current liability		<u><u>64,958,544</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital	Share premium	Merger reserve	Combined capital	Share-based payment reserve	Statutory reserve	Available-for-sale investments reserve	Capital reserve	Exchange reserve	Retained earnings
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Total equity	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
For the year ended 31 December 2013										
Balance at 1 January 2013	—	—	—	15,863,595	13,610,385	2,508,957	229,266	5,344,049	4,733,963	8,896,427
Comprehensive income										
Profit for the year	—	—	—	—	—	—	—	—	—	2,674,774
Fair value gain on available-for-sale financial assets, net of tax	—	—	—	—	—	—	2,073,325	—	—	2,073,325
Reserve released on settlement of available-for-sale financial assets	—	—	—	—	—	—	(2,144,879)	—	—	(2,144,879)
Translation differences	—	—	—	—	—	—	—	—	1,592,021	1,592,021
Total comprehensive income for the year	—	—	—	—	—	—	(71,554)	—	1,592,021	2,674,774
Transaction with owners										
Capital injection	—	—	—	19,230,769	—	—	—	—	—	19,230,769
Share-based compensation	—	—	—	—	4,410,079	—	—	—	—	4,410,079
Appropriation to statutory reserves	—	—	—	—	—	155,054	—	—	—	(155,054)
Deemed distribution to shareholders	—	—	—	(15,826,954)	—	—	—	(4,189,982)	—	(20,016,936)
Transaction with owners, recognised directly in equity	—	—	—	3,403,815	4,410,079	155,054	—	(4,189,982)	—	(155,054)
Balance at 31 December 2013	—	—	—	19,267,410	18,020,464	2,664,011	157,712	1,154,067	6,325,984	59,005,795

	Attributable to owners of the Company										
	Share capital	Share premium	Merger reserve	Combined capital	Share-based payment reserve	Statutory reserve	Available-for-sale investments reserve	Capital reserve	Exchange reserve	Retained earnings	Total equity
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
For the year ended 31 December 2014											
Balance at 1 January 2014	—	—	—	19,267,410	18,020,464	2,664,011	157,712	1,154,067	6,325,984	11,416,147	59,005,795
Comprehensive income											
Profit for the year	—	—	—	—	—	—	—	—	—	5,459,824	5,459,824
Fair value gain on available-for-sale financial assets, net of tax	—	—	—	—	—	—	1,068,373	—	—	—	1,068,373
Reserve released on settlement of available-for-sale financial assets	—	—	—	—	—	—	(1,178,266)	—	—	—	(1,178,266)
Translation differences	—	—	—	—	—	—	—	—	(146,528)	—	(146,528)
Total comprehensive income for the year	—	—	—	—	—	—	(109,893)	—	(146,528)	5,459,824	5,203,403
Transaction with owners											
Share-based compensation	—	—	—	—	971,462	—	—	—	—	—	971,462
Appropriation to statutory reserves	—	—	—	—	—	447,517	—	—	—	(447,517)	—
Deemed distribution to shareholders	—	—	—	—	—	—	—	(294,408)	—	—	(294,408)
Transaction with owners, recognised directly in equity											
	—	—	—	—	971,462	447,517	—	(294,408)	—	(447,517)	677,054
Balance at 31 December 2014	—	—	—	19,267,410	18,991,926	3,111,528	47,819	859,659	6,179,456	16,428,454	64,886,252

	Attributable to owners of the Company											
	Share capital	Share premium	Share	Merger reserve	Combined capital	Share-based payment reserve	Statutory investments reserve	Available-for-sale reserve	Capital reserve	Exchange reserve	Retained earnings	Total equity
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
For the year ended 31 December 2015												
Balance at 1 January 2015	—	—	—	—	19,267,410	18,991,926	3,111,528	47,819	859,659	6,179,456	16,428,454	64,886,252
Comprehensive income												
Profit for the year	—	—	—	—	—	—	—	—	—	—	3,322,704	3,322,704
Fair value gain on available-for-sale financial assets, net of tax	—	—	—	—	—	—	—	644,720	—	—	—	644,720
Reserve released on settlement of available-for-sale financial assets	—	—	—	—	—	—	—	(692,539)	—	—	—	(692,539)
Translation differences	—	—	—	—	—	—	—	—	—	(3,496,471)	—	(3,496,471)
Total comprehensive income for the year	—	—	—	—	—	—	—	(47,819)	—	(3,496,471)	3,322,704	(221,586)
Transaction with owners												
Share-based compensation	—	—	—	—	—	1,902,326	—	—	—	—	—	1,902,326
Appropriation to statutory reserves	—	—	—	—	—	—	277,699	—	—	—	(277,699)	—
Deemed contribution from shareholders	—	—	—	—	—	—	—	—	352,884	—	—	352,884
Issuance of shares pursuant to a group Reorganisation	3,049	63,331,486	(48,810,141)	(19,267,410)	—	—	—	—	—	—	—	(4,743,016)
Transaction with owners, recognised directly in equity	3,049	63,331,486	(48,810,141)	(19,267,410)	1,902,326	277,699	—	—	352,884	—	(277,699)	(2,487,806)
Balance at 31 December 2015	3,049	63,331,486	(48,810,141)	—	—	20,894,252	3,389,227	—	1,212,543	2,682,985	19,473,459	62,176,860

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
	Note	2013	2014	2015
		USD	USD	USD
Cash flows from operating activities				
Cash generated from/(used in) operations	29(a)	8,101,788	(721,471)	5,502,972
Income tax paid		(149,816)	(118,748)	(29,715)
Interest expense paid		—	—	(38,659)
Net cash generated from/(used in) operating activities		7,951,972	(840,219)	5,434,598
Cash flows from investing activities				
Purchases of property, plant and equipment		(1,171,442)	(1,475,719)	(399,041)
Purchases of other intangible assets		(44,238)	(488,353)	(389,644)
Purchase of available-for-sale financial assets		(209,210,760)	(92,598,620)	(68,741,081)
Settlement of available-for-sale financial assets		233,361,085	106,762,721	80,918,505
(Increase)/decrease in deposit in restricted bank deposits		(2,978,089)	3,148,898	1,144,387
Interest income received		148,921	189,090	245,101
Net cash generated from investing activities		20,105,477	15,538,017	12,778,227
Cash flows from financing activities				
Proceeds from borrowings		—	—	5,850,000
Repayments of borrowings		—	—	(5,850,000)
Payment for listing fee		—	—	(1,054,349)
Net changes in balances with related and shareholders		(18,826,902)	2,865,707	(25,331,607)
Net cash (used in)/generated from financing activities		(18,826,902)	2,865,707	(26,385,956)
Net increase/(decrease) in cash and cash equivalents				
		9,230,547	17,563,505	(8,173,131)
Cash and cash equivalents at beginning of year		16,950,831	26,503,097	43,977,754
Exchange gains/(losses) on cash and cash equivalents		321,719	(88,848)	(1,832,248)
Cash and cash equivalents at end of year	20	26,503,097	43,977,754	33,972,375

II NOTES TO THE FINANCIAL INFORMATION**1 General information, reorganisation and basis of presentation****1.1 General information**

The Company was incorporated in the Cayman Islands on 29 June 2015 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company and its subsidiaries (together, the "Group") are principally engaged in the development and sales of conditional access modules ("CAM") and mobile point-of-sales ("mPOS") devices that enable secure distribution and delivery of digital content to television and secure mobile payment transactions respectively (collectively, the "Listing Business").

Prior to the incorporation of the Company and the Reorganisation as described below, the Listing Business was carried out by companies now comprising the Group (collectively the "Operating Subsidiaries"). State Micro Technology Corporation ("SMIT Corporation") was the ultimate holding company of the Operating Subsidiaries before the completion of the Reorganisation as described in Note 1.2 below.

Before the completion of the reorganisation, other than conducting the Listing Business, the Operating Subsidiaries and their then subsidiary and branch also conducted online video business and internet-based integrated application business ("the "Excluded Business") which were dissimilar to the Listing Business and were run by divisions separated from those divisions within the Operating Subsidiaries which operate the Listing Business. The Excluded Business was operated by separate management, maintained separate accounting books and records, and had no more than incidental common facilities and costs sharing with the Listing Business. In 2014, the Excluded Business was disposed of by the Operating Subsidiaries to two companies in which SMIT Corporation retained a minority interest, and the relevant subsidiary and a branch of an Operating Subsidiary which previously operated the Excluded Business were deregistered in 2015.

This Financial Information is presented in United States dollar ("USD"), unless otherwise stated.

1.2 Reorganisation

In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Company and other companies now comprising the Group have undergone a reorganisation (the "Reorganisation") pursuant to which companies engaged in the Listing Business were transferred to the Company. The Reorganisation was completed on 13 November 2015.

The Reorganisation involved the following steps:

- The Company was incorporated under the laws of the Cayman Islands on 29 June 2015. On that date, one ordinary share of the Company was issued and owned by Mr. Huang Xueliang.
- On 21 September 2015, the Company entered into a share sale and purchase agreement with, among other parties, SMIT Corporation and its shareholders, pursuant to which the Company agreed to acquire from SMIT Corporation its entire interests in each of SMiT (HK) Limited and SMiT Digital GmbH. In return, the Company issued 152,425,254 ordinary shares of the Company to the shareholders of SMIT Corporation. Pursuant to the share sale and purchase agreement, upon the completion of the Reorganisation, the amounts due from related parties of USD25,415,693 as at the completion date were assumed by the Company from those related parties. As at the completion date, the amounts due to shareholders of USD20,672,677, after a net repayment of USD22,995,522 to SMIT Corporation in 2015, were assigned to the Company from SMIT Corporation.

Upon completion of the above steps, the Company became the holding company of the companies now comprising the Group. The shareholders of SMIT Corporation, upon completion of the Reorganisation, retain their respective equity interests in the Company same as their respective equity interests in SMIT Corporation.

Upon completion of the Reorganisation the Company has direct and indirect interests in the following subsidiaries:

Name	Place of incorporation and kind of legal entity	Date of Incorporation	Issued and fully paid share capital	% of direct or indirect ownership	Principal activities
Directly held:					
SMiT (HK) Limited (i)	Hong Kong, limited liability company	25 April 2006	HK\$150,010,000 (2012: HK\$10,000)	100%	Sales of CAM and other security products and related materials
SMiT Digital GmbH (ii)	Germany, limited liability company	11 August 2009	EUR25,000	100%	Sales of CAM and mPOS devices and other security products

Name	Place of incorporation and kind of legal entity	Date of Incorporation	Issued and fully paid share capital	% of direct or indirect ownership	Principal activities
Indirectly held:					
Shenzhen State Micro Technology Co., Ltd. (“SMiT Shenzhen”) (深圳國微技術有限公司) (iii)	The PRC, limited liability company	4 January 2002	RMB120,000,000	100%	Research and development and sales of CAM, mPOS devices and other security products

Notes:

- (i) The statutory financial statements of this company for each of the years ended 31 December 2013 and 2014 were audited by Cheng Kai Pui Certified Public Accountants and Prism & Co., Certified Public Accountants in Hong Kong.
- (ii) No audited statutory financial statements have been issued for this company as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.
- (iii) The statutory auditor of this PRC company for the year ended 31 December 2013 and 2014 was Shenzhen Dagong Certified Public Accountants Limited (深圳大公會計師事務所有限公司).

All the companies comprising the Group have adopted 31 December as their financial year-end date.

The English names of certain subsidiaries and auditor referred to above represented the best efforts by management of the Company in translating the subsidiaries and auditor's Chinese names, as they do not have official English names.

1.3 *Basis of presentation*

For the purpose of this report, the consolidated financial statements of the Group have been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2013, 2014 and 2015 have been prepared using the financial information of the companies engaged in the Listing Business as if the current group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation/establishment of the consolidated companies, or since the date when the consolidated companies first came under the control of SMIT Corporation, whichever is a shorter period.

The consolidated statements of comprehensive income include all revenues, related costs, expenses and charges directly generated or incurred by the Listing Business, and the consolidated statements of financial position include assets and liabilities that are directly related and clearly attributable to the Listing Business except for income tax payable/recoverable and cash and bank balances which are accounted for on the legal entity basis. The relevant income tax expenses and income tax credits not attributable to the Listing Business were excluded from the consolidated statements of comprehensive income and included as an item in the deemed distribution to or contribution from shareholders in the consolidated statements of changes in equity. There were no significant common costs between the Listing Business and Excluded Business apart from the remuneration of the top management. All top management remuneration was allocated to the Listing Business due to the fact that significant amount of top management's time were spent on managing the Listing Business.

The financial information has not included the assets, liabilities and results of operations of the Excluded Business as described in Note 1.1 above.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The Financial Information is prepared in accordance with the applicable requirements of the new Hong Kong Companies Ordinance (Cap. 622) for the Relevant Periods.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

The following are new standards, amendments to standards and interpretations that are published and potentially relevant and are effective for annual periods beginning after 1 January 2016, and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Disclosure initiative	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: bearer plants	1 January 2016
HKAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016
HKFRS 9	Financial instruments	1 January 2018
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 10, HKFRS12 and HKAS 28 (Amendment)	Investment entities: applying the consolidation exception	1 January 2016
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations	1 January 2016
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2018
Annual improvements projects 2014	Annual improvements 2012-2014 cycle	1 January 2016

Management is in the process of making an assessment on the impact of these new standards, amendments to standards and interpretations and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

2.2 *Subsidiaries*

2.2.1 *Consolidation*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations other than business under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated statements of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statements of comprehensive income.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

2.3 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ("CEO") of the Group that makes strategic decisions.

2.4 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in USD, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the consolidated statements of comprehensive income.

(c) *Group companies*

The results and financial position of all the Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.5 *Property, plant and equipment*

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statements of comprehensive income during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs over their estimated useful lives, as follows:

Leasehold improvements	shorter of lease term or 5 years
Furniture, fixtures and equipment	3-5 years
Motor vehicles	10 years

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amounts of the relevant assets, and are recognised within 'General and administrative expenses' in the consolidated statements of comprehensive income.

2.6 *Impairment of non-financial assets*

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 *Intangible assets*

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Other intangible assets*

Other intangible assets consist of acquired technologies. They are carried at cost less accumulated amortisation and impairment loss, if any. Amortisation is computed using the straight-line method over their estimated useful lives of 3 to 5 years.

(c) *Research and development costs*

Costs associated with research activities are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Group are recognised as intangible assets when the following criteria are met:

- (i) it is technically feasible to complete the product so that it will be available for use;
- (ii) management intends to complete the product and use or sell it;
- (iii) there is an ability to use or sell the product;
- (iv) it can be demonstrated how the product will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- (vi) the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the product include the product development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.8 *Financial assets*

2.8.1 *Classification*

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables comprise trade and other receivables, restricted bank deposits and cash and cash equivalents in the statements of financial position (Notes 2.12 and 2.13).

2.8.2 *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date—the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognised in other comprehensive income.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statements of comprehensive income as “gains and losses from available-for-sale financial assets” in other income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statements of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statements of comprehensive income as part of other income when the Group's right to receive payments is established.

2.9 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.10 *Impairment of financial assets*

(a) *Assets carried at amortised cost*

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

(b) *Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statements of comprehensive income.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statements of comprehensive income on equity instruments are not reversed through the consolidated statements of comprehensive income.

2.11 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 *Trade and other receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 *Cash and cash equivalents and restricted bank deposits*

In the consolidated statements of cash flows, cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

Restricted bank deposits represent the amounts of cash pledged as collateral to banks for the bank facilities.

2.14 *Share capital and combined capital*

Share capital and combined capital are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 *Trade and other payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 *Current and deferred income tax*

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax***Inside basis differences**

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 *Employee benefits*

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) *Pension obligations*

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described

above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the provincial governments.

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 *Share-based payments*

(a) *Equity-settled share-based payment transactions*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, net of rebates and discounts. Rebates and discounts granted to customers are classified as a reduction of revenue. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) *Sales of goods*

Sales of goods are recognised when the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated statements of comprehensive income on a straight-line basis over the period of lease.

2.23 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.24 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.25 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the entity's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge the risk exposures.

Financial risk management is carried out by the finance department under the supervision of the CEO of the Company. The CEO provides principles for overall risk management.

(a) *Market risk*

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi (“RMB”) and Euro. Foreign exchange risk arises from future commercial transactions or recognised financial assets and liabilities are denominated in a currency that is not the entity’s functional currency.

As at 31 December 2013, 2014 and 2015, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax profit and total equity would have been approximately USD68,000, USD445,000 and USD65,000 lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of RMB denominated trade receivables and cash and cash equivalents.

As at 31 December 2013, 2014 and 2015, if USD had strengthened/weakened by 5% against EUR with all other variables held constant, the post-tax profit and total equity would have been approximately USD189,000, USD447,000 and USD254,000 lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of Euro denominated trade receivables and cash and cash equivalents.

(ii) Cash flow and fair value interest rate risk

The Group’s income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities except for the deposits in banks, details of which have been disclosed in Note 20. The interest rate risk is considered to be insignificant.

(b) *Credit risk*

Credit risk is managed on a group basis. The credit risk of the Group mainly arises from cash and cash equivalents (excluding cash on hand) and deposits with banks, trade and other receivables and amounts due from related parties. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

As at 31 December 2013, 2014 and 2015, for cash and cash equivalents (excluding cash on hand) and deposits with banks, they are all deposited or traded with listed banks. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

As at 31 December 2013, 2014 and 2015, top 3 customers of the Group accounted for approximately 10%, 69% and 82%, respectively, to the trade receivables of the Group. The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers.

Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the Financial Information.

The credit quality of the amounts due from related parties have been assessed with reference to historical information about the counterparty default and financial position of the counterparty. All amounts due from related parties were settled upon the completion of the Reorganisation.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position. The Group aims to maintain flexibility in funding by keeping sufficient bank balances and committed credit lines available.

As at 31 December 2013, 2014 and 2015, all of the Group's financial liabilities were due for settlement contractually within 12 months or repayable on demand, the impact at discounting is not significant.

3.2 *Capital management*

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debts divided by total equity. Total debts are calculated by aggregating the non-trade nature of amounts due to shareholders as at 31 December 2013, 2014 and 2015.

As at 31 December 2013, 2014 and 2015, the gearing ratios were as follows:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Total debts	44,152,562	43,668,199	—
Total equity	59,005,795	64,886,252	62,176,860
Gearing ratio	0.75	0.67	N/A

The decrease in the gearing ratio in 2014 was resulted primarily from the net income generated from operation. As at 31 December 2015, the Group did not have any debt after the assignment of the amounts due to shareholders on the book of the consolidated subsidiaries to the Company as part of the Reorganisation as stated in Note 1.2.

3.3 Fair value estimation

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2013, 2014 and 2015.

The carrying values of the Group's financial assets, including trade and other receivables, restricted bank deposits and cash and cash equivalents, and financial liabilities, including trade and other payables, amounts due from/to related parties, approximate their fair values due to their short maturities.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are estimated or valued based on quoted market prices at the close of trading on the period end date.

For instruments for which there is no active market, management uses a variety of methods and makes assumptions that are based on market conditions existing at each period end date.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The following table analyses within the fair value hierarchy the Group's financial assets and liabilities measured at fair value at 31 December 2013 and 2014. There were no available-for-sale financial assets as at 31 December 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>
As at 31 December 2014				
Assets				
Available-for-sale financial assets				
— structured deposits	<u>—</u>	<u>—</u>	<u>11,655,488</u>	<u>11,655,488</u>
As at 31 December 2013				
Assets				
Available-for-sale financial assets				
— structured deposits	<u>—</u>	<u>—</u>	<u>24,776,930</u>	<u>24,776,930</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair values of structured deposits are calculated based on observable net asset value of the structured deposits.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the movement in the Group's level 3 financial assets for the years ended 31 December 2013, 2014 and 2015. Given the relatively short maturity of the structured deposits, the year end fair values of the structured deposits are not significantly different from their book values.

	Available-for-sale financial assets
	Structured deposits
	<i>USD</i>
At 1 January 2013	45,604,308
Additions	209,210,760
Settlement	(233,361,085)
Gain on settlement recognised in profit or loss	2,100,334
Fair value gain recognised in other comprehensive income	174,263
Exchange difference	1,048,350
At 31 December 2013	24,776,930
Additions	92,598,620
Settlement	(106,762,721)
Gain on settlement recognised in profit or loss	1,134,797
Fair value gain recognised in other comprehensive income	52,285
Exchange difference	(144,423)
At 31 December 2014	11,655,488
Additions	68,741,081
Settlement	(80,918,505)
Gain on settlement recognised in profit or loss	716,356
Fair value gain recognised in other comprehensive income	—
Exchange difference	(194,420)
At 31 December 2015	—

The details of the available-for-sale financial assets are as disclosed in Note 15.

No investments were transferred between level 1 and level 2 during the years ended 31 December 2013, 2014 and 2015.

3.4 *Offsetting financial assets and financial liabilities*

The Group have no financial assets and financial liabilities, which is subject to offsetting, enforceable master netting arrangements and similar agreements.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) *Useful lives of property, plant and equipment*

Management determines the estimated useful lives for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

(b) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each reporting date.

(c) *Provision for impairment of trade and other receivables*

The Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of trade and other receivables. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and impairment is recognised in the consolidated statements of comprehensive income in the period in which such estimate has been changed.

(d) *Income taxes*

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(e) *Share-based payments*

The valuation of the fair value of the share options granted requires judgment in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to vest. Where the outcome of the number of options that are vested is different, such difference will impact the consolidated statements of comprehensive income in the subsequent remaining vesting period of the relevant share options.

(f) *Fair value of available-for-sale financial assets*

The fair value of financial instruments that are not traded in an active market is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at each reporting date. Refer to Note 3.3 for the fair value measurements.

(g) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6 and 2.7. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations required the use of estimates.

5 Segment information

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker that are used to making strategic decisions. The chief operating decision-maker is identified as the CEO of the Company.

The chief operating decision-maker assesses the performance of the Listing Business based on a measure of profit after income tax and considers the Listing Business in a single operating segment. Information reported to the chief operating decision-maker for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment - manufacturing and trading of security products and segment information is not presented.

The Company is domiciled in the Cayman Islands while the Group operates its business in the PRC. The Group's revenue of USD10,332,000, USD18,390,000, and USD32,796,000 was generated from customers in the PRC, and the Group's revenue of USD36,849,000, USD37,617,000, and USD32,345,000 was generated from customers located in countries other than the PRC for the years ended 31 December 2013, 2014 and 2015, respectively. During the Relevant Periods, all non-current assets were mainly located in the PRC.

Segment assets and liabilities

No assets and liabilities are included in the Group's segment reporting that are submitted to and reviewed by the chief operating decision maker internally. Accordingly, no segment assets and liabilities are presented.

Information about major customers

External customers contribute over 10% of total revenue of the Group for any of the years ended 31 December 2013, 2014 and 2015 are as follows:

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Customer A	1,416,345	12,536,975	27,566,670
Customer B	3,267,065	8,078,945	9,040,318
Customer C	<u>10,204,064</u>	<u>4,412,564</u>	<u>6,022,159</u>

6 Revenue, other income and other gains/(losses)

The Group is principally engaged in the sales, design and development of digital security solution products. Turnover consists of revenue from sales of mPOS devices and CAM and other products. Revenue recognised during the Relevant Periods is as follows:

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Revenue			
CAM	45,709,596	43,229,830	37,352,481
mPOS devices	1,471,388	12,776,995	27,788,570
Total sale of goods	<u>47,180,984</u>	<u>56,006,825</u>	<u>65,141,051</u>
Other income			
Government grants	137,468	625,279	621,193
Gain on settlement of available-for-sale financial assets	2,100,334	1,134,797	716,356
Others	<u>165,946</u>	<u>—</u>	<u>36,321</u>
	<u>2,403,748</u>	<u>1,760,076</u>	<u>1,373,870</u>
Other (losses)/gains			
Exchange (losses)/gains, net	<u>(112,966)</u>	<u>(588,278)</u>	<u>661,785</u>
	<u>(112,966)</u>	<u>(588,278)</u>	<u>661,785</u>

7 Expenses by nature

Expenses included “cost of sales”, “research and development expenses”, “selling and distribution expenses” and “general and administrative expenses” are analysed as follows:

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Auditors' remuneration — Audit services	256,217	24,129	29,134
Advertising costs	2,175,605	1,998,876	809,099
Cost of inventories sold	16,776,532	25,819,003	35,732,494
Employee benefit expenses (including directors' emoluments) (Note 8)	13,141,044	10,244,236	11,527,023
Royalty expenses	5,060,756	4,552,840	3,177,542
Freight charges	214,087	129,504	150,442
Other taxes	269,935	136,836	573,049

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	Year ended 31 December		
	2013	2014	2015
	<i>USD</i>	<i>USD</i>	<i>USD</i>
Provision for impairment of inventories	379,546	1,507,553	599,582
Depreciation of property, plant and equipment (Note 13)	350,353	427,924	658,199
Amortisation of other intangible assets (Note 14)	463,669	348,251	311,479
Legal and professional fees	734,929	754,578	1,114,613
Listing fee	—	165,000	3,357,532
Consulting fee	211,221	168,836	336,212
(Reversal of)/provision for impairment of trade receivables	(23,041)	641,778	196,136
Operating lease payments	1,487,626	1,244,156	1,143,561
Travelling and entertainment expenses	2,098,160	1,626,901	1,443,752
Office and utilities	1,142,531	1,055,780	953,225
Other research and development	128,399	312,250	444,102
Others	<u>1,571,208</u>	<u>478,611</u>	<u>685,390</u>
Total cost of sales, research and development expenses, selling and distribution expenses and general and administrative expenses	<u>46,438,777</u>	<u>51,637,042</u>	<u>63,242,566</u>

8 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December		
	2013	2014	2015
	<i>USD</i>	<i>USD</i>	<i>USD</i>
Wages, salaries and other allowances	6,926,558	7,537,704	7,453,564
Discretionary bonuses	1,055,985	918,294	1,644,666
Share-based compensation	4,198,858	802,626	214,637
Modification of share options	—	—	1,351,476
Retirement benefit - defined contribution plan	<u>959,643</u>	<u>985,612</u>	<u>862,680</u>
	<u>13,141,044</u>	<u>10,244,236</u>	<u>11,527,023</u>

(a) *Directors' and senior management's emoluments*

The remuneration of the directors for the Relevant Periods is set out below:

Year ended 31 December 2013										
Name	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (Note (a))	Remuneration paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Employer's contribution to a retirement benefit scheme	Total	
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Executive directors										
Mr. Huang Xueliang (Note (b))	182,988	—	54,864	—	358,013	—	—	8,277	604,142	
Mr. Zeng Zhijie	24,205	—	—	—	16,957	—	—	—	41,162	
Mr. Kwan, Allan Chung-yuan	24,205	—	—	—	61,162	—	—	—	85,367	
Independent non-executive directors										
Mr. Zhang Junjie	—	—	—	—	—	—	—	—	—	
Mr. Woo Kau Tung, Raymond	—	—	—	—	—	—	—	—	—	
Mr. Jin Yufeng	—	—	—	—	—	—	—	—	—	
	231,398	—	54,864	—	436,132	—	—	8,277	730,671	

(a) Other benefits include leave pay and share option.

(b) The director is also the CEO of the Company, no separate disclosure in respect of the remuneration of the CEO has been made.

Year ended 31 December 2014

Name	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (Note (a))	Remuneration receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Employer's contribution to a retirement benefit scheme	Total
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Executive directors									
Mr. Huang Xueliang (Note (b))	184,546	—	55,331	—	181,193	—	—	8,748	429,818
Mr. Zeng Zhijie	24,411	—	—	—	3,926	—	—	—	28,337
Mr. Kwan, Allan Chung-yuan	24,411	—	—	—	14,634	—	—	—	39,045
Independent non-executive directors									
Mr. Zhang Junjie	—	—	—	—	—	—	—	—	—
Mr. Woo Kau Tung, Raymond	—	—	—	—	—	—	—	—	—
Mr. Jin Yufeng	—	—	—	—	—	—	—	—	—
	233,368	—	55,331	—	199,753	—	—	8,748	497,200

(a) Other benefits include leave pay and share option.

(b) The director is also the CEO of the Company, no separate disclosure in respect of the remuneration of the CEO has been made.

Year ended 31 December 2015

Name	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (Note (a))	Remuneration payable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Employer's contribution to a retirement benefit scheme	Total
	USD	USD	USD	USD	USD	USD	USD	USD	USD
Executive directors									
Mr. Huang Xueliang (Note (b))	201,517	—	54,638	—	231,500	—	—	9,688	497,343
Mr. Zeng Zhijie	24,105	—	—	—	28,413	—	—	—	52,518
Mr. Kwan, Allan Chung-yuan	24,105	—	—	—	28,515	—	—	—	52,620
Independent non-executive directors									
Mr. Zhang Junjie	—	—	—	—	—	—	—	—	—
Mr. Woo Kau Tung, Raymond	—	—	—	—	—	—	—	—	—
Mr. Jin Yufeng	—	—	—	—	—	—	—	—	—
	249,727	—	54,638	—	288,428	—	—	9,688	602,481

(a) Other benefits include leave pay and share option.

(b) The director is also the CEO of the Company, no separate disclosure in respect of the remuneration of the CEO has been made.

(b) *Directors' retirement benefits*

The retirement benefits paid to Mr. Huang Xueliang during the years ended 31 December 2013, 2014 and 2015 by a defined contribution pension plan operated by the group in respect of Mr. Huang Xueliang's services as a director of the Company and its subsidiaries is USD8,277, USD8,748 and USD9,688 respectively. No other retirement benefits were paid to Mr. Huang Xueliang in respect of Mr. Huang Xueliang's other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

(c) *Directors' termination benefits*

No directors' termination benefits were paid during the years ended 31 December 2013, 2014 and 2015.

(d) *Consideration provided to third parties for making available directors' services*

The Company did not pay consideration to any third parties for making available directors' services during the years ended 31 December 2013, 2014 and 2015.

(e) *Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors*

No loans, quasi-loans and other dealings were made available in favour of directors, body corporates controlled by and connected entities with such directors subsisted at the end of the year or at any time during the years 31 December 2013, 2014 and 2015.

(f) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years 31 December 2013, 2014 and 2015.

(g) *Five highest paid individuals*

During the Relevant Periods, the five individuals whose emoluments were the highest in the Group include one director whose emoluments are reflected in the analysis above. The emoluments paid/payable to the remaining four individuals during the Relevant Periods are as follows:

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Basic salaries, allowances and benefits in kind	403,936	416,440	416,652
Discretionary bonuses	94,238	108,059	133,380
Share-based payments	2,268,842	310,374	245,424
Retirement benefit - defined contribution plan	29,314	37,242	38,227
	<u>2,796,330</u>	<u>872,115</u>	<u>833,683</u>

During the Relevant Periods, the emoluments fell within the following bands:

Emolument bands	Number of individuals		
	Year ended 31 December		
	2013	2014	2015
Nil to HK\$1,000,000	—	—	—
HK\$1,000,001 to HK\$1,500,000	1	2	2
HK\$1,500,001 to HK\$2,000,000	1	1	1
HK\$2,000,001 to HK\$2,500,000	—	—	—
HK\$2,500,001 to HK\$3,000,000	—	—	1
HK\$3,000,001 to HK\$3,500,000	—	1	—
HK\$3,500,001 to HK\$4,000,000	1	—	—
HK\$14,500,001 to HK\$15,000,000	1	—	—
	<u>4</u>	<u>4</u>	<u>4</u>

9 Finance income — net

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Finance income			
Interest income on short-term bank deposits	148,921	189,090	245,101
Finance cost			
Interest expense on bank borrowings (Note)	—	—	(38,659)
Finance income — net	<u>148,921</u>	<u>189,090</u>	<u>206,442</u>

Note: Short-term bank borrowings of USD5,850,000 was obtained by the Group in 2015 which was repaid on the same year. There was no outstanding bank borrowing as at 31 December 2013, 2014 and 2015.

10 Income tax expense

SMiT Shenzhen, a subsidiary of the Company, was established in the Shenzhen Special Economic Zone, the PRC. SMiT Shenzhen received the 2-year Exemption and 3-year 50% Reduction since 2008. The applicable tax rate for the year ended 31 December 2011 and 2012 were 12% and 12.5% respectively.

In 2013, SMiT Shenzhen was approved as the Key Software and Integrated Circuit Design Enterprises for a 4-year period from 2011 to 2014 according to a new tax circular Caishui 2012 No. 27 issued in April 2012 and is entitled to the Reduced Tax Rate of 10%. The applicable tax rate for the year ended 31 December 2011 and 2012 was revised from 12% and 12.5% to 10% and 10% during the year ended 31 December 2013. An enterprise income tax (“EIT”) tax rate at 10% was applied for the years ended 31 December 2012, 2013, and 2014.

In 2015, SMiT Shenzhen was also approved as a High/New Technology Enterprise as defined under the New EIT Law, accordingly, it is entitled to a reduced preferential EIT rate at 15% (“HNTE Preferential Tax Rate”) for 3-year periods from 2014 to 2016. An EIT tax rate at 15% was applied for year ended 31 December 2015.

For the year ended 31 December 2013, 2014, and 2015, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the applicable rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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	Year ended 31 December		
	2013	2014	2015
	<i>USD</i>	<i>USD</i>	<i>USD</i>
Current income tax:			
PRC corporate income tax			
- Current year	441,668	517,322	1,158,213
- Over-provision in prior year	(348,084)	—	(14,794)
Hong Kong profits tax			
- Current year	302,631	—	87,040
- Over-provision in prior year	(81,211)	—	—
Overseas tax	59,457	—	—
Deferred taxation (Note 21)	132,675	(246,475)	(412,581)
Income tax expense	507,136	270,847	817,878

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to profits of the Group's subsidiaries as follows:

	Year ended 31 December		
	2013	2014	2015
	<i>USD</i>	<i>USD</i>	<i>USD</i>
Profit before income tax	3,181,910	5,730,671	4,140,582
Tax calculated at domestic tax rates applicable to profits in the respective countries	294,831	726,787	332,209
Income not subject to tax	(16,183)	(470)	(1,022)
Expenses not deductible for tax purposes	461,857	19,583	870,211
Re-measurement of deferred tax — change in the tax rate	366,758	(256,274)	—
Income tax benefit — super deduction	(170,832)	(218,779)	(368,726)
Over-provision in prior years	(429,295)	—	(14,794)
Tax calculated at domestic tax rates applicable to profits in the respective countries	507,136	270,847	817,878

The weighted average applicable tax rate was 15.9%, 4.7%, and 19.8% for the years ended 31 December 2013, 2014 and 2015 respectively. The change in weighted average applicable tax rate is caused by change in profitability of the Group's subsidiaries in the respective countries and the change in tax rate of SMiT Shenzhen as mentioned above.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding tax on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

11 Earnings per share

(a) *Basic*

For the purpose of computing basic and diluted earnings per share, ordinary shares were assumed to have been issued and allocated on 1 January 2013 as if the Company has been established by then.

Basic earnings per share are calculated by dividing the profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares deemed to be in issue during the years ended 31 December 2013 and 2014:

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Profit attributable to owners of the Company	2,674,774	5,459,824	3,322,704
Weighted average number of ordinary shares in issue	152,425,225	152,425,225	152,425,225
Basic earnings per share	0.018	0.036	0.022

(b) *Diluted*

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the respective year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

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	Year ended 31 December		
	2013	2014	2015
	<i>USD</i>	<i>USD</i>	<i>USD</i>
Profit attributable to owners of the Company	2,674,774	5,459,824	3,322,704
Weighted average number of ordinary shares in issue	152,425,225	152,425,225	152,425,225
Adjustments for share options	10,665,468	14,188,410	14,113,422
Weighted average number of ordinary shares for diluted earnings per share	163,090,693	166,613,635	166,538,647
Diluted earnings per share	<u>0.016</u>	<u>0.033</u>	<u>0.020</u>

The basic and diluted earnings per share as presented above have not taken into account the proposed capitalisation issue as described in Note 23 (b).

12 Dividends

No dividend has been paid or declared by the Company since its incorporation.

13 Property, plant and equipment

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>
At 1 January 2013				
Cost	1,428,946	1,702,034	178,392	3,309,372
Accumulated depreciation	<u>(1,062,754)</u>	<u>(1,100,043)</u>	<u>(74,394)</u>	<u>(2,237,191)</u>
Net book amount	<u>366,192</u>	<u>601,991</u>	<u>103,998</u>	<u>1,072,181</u>
Year ended 31 December 2013				
Opening net book amount	366,192	601,991	103,998	1,072,181
Additions	987,395	184,047	—	1,171,442
Disposals	(52,093)	(22,747)	—	(74,840)
Depreciation (Note 7)	(167,841)	(166,228)	(16,284)	(350,353)
Currency translation differences	<u>(67,161)</u>	<u>15,640</u>	<u>2,949</u>	<u>(48,572)</u>
Closing net book amount	<u>1,066,492</u>	<u>612,703</u>	<u>90,663</u>	<u>1,769,858</u>
At 31 December 2013				
Cost	2,291,447	1,874,730	183,910	4,350,087
Accumulated depreciation	<u>(1,224,955)</u>	<u>(1,262,027)</u>	<u>(93,247)</u>	<u>(2,580,229)</u>
Net book amount	<u>1,066,492</u>	<u>612,703</u>	<u>90,663</u>	<u>1,769,858</u>

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	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>
Year ended 31 December 2014				
Opening net book amount	1,066,492	612,703	90,663	1,769,858
Additions	125,587	1,290,513	59,619	1,475,719
Disposals	(2,415)	(23,973)	(10,523)	(36,911)
Depreciation (Note 7)	(249,689)	(161,501)	(16,734)	(427,924)
Currency translation differences	(5,197)	2,156	(191)	(3,232)
Closing net book amount	934,778	1,719,898	122,834	2,777,510
At 31 December 2014				
Cost	2,426,905	3,186,244	191,570	5,804,719
Accumulated depreciation	(1,492,127)	(1,466,346)	(68,736)	(3,027,209)
Net book amount	934,778	1,719,898	122,834	2,777,510
Year ended 31 December 2015				
Opening net book amount	934,778	1,719,898	122,834	2,777,510
Additions	48,794	350,247	—	399,041
Disposals	(27,072)	(33,056)	—	(60,128)
Depreciation (Note 7)	(238,684)	(404,394)	(15,121)	(658,199)
Currency translation differences	(31,222)	(53,258)	(8,211)	(92,691)
Closing net book amount	686,594	1,579,437	99,502	2,365,533
At 31 December 2015				
Cost	2,277,629	3,192,262	180,519	5,650,410
Accumulated depreciation	(1,591,035)	(1,612,825)	(81,017)	(3,284,877)
Net book amount	686,594	1,579,437	99,502	2,365,533

Depreciation included “cost of sales”, “research and development”, “selling and distribution expenses” and “general and administrative expenses” are analysed as follows:

	Year ended 31 December		
	2013	2014	2015
	<i>USD</i>	<i>USD</i>	<i>USD</i>
Cost of sales	46,417	67,205	57,367
Research and development	118,605	171,137	413,819
Selling and distribution expenses	34,076	56,063	43,933
General and administrative expenses	151,255	133,519	143,080
	350,353	427,924	658,199

14 Other intangible assets

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Acquired technologies			
Opening net book amount	788,846	279,914	417,520
Additions	44,238	488,353	389,644
Disposals	(15,003)	—	—
Amortisation (Note 7)	(463,669)	(348,251)	(311,479)
Currency translation differences	(74,498)	(2,496)	(5,024)
Closing net book amount	<u>279,914</u>	<u>417,520</u>	<u>490,661</u>
	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Cost	2,499,063	2,985,700	3,561,478
Accumulated amortisation	(2,219,149)	(2,568,180)	(3,070,817)
Net book amount	<u>279,914</u>	<u>417,520</u>	<u>490,661</u>

Amortisation included “cost of sales”, “research and development”, “selling and distribution expenses” and “general and administrative expenses” are analysed as follows:

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Cost of sales	343	187	1,088
Research and development	212,983	198,124	192,998
Selling and distribution expenses	20,134	20,365	20,134
General and administrative expenses	230,209	129,575	97,259
	<u>463,669</u>	<u>348,251</u>	<u>311,479</u>

Research and development expenses are not generally capitalised as they are primarily considered as expenditures to upgrade existing technical knowhow, and do not fulfil the strict capitalisation criteria as listed out in Note 2.7(c).

15 Available-for-sale financial assets

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
At 1 January	45,604,308	24,776,930	11,655,488
Additions	209,210,760	92,598,620	68,741,081
Settlement	(233,361,085)	(106,762,721)	(80,918,505)
Gain on settlement recognised in profit or loss	2,100,334	1,134,797	716,356
Fair value gain recognised in other comprehensive income	174,263	52,285	—
Exchange difference	1,048,350	(144,423)	(194,420)
At 31 December	<u>24,776,930</u>	<u>11,655,488</u>	<u>—</u>

Available-for-sale financial assets represent structured deposits and are mainly denominated in RMB, with average maturity of less than 12 months.

16 Inventories

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Raw materials	6,664,931	7,535,777	7,623,216
Work in progress	2,256,623	2,152,710	1,400,213
Finished goods	<u>1,308,396</u>	<u>4,385,760</u>	<u>2,059,732</u>
	10,229,950	14,074,247	11,083,161
Less: Provision for impairment of inventories	<u>(3,038,011)</u>	<u>(4,412,004)</u>	<u>(3,611,292)</u>
	<u>7,191,939</u>	<u>9,662,243</u>	<u>7,471,869</u>

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximated USD16,776,532, USD25,819,003 and USD35,732,494 for the years ended 31 December 2013, 2014 and 2015 respectively.

17 Financial instruments by category

		As at 31 December		
		2013	2014	2015
		USD	USD	USD
Assets as per consolidated statements of financial position				
Loans and receivables				
- Trade receivables		7,603,212	16,214,099	23,798,844
- Other receivables		1,573,966	3,381,713	254,790
- Restricted bank deposits		4,315,117	1,163,800	—
- Cash and cash equivalents		26,503,097	43,977,754	33,972,375
- Amounts due from related parties		<u>26,662,456</u>	<u>22,726,724</u>	<u>—</u>
Available-for-sale financial assets		<u>24,776,930</u>	<u>11,655,488</u>	<u>—</u>
Liabilities as per consolidated statements of financial position				
Other financial liabilities at amortised cost				
- Trade payables		1,366,733	3,833,549	7,881,504
- Accruals and other payables		3,461,159	3,739,618	2,559,418
- Amount due to shareholders		<u>42,152,562</u>	<u>43,688,199</u>	<u>—</u>

18 Trade, prepayments and other receivables

		As at 31 December		
		2013	2014	2015
		USD	USD	USD
Trade receivables	(a)	7,757,808	17,009,797	24,760,039
Less: Allowance for impairment of trade receivables	(a)	<u>(154,596)</u>	<u>(795,698)</u>	<u>(961,155)</u>
Trade receivables — net		<u>7,603,212</u>	<u>16,214,099</u>	<u>23,798,884</u>
Prepayments	(b)	2,293,365	723,384	1,571,091
Notes receivables	(b)	1,218,760	1,191,199	53,548
Other receivables	(b)	<u>355,206</u>	<u>2,190,514</u>	<u>201,242</u>
		3,867,331	4,105,097	1,825,881
Less: Non-current portion		<u>(332,532)</u>	<u>(195,729)</u>	<u>(208,529)</u>
		<u>3,534,799</u>	<u>3,909,368</u>	<u>1,617,352</u>
		<u>11,138,011</u>	<u>20,123,467</u>	<u>25,416,236</u>

(a) *Trade receivables*

As at 31 December 2013, 2014 and 2015, the ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Less than 30 days	3,813,760	3,180,850	4,409,608
31 to 60 days	1,399,980	3,898,366	3,224,895
61 to 90 days	880,229	1,878,367	1,290,904
91 to 180 days	639,177	5,700,714	9,497,527
181 to 365 days	879,210	1,681,595	5,325,779
Over 365 days	145,452	669,905	1,011,326
	<u>7,757,808</u>	<u>17,009,797</u>	<u>24,760,039</u>

The Group's credit terms granted to wholesale customers generally ranged from 30 to 180 days. As at 31 December 2013, 2014 and 2015, trade receivables of approximately USD2,668,000, USD4,168,000 and USD5,793,000 were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

The ageing analysis of these trade receivables based on due date is as follows:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Less than 30 days	1,219,592	1,500,364	5,455,185
31 to 60 days	341,030	98,472	172,531
61 to 90 days	447,417	970,179	68,458
91 to 180 days	594,279	1,457,996	17,494
181 to 365 days	74,334	460,911	67,343
Over 365 days	145,453	475,930	973,554
	<u>2,822,105</u>	<u>4,963,852</u>	<u>6,754,565</u>

Movements in the Group's provision for impairment of the trade receivables are as follows:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
As at 1 January	165,680	154,596	795,698
(Reversal of)/provision for impairment	(23,041)	641,778	196,136
Exchange difference	11,957	(676)	(30,679)
As at 31 December	<u>154,596</u>	<u>795,698</u>	<u>961,155</u>

The impairment loss recognised on trade receivables is mainly for customers who have financial difficulties or long overdue. The individually impaired trade receivables relate to receivables which are expected not to be recoverable. The Group does not hold any collateral or other credit enhancements over these balances. The carrying values of trade receivables approximate their fair values.

The trade receivables are denominated in the following currencies:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
USD	2,372,593	2,771,394	1,837,235
RMB	4,769,307	13,469,326	22,578,492
Others	615,908	769,077	344,312
	<u>7,757,808</u>	<u>17,009,797</u>	<u>24,760,039</u>

(b) *Other receivables*

The carrying amounts of prepayments, notes receivables and other receivables approximate their fair values and are mainly denominated in the following currencies:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
USD	497,355	520,271	167,703
RMB	3,119,298	3,263,467	1,451,223
Others	250,678	321,359	206,955
	<u>3,867,331</u>	<u>4,105,097</u>	<u>1,825,881</u>

Other receivables do not contain impaired assets. The Group does not hold any collateral as security.

19 Restricted bank deposits

As at 31 December 2013, 2014 and 2015, restricted bank deposits amounting to approximately USD4,315,000, USD1,164,000 and USDNil respectively, were held in designated bank accounts for serving of available funding provided by bank or as guarantee deposits for contracts entered into with the business partners.

Restricted bank deposits earn interests at floating rates based on daily bank deposits rates. The fair values of cash at banks approximate their carrying amounts and are denominated in the following currencies.

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
RMB	2,932,638	—	—
USD	346,879	250,000	—
EUR	1,035,600	913,800	—
	<u>4,315,117</u>	<u>1,163,800</u>	<u>—</u>

20 Cash and cash equivalents

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Cash at banks	26,409,508	43,911,254	33,934,357
Cash on hand	<u>93,589</u>	<u>66,500</u>	<u>38,018</u>
	<u>26,503,097</u>	<u>43,977,754</u>	<u>33,972,375</u>

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
RMB	13,794,499	6,889,725	13,231,641
HK\$	357,978	370,180	421,546
USD	10,516,587	32,511,050	17,205,444
GBP	1,441	1,362	548
EUR	1,832,592	4,205,437	3,113,196
	<u>26,503,097</u>	<u>43,977,754</u>	<u>33,972,375</u>

RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business in the PRC.

21 Deferred income tax

The analysis of deferred tax assets and liabilities is as follows:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Deferred income tax assets:			
- to be realised after more than 12 months	658,237	721,370	1,178,271
- to be realised within 12 months	<u>942,327</u>	<u>1,136,884</u>	<u>936,764</u>
	<u>1,600,564</u>	<u>1,858,254</u>	<u>2,115,035</u>
Deferred income tax liabilities:			
- to be settled after more than 12 months	82,334	98,058	21,940
- to be realised within 12 months	<u>17,426</u>	<u>5,229</u>	<u>—</u>
	<u>99,760</u>	<u>103,287</u>	<u>21,940</u>
Deferred tax assets, net	<u>1,500,804</u>	<u>1,754,967</u>	<u>2,093,095</u>

The gross movement on the deferred income tax account is as follows:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Beginning of the year	1,576,721	1,500,804	1,754,967
(Charged)/credited to profit or loss	(132,675)	246,475	412,581
Credited to other comprehensive income	16,056	12,084	4,446
Exchange difference	40,702	(4,396)	(78,899)
End of the year	<u>1,500,804</u>	<u>1,754,967</u>	<u>2,093,095</u>

Movement in deferred tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred income tax assets:

	Accelerated depreciation	Provisions	Tax losses	Other	Total
	USD	USD	USD	USD	USD
At 1 January 2013	61,027	971,221	—	624,542	1,656,790
(Charged)/credited to profit or loss	(5,506)	(387,053)	330,630	(35,747)	(97,676)
Exchange difference	1,577	16,592	9,391	13,890	41,450
At 31 December 2013	<u>57,098</u>	<u>600,760</u>	<u>340,021</u>	<u>602,685</u>	<u>1,600,564</u>
At 1 January 2014	57,098	600,760	340,021	602,685	1,600,564
(Charged)/credited to profit or loss	(18,048)	464,987	(31,585)	(153,155)	262,199
Exchange difference	(114)	(3,102)	—	(1,293)	(4,509)
At 31 December 2014	<u>38,936</u>	<u>1,062,645</u>	<u>308,436</u>	<u>448,237</u>	<u>1,858,254</u>
At 1 January 2015	38,936	1,062,645	308,436	448,237	1,858,254
(Charged)/credited to profit or loss	(11,919)	(134,614)	544,701	(61,705)	336,463
Exchange difference	(1,151)	(55,244)	—	(23,287)	(79,682)
At 31 December 2015	<u>25,866</u>	<u>872,787</u>	<u>853,137</u>	<u>363,245</u>	<u>2,115,035</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. The Group did not have material unrecognised deferred income tax assets as at 31 December 2013, 2014 and 2015.

Deferred income tax liabilities:

	Accelerated depreciation	Available-for- sales financial assets	Total
	<i>USD</i>	<i>USD</i>	<i>USD</i>
At 1 January 2013	47,335	32,734	80,069
Charged to profit or loss	34,999	—	34,999
Credited to other comprehensive income	—	(16,056)	(16,056)
Exchange difference	—	748	748
At 31 December 2013	<u>82,334</u>	<u>17,426</u>	<u>99,760</u>
At 1 January 2014	82,334	17,426	99,760
Charged to profit or loss	15,724	—	15,724
Credited to other comprehensive income	—	(12,084)	(12,084)
Exchange difference	—	(113)	(113)
At 31 December 2014	<u>98,058</u>	<u>5,229</u>	<u>103,287</u>
At 1 January 2015	98,058	5,229	103,287
Credited to profit or loss	(76,118)	—	(76,118)
Credited to other comprehensive income	—	(4,446)	(4,446)
Exchange difference	—	(783)	(783)
At 31 December 2015	<u>21,940</u>	<u>—</u>	<u>21,940</u>

As at 31 December 2013, 2014 and 2015, the retained earnings of the Group's PRC subsidiary not yet remitted to holding companies incorporated outside of the PRC, for which no deferred income tax liability had been provided, were approximately RMB176,974,000, RMB209,233,000 and RMB227,826,000 (equivalent to USD29,027,000, USD34,194,000 and USD35,085,000), respectively. Such earnings are expected to be retained by the PRC subsidiary for reinvestment purposes and would not be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

22 Goodwill

	As at 31 December		
	2013	2014	2015
	<i>USD</i>	<i>USD</i>	<i>USD</i>
Beginning of the year	6,830,039	7,041,317	7,015,886
Exchange difference	<u>211,278</u>	<u>(25,431)</u>	<u>(404,729)</u>
End of the year	<u>7,041,317</u>	<u>7,015,886</u>	<u>6,611,157</u>

Goodwill of RMB42,930,000 arose from the application of purchase accounting to the acquisition of SMiT Shenzhen by the Company in April 2005 and has indefinite useful lives. The goodwill amount relates to the value of expected future economic benefits of the business operated by SMiT Shenzhen. As at 31 December 2015, management of the Group had conducted a review of the cash-generating unit ("CGU") of SMiT Shenzhen.

The recoverable amount of the CGU is determined based on a value-in-use calculation. That calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 20%. The discount rate used is pre-tax and reflects specific risks related to the relevant operation. The revenue growth CAGR (i.e. compound annual growth rate over the five-year projection period) used are 30.3%, 29.9% and 26.8% respectively as at year ended 31 December 2013, 2014 and 2015. Cash flows beyond the 5-year period are extrapolated using a growth rate of 5%. The volume of sales in each period is the main driver for revenue and costs. The growth in revenue and the relevant costs are estimated based on past performance and management's expectations for the market development.

If the forecasted revenue growth CAGR as at year ended 31 December 2013, 2014 and 2015 had been lowered by two percentage point, the recoverable amounts would be lowered by 7.0%, 4.8%, and 12.1% respectively as at year ended 31 December 2013, 2014 and 2015, but would still exceed its carrying amount.

The management of the Group determines that there is no impairment of goodwill as at 31 December 2013 and 2014 and 2015.

23 Share capital and share premium

	No of ordinary shares	Normal value of ordinary shares US\$	Share premium US\$
Authorised:			
Ordinary share of US\$0.00002 each at 29 June 2015 (date of incorporation) and 31 December 2015	2,500,000,000	50,000	—
Issue and fully paid:			
At 29 June 2015 (date of incorporation)	1	—	—
Issue of ordinary shares of US\$0.00002 each (note a)	152,425,224	3,049	63,331,486
	152,425,225	3,049	63,331,486

- (a) The Company was incorporated on 29 June 2015 in the Cayman Islands with an authorised share capital of US\$50,000 divided into 2,500,000,000 shares of US\$0.00002 each. These shares rank pari passu in all aspects, on the same date, 1 share of US\$0.00002 was allotted for cash for working capital purpose.

On 21 September 2015, the issued share capital of the Company was increased to US\$3,049 by the allotment of 152,425,224 share of US\$0.00002 each.

- (b) By a shareholder's resolution dated 6 March 2016 and conditional on the share premium account of the Company being credited as a result of the issuance of new shares pursuant to the proposed offering of the Company's shares, the Company will issue additional 72,574,775 shares, credited as fully paid, to the existing shareholders of the Company.

24 Combined capital and reserves

(i) *Combined capital*

Combined capital as at each reporting date represented the combined share capital and capital reserve of operating entities within the Group after elimination of intercompany investments.

(ii) *Statutory reserve*

According to the provisions of the articles of association of the Group's subsidiaries located in the PRC ("PRC subsidiaries"), the PRC subsidiaries shall first set aside 10% of the entity's profit attributable to owners after tax as indicated in their statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the entity's registered share capital) in each year. The PRC subsidiaries may also make appropriations from its profit attributable to shareholders to discretionary surplus reserve, provided it is approved by a resolution passed in a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from shareholders in a shareholders' general meeting under specific circumstances.

When the statutory surplus reserve is not sufficient to make good for any losses of the PRC subsidiaries from previous years, the current year profit attributable to owners shall be used to make good the losses before any allocations are set aside for the statutory surplus reserve. The statutory surplus reserve, the discretionary surplus reserve and the share premium of the PRC subsidiaries may be converted into share capital of the PRC subsidiaries provided it is approved by a resolution passed in a shareholders' general meeting and meets other regulatory requirements with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital.

(iii) *Share-based payment reserve*

In February 2008, the Group adopted a share plan ("2008 Share Plan") and SMIT Corporation reserved 16,936,135 ordinary shares, split adjusted, for issuance under the plan. In September 2010, the Board approved an amendment to the 2008 Share Plan to increase the number of ordinary shares for issuance by 16,523,060 to 33,459,195 ordinary shares. In February 2011, the Board approved an amendment to the 2008 Share Plan to further increase the number of ordinary shares for issuance by 6,160,000 to 39,619,195 ordinary shares.

On 15 September 2015, the Company assumed the 2008 Share Plan of SMIT Corporation as the Pre-IPO Share Option Scheme (the "Pre-IPO Share Plan") as part of the Reorganisation with certain modifications of the terms of such options.

Details of the equity settled share-based transactions are disclosed in Note 28.

(iv) *Capital reserve*

Capital reserve as at each reporting date represented the additional contributions received from the shareholders.

(v) *Merger reserve*

The merger reserve of the Group represents the difference between the carrying amount of investment in subsidiaries of US\$68,077,551 acquired as a result of the Reorganisation and the carrying amount of combined capital of the acquired subsidiaries.

25 Trade payables

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Trade payables	<u>1,366,733</u>	<u>3,833,549</u>	<u>7,881,504</u>

As at 31 December 2013, 2014 and 2015, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Less than 30 days	1,010,513	3,484,903	4,248,186
31 to 90 days	227,533	292,444	3,508,005
91 to 180 days	—	20,790	45,618
181 to 365 days	91,840	270	8,962
Over 365 days	<u>36,847</u>	<u>35,142</u>	<u>70,733</u>
	<u>1,366,733</u>	<u>3,833,549</u>	<u>7,881,504</u>

The carrying amounts of trade payables approximate their fair values and are denominated in RMB.

26 Accruals and other payables

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Accrued employee benefit expenses	1,664,530	1,376,661	1,915,216
Receipt in advance	620,047	1,920,340	1,176,973
Accrued royalty fee	1,819,512	1,949,644	1,103,505
Other taxes payables	607,317	148,137	177,932
Others	1,641,647	1,789,974	1,455,913
	<u>6,353,053</u>	<u>7,184,756</u>	<u>5,829,539</u>

The carrying amounts of accruals and other payables approximate their fair values and are denominated in the following currencies:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
RMB	4,742,460	3,486,376	2,951,723
USD	712,172	3,015,768	2,415,984
Others	898,421	682,612	461,832
	<u>6,353,053</u>	<u>7,184,756</u>	<u>5,829,539</u>

27 Deferred revenue

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Deferred government grant	<u>594,562</u>	<u>1,768,475</u>	<u>1,552,507</u>

The balance represents the deferred government grants and subsidies and is denominated in RMB.

28 Equity settled share-based transactions

In February 2008, the Group adopted the 2008 Share Plan and subsequently amended on September 2010 and February 2011. Details are as disclosed in note (a).

On 15 September 2015, the Company assumed the 2008 Share Plan of SMIT Corporation as the Pre-IPO Share Option Scheme as part of the Reorganisation. In connection with the assumption of the 2008 Share Plan of SMIT Corporation by the Company, all options transferred to the Pre-IPO Share Option Plan shall carry the same terms as the 2008 Share Plan, except that all references therein to SMIT Corporation shall be modified to be references to the Company. The shares issued upon the exercise of options will change from shares of SMIT Corporation to shares of the Company. The incremental fair value of the relevant options of approximately USD1,573,000 which are all fully vested, as a result of the modification were charged to profit or loss on a one-off basis. Details are as disclosed in note (b).

The details of the options granted for (a) 2008 Share Plan and (b) Pre-IPO Share Option Plan are as follows:

(a) *2008 Share Plan*

Date of grant	No. of options granted to employees and directors	No. of options granted to advisors	Exercise price	Contractual life	Vesting schedule
9 March 2008	3,275,000	225,000	USD0.02	10 years	Two-year or four-year
26 July 2009	4,237,000	1,070,000	USD0.06	8.6 years	Four-year
5 March 2010	3,106,000	600,000	USD0.06	9.2 years	Four-year
1 September 2010	13,516,598	162,000	USD0.80	10 years	Four-year
31 December 2010	1,850,000	—	USD1.10	10 years	Four-year
8 January 2011	371,769	—	USD1.10	10 years	Four-year
1 March 2011	5,189,850	20,000	USD1.57	10 years	Four-year
1 March 2011 [#]	—	371,768	USD0.80	10 years	Three and a half-year or immediate vested
1 March 2012	—	235,884	USD1.79	10 years	Four-year
30 September 2012	3,480,000	—	USD0.91	10 years	Four-year
1 March 2013	—	185,884	USD0.91	10 years	Four-year
1 August 2013	2,255,000	200,000	USD0.83	10 years	Four-year
1 August 2013	734,616	—	USD0.83	10 years	Three-months
1 August 2013	4,433,290	—	USD0.20	10 years	Three-months
1 March 2014	—	185,884	USD0.60	10 years	Four-year

[#] Among the options of 371,769 granted on 1 March 2011, options of 185,885 have a three and a half-year vesting schedule and the remaining options are immediately vested.

(b) *Pre-IPO Share Plan*

Original date of grant	Date of modification	No. of options pertaining to employees and directors at the date of modification	No. of options pertaining to advisors at the date of modification	Exercise price	Remaining contractual life	Remaining vesting period
9 March 2008	15 September 2015	3,201,000	225,000	USD0.02	2.5 years	Immediate vested
26 July 2009	15 September 2015	4,183,000	1,070,000	USD0.06	2.5 years	Immediate vested
5 March 2010	15 September 2015	3,051,000	600,000	USD0.06	2.9 years	Immediate vested
1 September 2010	15 September 2015	7,940,065	162,000	USD0.80	3.7 years	Immediate vested
31 December 2010	15 September 2015	1,734,500	—	USD1.10	5 years	Immediate vested
8 January 2011	15 September 2015	371,769	—	USD1.10	5.3 years	Immediate vested
1 March 2011	15 September 2015	5,125,850	20,000	USD1.57	5.4 years	Immediate vested
1 March 2011	15 September 2015	—	371,768	USD0.80	5.5 years	Immediate vested
1 March 2012	15 September 2015	—	221,142	USD1.79	5.5 years	Immediate vested
30 September 2012	15 September 2015	2,913,750	—	USD0.91	6.5 years	Immediate vested
1 March 2013	15 September 2015	—	116,188	USD0.91	7.1 years	Immediate vested
1 August 2013	15 September 2015	1,362,396	79,186	USD0.83	7.5 years	Immediate vested
1 August 2013	15 September 2015	734,616	—	USD0.83	7.9 years	Immediate vested
1 August 2013	15 September 2015	4,433,290	—	USD0.20	7.9 years	Immediate vested
1 March 2014	15 September 2015	—	81,340	USD0.60	8.5 years	Immediate vested
1 March 2012	15 September 2015	—	14,742	USD1.79	5.5 years	5.5-months
30 September 2012	15 September 2015	416,250	—	USD0.91	6.5 years	12.5-months
1 March 2013	15 September 2015	—	69,696	USD0.91	7.1 years	17.5-months
1 August 2013	15 September 2015	892,604	120,814	USD0.83	7.5 years	22.5-months
1 March 2014	15 September 2015	—	104,544	USD0.60	8.5 years	29.5-months

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	As at 31 December					
	2013		2014		2015	
	Number of	Weighted	Number of	Weighted	Number of	Weighted
	Share	Average	Share	Average	Share	Average
	Options	Exercise	Options	Exercise	Options	Exercise
		Price		Price		Price
		USD		USD		USD
Balance as at beginning of the year	31,804,836	0.67	39,508,626	0.63	39,616,510	0.63
2008 Share Plan:						
Share options granted	7,808,790	0.47	185,884	0.60	—	—
Share options forfeited/cancelled	(105,000)	0.72	(78,000)	0.46	—	—
Share options modified	—	—	—	—	(39,616,510)	0.63
Pre-IPO Share Plan						
Share options granted	—	—	—	—	—	—
Share options modified	—	—	—	—	39,616,510	0.63
Share options forfeited/cancelled	—	—	—	—	(6,000)	1.10
Balance as at year end	<u>39,508,626</u>	0.63	<u>39,616,510</u>	0.63	<u>39,610,510</u>	0.62

APPENDIX I**ACCOUNTANT'S REPORT**

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date —	As at 31 December			
	Number of share options			
	Exercise price in USD per share option	2013	2014	2015
2008 Share Plan				
8 March 2018	0.02	3,429,000	3,426,000	—
3 August 2018	0.06	5,256,000	5,253,000	—
15 May 2019	0.06	3,656,000	3,651,000	—
30 August 2020	0.80	8,102,065	8,102,065	—
29 December 2020	1.10	1,741,500	1,734,500	—
6 January 2021	1.10	371,768	371,768	—
27 February 2021	1.57	371,769	371,769	—
27 February 2021	0.80	5,145,850	5,145,850	—
28 February 2022	1.79	235,884	235,884	—
29 September 2022	0.91	3,390,000	3,330,000	—
28 February 2023	0.91	185,884	185,884	—
31 July 2023	0.83	3,189,616	3,189,616	—
31 July 2023	0.20	4,433,290	4,433,290	—
28 February 2024	0.60	—	185,884	—
Pre-IPO Share Plan				
8 March 2018	0.02	—	—	3,426,000
3 August 2018	0.06	—	—	5,253,000
15 May 2019	0.06	—	—	3,651,000
30 August 2020	0.80	—	—	8,102,065
29 December 2020	1.10	—	—	1,728,500
6 January 2021	1.10	—	—	371,768
27 February 2021	1.57	—	—	371,769
27 February 2021	0.80	—	—	5,145,850
28 February 2022	1.79	—	—	235,884
29 September 2022	0.91	—	—	3,330,000
28 February 2023	0.91	—	—	185,884
31 July 2023	0.83	—	—	3,189,616
31 July 2023	0.20	—	—	4,433,290
28 February 2024	0.60	—	—	185,884
		<u>39,508,626</u>	<u>39,616,510</u>	<u>39,610,510</u>

The weighted average fair value of options granted during the financial year ended 31 December 2013 and 2014 determined using the Black-Scholes valuation model were USD0.50, USD0.51 per option, respectively.

The weighted average fair value of options modified during the financial year ended 31 December 2015 determined using the Black-Scholes valuation model was USD0.27 per option.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options using the following assumptions, with exercise price shown above:

(a) **2008 Share Plan**

Grant date	9 March 2008	26 July 2009	5 March 2010	1 September 2010	1 December 2010	8 January 2011	1 March 2011	1 March 2012	30 September 2012	1 March 2013	1 August 2013	1 March 2014
For options granted to employees and directors:												
Weighted average share price at grant date	0.35	0.34	0.67	0.80	1.10	1.10	1.57	—	0.91	—	0.55	—
Expected term	5.3 - 6.1 years	5.4 years	5.68 years	6.08 years	6.08 years	6.08 years	6.08 years	—	6 years	—	5.1- 6.3 years	—
Expected volatility	59.9% - 62.0%	59.1%	59.7%	59.4%	57.5%	57.5%	57.3%	—	67.4%	—	57.2 % - 61.2%	—
Expected dividend rate	—	—	—	—	—	—	—	—	—	—	—	—
Risk-free interest rate	3.94%	3.61%	2.40%	2.31%	2.91%	2.59%	2.77%	—	2.14%	—	1.85% - 2.92%	—
For options granted to advisors:												
Weighted average share price at grant date	0.35	0.34	0.67	0.80	—	—	1.57	1.79	—	0.91	0.55	0.58
Expected term	10 years	8.6 years	9.2 years	10 years	—	—	10 years	10 years	—	9.2 years	9.8 years	10 years
Expected volatility	70.9%	67.2%	68.9%	67.5%	—	—	67.5%	70.9%	—	64.8%	62%	66.1%
Expected dividend rate	—	—	—	—	—	—	—	—	—	—	—	—
Risk-free interest rate	5.34%	4.32%	4.04%	3.42%	—	—	3.42%	2.71%	—	3.63%	2.98%	3.35%

The volatility measured at the historical volatility of the Group's comparable companies. See Note 7 and 8 for the total expense recognised in the consolidated statements of comprehensive income for share options granted to advisors and employees.

(b) *Pre-IPO Share Plan*

Modification date	15 September 2015	15 September 2015	15 September 2015	15 September 2015	15 September 2015	15 September 2015	15 September 2015	15 September 2015	15 September 2015	15 September 2015	15 September 2015	15 September 2015
For options granted to employees and directors:												
Weighted average share price at grant date	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54
Expected term	1.6 - 2.3 years	2.3 years	2.9 years	3.6 years	3.8 years	3.8 years	3.8 years	3.8 years	4.5 years	4 - 5.2 years	—	—
Expected volatility	50.2% - 52.3%	50.2%	50.4%	51.5%	51.6%	51.6%	51.8%	51.8%	53%	52.0% - 53.1%	—	—
Expected dividend rate	—	—	—	—	—	—	—	—	—	—	—	—
Risk-free interest rate	1.29% - 1.46%	1.46%	1.60%	1.75%	1.78%	1.79%	1.8%	1.8%	1.95%	1.84% - 2.10%	—	—
For options granted to advisors:												
Weighted average share price at grant date	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54
Expected term	2.5 years	2.5 years	3.7 years	5 years	5 years	5 years	5.5 years	6.5 years	7.5 years	7.9 years	7.5 years	7.5 years
Expected volatility	49.9%	49.9%	51.5%	52.3%	—	—	52.1%	51.7%	—	55.1%	56.9%	55.1%
Expected dividend rate	—	—	—	—	—	—	—	—	—	—	—	—
Risk-free interest rate	1.50%	1.50%	1.76%	2.05%	—	—	2.17%	2.39%	—	2.62%	2.71%	2.62%

The volatility measured at the historical volatility of the Group's comparable companies. See Note 7 and 8 for the total expense recognised in the consolidated statements of comprehensive income for share options granted to advisors and employees.

29 Notes to the consolidated statements of cash flows

(a) *Reconciliation of profit before income tax to cash generated from/(used in) operations*

	Note	Year ended 31 December		
		2013	2014	2015
		USD	USD	USD
Profit before income tax		3,181,910	5,730,671	4,140,582
Adjustments for:				
Interest income	9	(148,921)	(189,090)	(245,101)
Interest expense	9	—	—	38,659
Gain on settlement of available-for-sale financial assets	6	(2,100,334)	(1,134,797)	(716,356)
Share-based payment		4,410,079	971,462	1,902,326
(Reversal of)/provision for impairment of trade receivables	7	(23,041)	641,778	196,136
Provision for impairment of inventories	7	379,546	1,507,553	599,582
Loss on disposal of property, plant and equipment		74,840	36,911	60,128
Loss on disposal of intangible assets		15,003	—	—
Depreciation of property, plant and equipment	13	350,353	427,924	658,199
Amortisation of intangible assets	14	463,669	348,251	311,479
		6,603,104	8,340,663	6,945,634
Changes in working capital:				
(Increase)/decrease in inventories		(375,144)	(4,014,313)	1,104,464
Increase in trade and other receivables		(204,219)	(9,569,186)	(5,901,416)
Increase in trade and other payables		1,902,203	3,340,367	3,473,198
Increase/(decrease) in deferred revenue		175,844	1,180,998	(118,908)
Cash generated from/(used in) operations		8,101,788	(721,471)	5,502,972

30 Contingencies

The Group and the Company did not have any material contingent liabilities as at 31 December 2013, 2014 and 2015.

31 Commitments

(i) *Operating lease commitments*

The Group leases various offices and warehouses under non-cancellable operating lease agreements with lease terms between 2 to 3 years. The future aggregate minimum lease payments under the operating lease agreement are as follows:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Not later than 1 year	514,637	736,429	483,625
Later than 1 year and no later than 5 years	362,342	558,073	78,099
Later than 5 years	—	—	—
	<u>876,979</u>	<u>1,294,502</u>	<u>561,724</u>

(ii) *Capital commitments*

The Group did not have any material capital commitments as at 31 December 2013, 2014 and 2015.

32 Bank facilities

The Group has aggregate available banking facilities of USD2,933,000 with a bank in Shenzhen for bills and letter of credit facilities as at 31 December 2013. The Group did not utilise any facilities as at 31 December 2013.

The above bank facilities do not require pledging of any assets nor financial covenants of the Group. There was a restricted cash of approximately USD2,933,000 as of 31 December 2013 on certain of the Group's RMB denominated cash and cash equivalents in relation to those bills and letter of credit facilities. Their drawings are made available to the Group against RMB denominated deposit for an amount of not less than 100% of the drawing amount having been deposited by its PRC subsidiary. The Group has no legal restriction on the withdrawal of these deposits. During the year ended 31 December 2013, the maximum balance of compensating balance arrangement was USD2,933,000. The bank facilities were expired in 2014. There were no banking facilities as 31 December 2014 and 2015.

33 Related party balances and transactions

- (a) The directors are of the view that the following companies were related parties that had transactions or balances with the Group during the years ended 31 December 2013, 2014 and 2015:

Name of the related parties	Principal business activities	Relationship with the Group
Mr. Zeng Zhijie	N/A	Non-executive director of the Company
Mr. Kwan, Allan Chung-yuen	N/A	Non-executive director of the Company
Mr. Huang Xueliang	N/A	Executive director and the CEO of the Company
Mr. Zhang Junjie	N/A	Independent Director
Mr. Woo Kar Tung, Raymond	N/A	Independent Director
Mr. Jin Yufeng	N/A	Independent Director
Shenzhen State Micro Holdings Co., Ltd	Investment holding	Controlled by a director and the CEO of the Company

(b) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the Relevant Periods:

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Operating lease payments and the costs and fees relating to air-conditioning and public utilities in respect of properties of a related company	<u>680,805</u>	<u>783,475</u>	<u>685,020</u>

These transactions are made of terms mutually agreed by the relevant parties.

(c) *Balances with related parties*

The Group had the following material trade and non-trade balances with related parties:

	As at 31 December		
	2013	2014	2015
	USD	USD	USD
Amounts due from related parties			
- Non-trade	<u>26,662,456</u>	<u>22,726,724</u>	<u>—</u>
Amounts due to shareholders			
- Non-trade	<u>(44,152,562)</u>	<u>(43,688,199)</u>	<u>—</u>

Amounts due from/(to) related parties are unsecured, interest-free and repayable on demand. The carrying amounts of amounts due from/(to) shareholders approximate their fair values and are denominated in USD. In 2015, the Company assumed the balances with related parties and shareholders as part of the Reorganisation as stated in Note 1.2.

(d) *Key management compensation*

Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2013	2014	2015
	USD	USD	USD
Basic salaries, allowances and benefits in kind	703,382	725,400	665,897
Discretionary bonuses	162,011	163,390	188,018
Share-based payments	2,783,222	565,061	534,334
Retirement benefit-defined contribution plan	<u>50,351</u>	<u>49,531</u>	<u>47,914</u>
	<u>3,698,966</u>	<u>1,503,382</u>	<u>1,436,163</u>

34 **Interests in subsidiaries**

	As at 31 December 2015
	USD
Unlisted shares	<u>69,706,459</u>

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of the balances approximate their fair values and the balances are denominated in USD.

Details of the subsidiaries at 31 December 2015 are disclosed in Note 1.2.

35 Reserve - Company

	Share premium	Share-based payment reserve	Accumulated loss
	USD	USD	USD
At 29 June 2015 (date of incorporation)			
Issue of shares	63,331,486	—	—
Loss for the period	—	—	(4,899)
Share-based compensation	—	1,628,908	—
At 31 December 2015	<u>63,331,486</u>	<u>1,628,908</u>	<u>(4,899)</u>

36 Events after the reporting date

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2015.

By a shareholder's resolution dated 6 March 2016 and conditional on the share premium account of the Company being credited as a result of the issuance of new shares pursuant to the proposed offering of the Company's shares, the Company will issue additional 72,574,775 shares, credited as fully paid, to the existing shareholders of the Company.

III SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2015 up to the date of this report. Save as disclosed in the report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2015.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the owners of the Company as of 31 December 2015 as if the Global Offering had taken place on 31 December 2015.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2015 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at 31 December 2015 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to owners of the Company as at 31 December 2015	Unaudited pro forma adjusted net tangible assets per Share (Note 3)	
	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>HKD</i>
Based on an Offer Price of HK\$3.88 per Share	<u>55,075,042</u>	<u>33,446,000</u>	<u>88,521,042</u>	<u>0.30</u>	<u>2.29</u>
Based on an Offer Price of HK\$3.10 per Share	<u>55,075,042</u>	<u>26,124,000</u>	<u>81,199,042</u>	<u>0.27</u>	<u>2.10</u>

Notes:

- The audited consolidated net tangible assets attributable to owners of the Company as at 31 December 2015 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2015 of USD62,176,860 with an adjustment for the intangible assets and goodwill as at 31 December 2015 of USD7,101,818.

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$3.88 and HK\$3.10 per Share after deduction of the underwriting fees and other related expenses payable (excluding listing expense of approximately USD3,523,000 which have been accounted for prior to 31 December 2015) by the Company.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 300,000,000 Shares were in issue assuming that the Global Offering has been completed on 31 December 2015.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2015.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in United States Dollars are converted into Hong Kong dollars at the rate of 7.75 HKD to 1 USD.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of SMIT Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of SMIT Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2015, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 16 March 2016, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2015 as if the proposed initial public offering had taken place at 31 December 2015. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the year ended 31 December 2015, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 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 Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 16 March 2016

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 6 March 2016 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V of this prospectus headed “Documents available for inspection”.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 6 March 2016 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$50,000 divided into 2,500,000,000 shares of US\$0.00002 each.

2.2 *Directors*

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

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- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

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The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

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(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall

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mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 *Alteration of capital*

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

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The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 *Special resolution — majority required*

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 *Voting rights*

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

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A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 *Annual general meetings*

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

2.9 *Accounts and audit*

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the

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Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

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- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 *Transfer of shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

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The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

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The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

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The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

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2.16 *Calls on shares and forfeiture of shares*

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

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A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

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The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been

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claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 June 2015 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;

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- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

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4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

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8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

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12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

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15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

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- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from 14 July 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

INFORMATION ABOUT OUR COMPANY

1. **Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 June 2015.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 November 2015 and our principal place of business in Hong Kong is at Room 4801, 48/F Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong. In compliance with the requirements under the Companies Ordinance, Mr. Huang Xueliang has been appointed as our agent for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

2. **Changes in share capital of our Company**(a) *Increase in authorised share capital*

As at the date of incorporation of our Company on 29 June 2015, our authorised share capital was US\$50,000 divided into 2,500,000,000 Shares having a par value of US\$0.00002 each.

Immediately following completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme, the issued share capital of our Company will be US\$6,000 divided into 300,000,000 Shares, all fully paid or credited as fully paid, and 2,200,000,000 Shares will remain unissued.

Other than pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme, there is no present intention to issue any of the authorised but unissued Shares of our Company.

Save as disclosed herein and in the sections headed “Information about our Company — 3. Resolutions in writing of the Shareholders passed on 6 March 2016” and “Information about our Company — 4. Group reorganisation” in this Appendix of the prospectus, there has been no alteration in the share capital of our Company since its incorporation.

(b) *Founder shares, management shares and deferred shares*

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of the Shareholders passed on 6 March 2016

Written resolutions were passed by the Shareholders on 6 March 2016 pursuant to which, among other matters:

- (a) our Company approved and adopted the Memorandum and the Articles conditional upon and with effect from the listing of the Shares on the Stock Exchange on the Listing Date;
- (b) conditional on (aa) the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; and (bb) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and such obligations not having been terminated in accordance with the terms of the Underwriting Agreements on or before 8:00 a.m. of the Listing Date:
 - (i) the Global Offering was approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering;
 - (ii) subject to the share premium account of our Company being credited as a result of the Global Offering, the Directors were authorised to capitalise the sum of US\$1,451.50 from the amount standing to the credit of the share premium account of our Company by applying the said sum in paying up in full 72,574,775 Shares at par for allotment and issue to holders of Shares whose names appear on the register of members of our Company as at 8:10 a.m. on the Listing Date in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares;
 - (iii) a general unconditional mandate was given to the Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any options granted under any share option scheme of our Company or pursuant to a specific authority granted by the Company, or under the Capitalisation Issue or the Global Offering, Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles, the Companies Law or the applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever is the earliest;

- (iv) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, having an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Global Offering, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles, the Companies Law or the applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever is the earliest; and
- (v) the extension of the unconditional general mandate to allot, or issue Shares referred to in paragraph (iii) above to include the aggregate nominal amount of Shares which may be repurchased by our Company pursuant to paragraph (iv) above.

4. **Group reorganisation**

Our Group underwent the Reorganisation to rationalise our corporate structure in anticipation of the Global Offering. For more details regarding the Reorganisation, please refer to section headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus.

5. **Changes in share capital of subsidiaries**

Our Company’s subsidiaries are listed in the Accountant’s Report set out in Appendix I to this prospectus.

Increase in authorised share capital of SMIT Hong Kong

On 15 May 2013, the authorised share capital of SMIT Hong Kong was increased from HK\$10,000 to HK\$150,010,000 comprising 150,010,000 shares of HK\$1.00 each, pursuant to a resolution passed by SMIT Corporation as sole shareholder of SMIT Hong Kong at the time.

Save as disclosed above and in the section headed “History, Reorganisation and Corporate Structure” in this prospectus, there are no changes in the registered capital of our Company’s subsidiaries during the two years preceding the date of this prospectus.

6. Further information about our Group's subsidiaries

Our Group has interest in the registered capital and share capital (as the case may be) of various subsidiaries. A summary of the corporate information of our Group's subsidiaries as at the Latest Practicable Date is set out as follows:

(a) *Shenzhen State Micro Technology Co. Ltd*

Name of the enterprise:	Shenzhen State Micro Technology Co. Ltd* (深圳國微技術有限公司)
Registered address:	West Part of 1/F and 2/F, Guowei R&D Building, No.1 South High-tech Road, South Zone, High-tech Industrial Part, Nanshan District, Shenzhen, Guangdong, the PRC
Date of its establishment:	4 January 2002
Economic nature:	Limited liability company (Wholly-owned by a corporation in Taiwan, Hong Kong or Macau)
Registered owner:	SMIT (HK) Limited
Registered capital:	RMB\$120,000,000
Attributable interest to our Group:	100%
Term of operation:	4 January 2002 to 4 January 2032

(b) *SMIT Digital GmbH*

Name of the enterprise:	SMIT Digital GmbH
Registered address:	Stefan-George-Ring 29, 81929 Munich, Germany
Date of its establishment:	11 August 2009
Economic nature:	Limited liability company
Sole shareholder:	SMIT Holdings Limited
Registered capital:	EUR 25,000
Attributable interest to our Group:	100%
Term of operation:	Not applicable

(c) *SMIT (HK) Limited*

Name of the enterprise:	SMIT (HK) Limited
Registered address:	Flat/Rm 4801, 48/F, Central Plaza, 18 Harbour Road, Wan Chai, HK
Date of its establishment:	25 April 2006
Type of company:	Limited liability company
Sole shareholder:	SMIT Holdings Limited
Authorised share capital:	HK\$150,010,000
Issued share capital:	HK\$150,010,000
Attributable interest to our Group:	100%
Term of operation:	Not applicable

7. Securities repurchase mandate

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by the Shareholders on 6 March 2016, the Repurchase Mandate was given to the Directors to exercise all powers of our Company, to repurchase Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, having the aggregate nominal amount of not exceeding 10% of the aggregate share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles, the Companies Law or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

(b) *Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

(c) ***Reasons for repurchases***

The Directors believe that it is in the best interests of our Company and the Shareholders for the Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) ***Funding of repurchases***

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 300,000,000 Shares in issue immediately after the Listing, would result in up to 30,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(e) ***General***

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

8. Summary of material contracts

The following contracts (not being contracts entered into in our Group's ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a share sale and purchase agreement dated 21 September 2015 entered into among Infortune International Limited, Statemicroelectronics International Co., Ltd, Capital Tower Profits Limited, Junjie International Co., Ltd, Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V., Pacven Walden Ventures Parallel V-B C.V., Mayfield XI, Mayfield XI Qualified, Mayfield Associates Fund VI, Mayfield Principals Fund II, David Mixer, GSR Ventures I, L.P., GSR Principals Fund I, L.P., Castlewilder, Silverose Enterprises Limited, Oak Investment Partners X, L.P., Oak X Affiliates Fund L.P. (collectively known as the “**Subscribers**”), SMIT Corporation, SMIT Holdings Limited, SMIT (HK) Limited, Shenzhen State Micro Technology Co., Ltd (深圳國微技術有限公司), New Achievement Limited, Better Balance Limited, Good Future Management Limited and Mr. Huang Xueliang, pursuant to which an aggregate of 152,425,225 shares in SMIT Holdings Limited were issued to the Subscribers in consideration of the transfer of the entire issued share capital in SMIT (HK) Limited and SMIT Digital GmbH by SMIT Corporation to SMIT Holdings Limited;
- (b) a share sale and purchase agreement (《關於SSPORTS (HK) LIMITED的股份買賣協議》) dated 4 August 2014 entered into between SMIT (HK) Limited and Super Sports Media Group (HK) Limited, pursuant to which SMIT (HK) Limited agreed to sell its 40% interest in Ssports (HK) Limited to Super Sports Media Group (HK) Limited for a total consideration of US\$10,500,000;
- (c) a termination deed (《關於SSPORTS (HK) LIMITED股東協議條款的終止契約》) dated 4 August 2014 entered into between SMIT (HK) Limited, Super Sports Media Group (HK) Limited and Ssports (HK) Limited, pursuant to which the parties agreed to terminate all applicable shareholders provisions and conditions prescribed under a share subscription and shareholders' agreement (《有關SSPORTS (HK) LIMITED之股份認購及股東協議》) dated 10 April 2013;
- (d) a cornerstone investment agreement dated 9 March 2016 entered into among SMIT Holdings Limited, Xinxin (Hongkong) Capital Co., Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, a summary of which is set out in the section headed “Cornerstone Investors”;

- (e) a cornerstone investment agreement dated 9 March 2016 entered into among SMIT Holdings Limited, Beijing Integrated Circuit Industry International Fund L.P., Haitong International Capital Limited and Haitong International Securities Company Limited, a summary of which is set out in the section headed “Cornerstone Investors”;
- (f) a cornerstone investment agreement dated 9 March 2016 entered into among SMIT Holdings Limited, Shanghai Summitview Venture Capital Limited Partnership, Haitong International Capital Limited and Haitong International Securities Company Limited, a summary of which is set out in the section headed “Cornerstone Investors”;
- (g) a cornerstone investment agreement dated 9 March 2016 entered into among SMIT Holdings Limited, SVIC No. 30 New Technology Business Investment L.L.P., Haitong International Capital Limited and Haitong International Securities Company Limited, a summary of which is set out in the section headed “Cornerstone Investors”; and
- (h) the Hong Kong Underwriting Agreement.

9. Intellectual property rights of our Group

(a) *Patents*

As at the Latest Practicable Date, we are the registered proprietor of the following patents which, in the opinion of our Directors, are material to our business:

No.	Patent	Patent Number	Type	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
1	Smart cards and smart card reader converter device (智慧卡轉換器及智慧卡讀取裝置)	201420358325.2	Utility Model	SMIT Shenzhen	PRC	30 June 2014	30 June 2024
2	Digital TV conditional access device based on USB (USB數字電視接收器)	201430069358.0	Design	SMIT Shenzhen	PRC	28 March 2014	28 March 2024
3	A television signal receiving socket (電視信號接收插座)	201420044154.6	Utility Model	SMIT Shenzhen	PRC	23 January 2014	23 January 2024
4	A PCMCIA card (一種PCMCIA卡)	201220520560.6	Utility Model	SMIT Shenzhen	PRC	11 October 2012	11 October 2022
5	A PCMCIA card (一種PCMCIA卡)	201120519621.2	Utility Model	SMIT Shenzhen	PRC	13 December 2011	13 December 2021

No.	Patent	Patent Number	Type	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
6	A conditional access card (條件接收卡)	201020663139.1	Utility Model	SMIT Shenzhen	PRC	15 December 2010	15 December 2020
7	A video-on-demand system based on conditional access device (基於條件接收裝置的視頻點播系統)	201020653907.5	Utility Model	SMIT Shenzhen	PRC	10 December 2010	10 December 2020
8	A conditional access device, method of achieving the EPG reception (條件接收裝置、在條件接收裝置中實現EPG的方法)	201010585332.2	Invention	SMIT Shenzhen	PRC	10 December 2010	10 December 2030

(b) *Software copyrights*

As at the Latest Practicable Date, we are the registered owner of the following software copyrights which, in the opinion of our Directors, are material to our business:

No.	Software	Place of registration	Name of registered proprietor	Registration certificate number	Date of registration
1.	State micro technology condition receiving software V3.0.0 (國微技術條件接收軟件V3.0.0)	PRC	SMIT Shenzhen	2009SR01958	9 January 2009
2.	State micro technology control word encryption software (國微技術控制字加密軟件V1.0.0)	PRC	SMIT Shenzhen	2011SR050009	19 July 2011
3.	State micro technology TS content protection software (國微技術TS內容保護軟件V1.0.0)	PRC	SMIT Shenzhen	2011SR053281	29 July 2011
4.	State micro technology support for video on demand condition receiving card software (國微技術支持視頻點播的條件接收卡軟件V1.0)	PRC	SMIT Shenzhen	2013SR003069	10 January 2013

No.	Software	Place of registration	Name of registered proprietor	Registration certificate number	Date of registration
5.	State micro technology support LSC conditional access card software V1.0 (國微技術支持LSC的條件接收卡軟件V1.0)	PRC	SMIT Shenzhen	2013SR003043	10 January 2013
6.	State micro technology HbbTV VOD CAM software V1.0 (國微技術HbbTV VOD CAM軟件V1.0)	PRC	SMIT Shenzhen	2013SR072115	24 July 2013
7.	State micro technology conditional access card software based on USB interface V1.0 (國微技術基於USB接口的條件接收卡軟件V1.0)	PRC	SMIT Shenzhen	2014SR195234	25 December 2014
8.	State micro technology merged TV software V1.0 (國微技術融合電視軟件V1.0)	PRC	SMIT Shenzhen	2014SR194767	15 December 2014

(c) *Trademarks*

As at the Latest Practicable Date, we are the registered owner of the following trademarks which, in the opinion of our Directors, are material to our business:

No.	Trademark	Place of registration	Name of registered proprietor	Class	Registration number	Duration of validity
1		PRC	SMIT Shenzhen	9	6787533	7 July 2010 to 6 July 2020
2		PRC	SMIT Shenzhen	9	7552521	14 February 2011 to 13 February 2021
3		European Union	SMIT Shenzhen	9, 38, 42	007325327	18 October 2008 to 17 October 2018
4		U.S.	SMIT Shenzhen	9	3605731	14 April 2009 to 13 April 2019

No.	Trademark	Place of registration	Name of registered proprietor	Class	Registration number	Duration of validity
5	@smit	U.S.	SMIT Shenzhen	9	3605732	14 April 2009 to 13 April 2019
6	smit	Hong Kong	SMIT Hong Kong	9	303397753	5 May 2015 to 4 May 2025

(d) *Domain Names*

As at the Latest Practicable Date, we are the registered owner of the following domain name which, in the opinion of our Directors, is material to our business:

Domain name	Date of registration	Date of expiry
www.smit.com.cn	5 August 2004	5 August 2019

10. **Connected transactions and related party transactions**

Save as disclosed in the sections headed “Business” and “Continuing Connected Transaction” and in note 32 to the Accountant’s Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS11. **Directors**(a) *Disclosure of interests of the Directors*

- (i) Each of Mr. Huang Xueliang, Mr. Zeng Zhijie and Mr. Kwan, Allan Chung-yuen is interested in the Reorganisation and the transactions as contemplated under the material contracts as set out in paragraph 8 of this Appendix.
- (ii) Save as disclosed in this prospectus, none of the Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) *Particulars of Directors’ service contracts**Executive Director*

Our executive Director, Mr. Huang Xueliang, has entered into a service contract with our Company for a term of three years commencing from the date of appointment until termination by our

Company or Mr. Huang giving not less than three months' written notice to other party. The appointment is subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Our executive Director is entitled to a basic annual salary as set out below.

The current basic annual salary of our executive Director payable under his service contract is as follows:

Name	Approximate annual salary (US\$ thousand)
Huang Xueliang	24

Non-executive Directors

Each of our non-executive Directors has been appointed for an initial term of three years commencing from the Listing Date until termination by our Company or the relevant non-executive Director giving not less than three months' written notice to our Company at the end of the initial term of his appointment or any time thereafter. The appointment is subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of our non-executive Directors is entitled to a director's fee of US\$24,000 per annum. Save for the said director's fee, none of our non-executive Directors is expected to receive any other remuneration for holding his office as a non-executive Director.

Independent non-executive Directors

Each of our independent non-executive Directors has been appointed for an initial term of three years commencing from the date of appointment until termination by our Company or the relevant independent non-executive Director giving not less than three months' written notice to the other party at the end of the initial term of his appointment or any time thereafter. The appointments are subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of US\$24,000 per annum. Save for the said directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding his office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

(c) *Directors remuneration*

- (i) The aggregate remuneration (including basic salaries, allowances, benefits in kind, discretionary bonuses, share-based payments retirement benefit defined contribution plan) granted by our Group to the Directors in respect of the three years ended 31 December 2013, 2014 and 2015 were approximately US\$730,671, US\$497,200 and US\$602,481, respectively.

- (ii) Under the arrangements currently in force, the aggregate remuneration (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by the Directors (including the non-executive Directors and the independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2016 are expected to be approximately US\$600,000.
- (iii) None of the Directors or any past directors of any member of our Group has been paid any sum of money for the three years ended 31 December 2013, 2014 and 2015 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to any emoluments for the three years ended 31 December 2013, 2014 and 2015.
- (d) *Interests of the Directors and Chief Executive of our Company*

Immediately following the completion of the Global Offering but without taking into account any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme, the interests and short positions of the Directors in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number and class of securities⁽¹⁾</u>	<u>Approximate percentage of interest in our Company</u>
Huang Xueliang ⁽²⁾	Beneficial interest and interest in a controlled corporation	42,002,445 Shares (L)	14.00%
Kwan, Allan Chung-yuen ⁽³⁾	Beneficial interest	3,029,693 Shares (L)	1.01%
Zeng Zhijie ⁽⁴⁾	Beneficial interest	826,638 Shares (L)	0.28%

Notes:

- (1) The letter “L” denotes the Directors’ long position in the shares of our Company or the relevant associated corporation.
- (2) Immediately following the completion of the Global Offering, Mr. Huang Xueliang will be interested in share options to subscribe for 12,079,833 Shares. Mr. Huang is also deemed to be interested in the Shares interested by Infortune International and Statemicroelectronics.

- (3) Immediately following the completion of the Global Offering, Mr. Kwan, Allan Chung-yuen will be interested in share options to subscribe for 3,029,693 Shares.
- (4) Immediately following the completion of the Global Offering, Mr. Zeng Zhijie will be interested in share options to subscribe for 826,638 Shares.

12. Interests of the Substantial Shareholders

So far as is known to the Directors, immediately following completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme, other than a Director or chief executive of our Company whose interests are disclosed under the section headed “Further Information about Directors and Shareholders — 11. Directors” above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Capacity/nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding
Statemicroelectronics	Beneficial owner	15,957,463 Shares (L)	5.32%
Mr. Huang Xueliang ⁽²⁾	Beneficial owner and interest in a controlled corporation	42,002,445 Shares (L)	14.00%
Mr. Zhu Changhua ⁽³⁾	Interest in a controlled corporation	22,507,521 Shares (L)	7.50%
Junjie International	Beneficial owner	19,140,656 Shares (L)	6.38%
Mr. Gong Jun ⁽⁴⁾	Interest in a controlled corporation	20,528,226 Shares (L)	6.84%
Pacven Walden Ventures V, L.P.	Beneficial owner	25,779,560 Shares (L)	8.59%
Pacven Walden Management V Co. Ltd ⁽⁵⁾	Interest in a controlled corporation	27,541,195 Shares (L)	9.18%
Mayfield XI Qualified, a Delaware Limited Partnership	Beneficial owner	19,693,985 Shares (L)	6.56%
Mayfield XI Management, L.L.C. ⁽⁶⁾	Interest in a controlled corporation	22,741,317 Shares (L)	7.58%
GSR Ventures I, L.P.	Beneficial owner	45,612,840 Shares (L)	15.20%
GSR Partners I, L.P. ⁽⁷⁾	Interest in a controlled corporation	47,023,545 Shares (L)	15.67%
GSR Partners I, Ltd. ⁽⁸⁾	Interest in a controlled corporation	47,023,545 Shares (L)	15.67%

Name of Shareholder	Capacity/nature of interest	Number and class of securities⁽¹⁾	Approximate percentage of shareholding
Oak Investment Partners X, L.P.	Beneficial owner	56,972,972 Shares (L)	18.99%
Oak Associates X, LLC ⁽⁹⁾	Interest in a controlled corporation	56,972,972 Shares (L)	18.99%

Notes:

- (1) All interests stated are long positions.
- (2) Mr. Huang Xueliang holds share options to subscribe for 12,079,833 Shares immediately following the completion of the Global Offering. Mr. Huang Xueliang also holds a 100% interest in Infortune International and a 50% interest in Statemicroelectronics. Mr. Huang Xueliang is therefore deemed to be interested in the 13,965,149 Shares and 15,957,463 Shares held by Infortune International and Statemicroelectronics respectively immediately following the completion of the Global Offering.
- (3) Mr. Zhu Changhua holds share options to subscribe for 568,314 Shares immediately following the completion of the Global Offering. Mr. Zhu Changhua also holds a 100% interest in Capital Tower and a 50% interest in Statemicroelectronics. Mr. Zhu Changhua is therefore deemed to be interested in the 5,981,744 Shares and 15,957,463 Shares held by Capital Tower and Statemicroelectronics respectively immediately following the completion of the Global Offering.
- (4) Mr. Gong Jun holds share options to subscribe for 1,387,570 Shares immediately following the completion of the Global Offering. Mr. Gong Jun also holds a 100% interest in Junjie International. Mr. Gong Jun is therefore deemed to be interested in the 19,140,656 Shares held by Junjie International immediately following the completion of the Global Offering.
- (5) To the best of our Directors' knowledge, Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. are limited partnerships each controlled by a general partner, Pacven Walden Management V Co. Ltd.. Pacven Walden Management V Co. Ltd. is deemed to be interested in the 25,779,560 Shares, 89,454 Shares, 485,855 Shares, 593,163 Shares and 593,163 Shares held by Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. respectively immediately following the completion of the Global Offering.
- (6) To the best of our Directors' knowledge, (A) each of Mayfield XI, a Delaware Limited Partnership, Mayfield XI Qualified, a Delaware Limited Partnership and Mayfield Associates Fund VI, a Delaware Limited Partnership is controlled by a general partner, Mayfield XI Management, L.L.C. and (B) Mayfield Principals Fund II, a Delaware LLC Including Multiple Series is controlled by the sole managing director, Mayfield XI Management, L.L.C.. Mayfield XI Management, L.L.C. is deemed to be interested in the 1,228,033 Shares, 19,693,985 Shares, 409,340 Shares and 1,409,959 Shares held by Mayfield XI, a Delaware Limited Partnership, Mayfield XI Qualified, a Delaware Limited Partnership, Mayfield Associates Fund VI, a Delaware Limited Partnership and Mayfield Principals Fund II, a Delaware LLC Including Multiple Series respectively immediately following the completion of the Global Offering.
- (7) To the best of our Directors' knowledge, GSR Ventures I, L.P. and GSR Principals Fund I, L.P. are limited partnerships each controlled by a general partner, GSR Partners I, L.P.. GSR Partners I, L.P. is deemed to be interested in the 45,612,840 Shares and 1,410,705 Shares held by GSR Ventures I, L.P. and GSR Principals Fund I, L.P. respectively immediately following the completion of the Global Offering.
- (8) To the best of our Directors' knowledge, GSR Partners I, L.P. is a limited partnership controlled by a general partner, GSR Partners I, Ltd.. Each of GSR Partners I, Ltd. and GSR Partners I, L.P. is deemed to be interested in the 45,612,840 Shares and 1,410,705 Shares held by GSR Ventures I, L.P. and GSR Principals Fund I, L.P. respectively immediately following the completion of the Global Offering.
- (9) To the best of our Director's knowledge, Oak Investment Partners X, L.P. is a limited partnership controlled by a general partner, Oak Associates X, LLC. Oak Associates X, LLC is deemed to be interested in the 56,972,972 Shares held by Oak Investment Partners X, L.P. immediately following the completion of the Global Offering.

13. Disclaimers

Save as disclosed in this prospectus:

- (a) as far as our Directors are aware, as of the Latest Practicable Date, no person will, immediately following completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in paragraph 20 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of the Directors nor any of the parties listed in paragraph 20 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group; and
- (e) save in connection with the Underwriting Agreements, none of the parties listed in paragraph 20 below:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

OTHER INFORMATION

14. Pre-IPO Share Option Scheme

(1). *Summary of Terms*

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme.

(a) *Assumption of 2008 Share Plan as the Pre-IPO Share Option Scheme*

To recognise and acknowledge the contributions made by certain of its employees, directors and consultants to the growth of SMIT Corporation, SMIT Corporation adopted a share incentive plan by resolution of all shareholders of SMIT Corporation on 21 February 2008 (the “**2008 Share Plan**”).

As part of the Reorganisation, our Company assumed the 2008 Share Plan as the Pre-IPO Share Option Scheme by resolutions in writing of the sole shareholder passed on 15 September 2015, and assumed all the rights and obligations under options granted by SMIT Corporation under the 2008 Share Plan, and all share option agreements entered into between SMIT Corporation and the holders of such options, to the intent and effect that all such share options granted under, and such share option agreements entered, under the 2008 Share Plan will be valid, binding and enforceable against our Company in accordance with their terms, as if such options had been granted by our Company under the Pre-IPO Share Option Scheme.

(b) *Purpose*

The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in (c) below) have or may have made to the Company. The purpose of the Pre-IPO Share Option Scheme is to offer selected persons an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing Shares of the Company.

(c) *Who may join*

The eligible participants (collectively the “**Eligible Participants**”) under the Pre-IPO Share Option Scheme include any individual who is (i) an employee of the Company, any of its parent companies or any of its subsidiaries; (ii) a member of the board of directors of the Company who is not an employee of the Company; or (iii) a consultant to the Company, any of its parent companies or any of its subsidiaries.

Upon acceptance of the option, the grantee will not be required to pay any consideration to the Company.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 39,619,195 (subject to adjustments provided in paragraph (i) below).

(e) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Pre-IPO Share Option Scheme shall be no less than 100% of the fair market value of a Share on the date of grant, or, if higher, the par value of such Share, and a higher percentage if the relevant grantee owns more than 10% of the voting power of the Company, its parent or its subsidiaries. Subject to the foregoing, the subscription price shall be determined by the Board at its sole discretion.

(f) *Transferability*

An option granted under the Pre-IPO Share Option Scheme shall be transferable by the grantee subject to restrictions provided under the Pre-IPO Share Option Scheme.

(g) *Time of exercise of Option and duration of the Pre-IPO Share Option Scheme*

Each share option agreement shall specify the date on which all or any instalment of the option shall be granted to each grantee under the Pre-IPO Share Option Scheme.

The term of options granted to each grantee under the Pre-IPO Share Option Scheme shall be specified in the share option agreement and, in any case, shall not exceed 10 years from the date of grant.

(h) *Effect of alterations to capital*

In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a combination or consolidation of the outstanding Shares into a lesser number of Shares, a reclassification, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, proportionate adjustments shall automatically be made in each of (i) the number of Shares available for future grants under the Pre-IPO Share Option Scheme, (ii) the number of Shares covered by each outstanding option granted under the Pre-IPO Share Option Scheme and (iii) the exercise price under each outstanding option granted under the Pre-IPO Share Option Scheme.

In the event of a declaration of an extraordinary dividend payable in a form other than Shares in an amount that has a material effect on the fair market value of the Shares, a recapitalisation, a spin-off, or a similar occurrence, the Board may at its sole discretion make appropriate adjustments in one or more of (i) the number of Shares available for future grants under the Pre-IPO Share Option Scheme, (ii) the number of Shares covered by each outstanding option granted under the Pre-IPO Share Option Scheme or (iii) the exercise price under each outstanding option granted under Pre-IPO

Share Option Scheme; provided, however, that the Board shall in any event make such adjustments as may be required by applicable law. Any adjustment to be made will comply with the Listing Rules and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(i) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the date three months after the termination of the grantee's service for any reason other than disability, or such later date as the Board may determine;
- (iii) the date six months after the termination of the grantee's service by reason of disability, or such later date as the Board may determine; and
- (iv) the date on which the Board shall exercise the Company's right to cancel the option.

(j) *Disclosure in annual and interim reports*

We will disclose details of the Pre-IPO Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time. Our Directors confirm that they will not exercise any options granted under the Pre-IPO Share Option Scheme if as a result of the conversion the Company would not be able to comply with the minimum public float requirement of the Listing Rules.

Save for such options as set out in the paragraph headed "Outstanding Options" below, no further options has been offered under the Pre-IPO Share Option Scheme and no further options will be offered thereunder on or after the Listing Date.

(k) *Application for listing*

Application has been made to the Listing Committee of the Stock Exchange for listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of any options which were granted under the Pre-IPO Share Option Scheme.

(2). *Outstanding Options*

The number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme as at the Latest Practicable Date was 39,610,510 Shares, being held by 138 grantees exercisable at the respective exercise price between US\$0.02 per Share and US\$1.79 per Share. No additional options will be granted under the Pre-IPO Share Option Scheme. Upon completion of the Capitalisation Issue, the number of Outstanding Shares subject to the Pre-IPO Share Option Scheme

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will, pursuant to the Pre-IPO Share Option Scheme, be adjusted proportionally to 58,470,406 Shares exercisable at the respective exercise price between US\$0.01 per Share and US\$1.06 per Share, representing approximately 19.49% of the issued share capital of the Company immediately following completion of the Capitalisation Issue and the Global Offering without taking into account any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme.

Below is a list of the Directors who are grantees under the Pre-IPO Share Option Scheme:

Grantee	Position	Address	Batch	Exercise Price	Vesting Date	Expiration Date	Number of Shares	Approximate	
							underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	percentage of shareholding held underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	
Huang Xueliang	Chairman, executive Director and chief executive officer of the Company	Flat H, 10/F Nam Tien Mansion 18C Taikoo Shing Road Hong Kong	Batch A	US\$0.01	09/03/2010	08/03/2018	36,904		
			Batch B	US\$0.01	09/03/2010	08/03/2018	73,807		
			Batch C	US\$0.01	09/03/2012	08/03/2018	590,454		
			Batch D	US\$0.04	26/07/2013	08/03/2018	1,476,134		
			Batch E	US\$0.04	05/03/2014	15/05/2019	1,476,134		
			Batch F	US\$0.54	01/09/2014	31/08/2020	4,578,278		
			Batch G	US\$1.06	01/03/2015	01/03/2021	2,372,208		
			Batch H	US\$0.62	30/09/2016	25/04/2022	737,847		
			Batch I	US\$0.56	01/08/2017	31/07/2023	738,067		
			Total				12,079,833	4.03%	
Kwan, Allan Chung-yuen ^(Note)	Non-executive Director	Flat A, 15/F	Batch A	US\$0.04	26/07/2013	08/03/2018	236,182		
		Block T44 Pak Hoi Mansion	Batch B	US\$0.54	01/09/2014	31/08/2020	1,585,138		
		1 Tai Koo Wan Road	Batch C	US\$1.06	01/03/2015	01/03/2021	285,787		
		Quarry Bay Hong Kong	Total				2,107,107	0.70%	
Zeng Zhijie	Non-executive Director	1273B You Shan	Batch A	US\$0.01	09/03/2010	08/03/2018	36,904		
		Mei Di Yuyang	Batch B	US\$0.01	09/03/2012	08/03/2018	36,904		
		Road	Batch C	US\$0.04	26/07/2013	08/03/2018	236,182		
		Hou Sha Yu Town	Batch D	US\$0.04	05/03/2014	15/05/2019	442,841		
		Shunyi District	Batch E	US\$1.06	01/03/2015	01/03/2021	73,807		
		Beijing PRC	Total					826,638	0.28%
Subtotal:							15,013,578	5.00%	

Note: Mr. Kwan, Allan Chung-yuen is interested in share options granted under the Pre-IPO Share Option Scheme to subscribe for a total of 3,029,693 Shares which are held as follows: (i) options held in Mr. Kwan's personal capacity to subscribe for 2,107,107 Shares (immediately following completion of the Capitalisation Issue and the Global Offering), and (ii) options held by Cykorp Limited, a company wholly owned by Mr. Kwan, to subscribe for 922,586 Shares.

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Below is a list of senior management members who are grantees under the Pre-IPO Share Option Scheme:

Grantee	Position	Address	Batch	Exercise Price	Vesting Date	Expiration Date	Number of Shares underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	Approximate percentage of shareholding held underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering
Shuai Hongyu	President and chief operating officer of the Company	Room 501, Block 5 Chao Yang Shou	Batch A	US\$0.01	09/03/2010	08/03/2018	147,614	
		Fu 8 Chao Yang	Batch B	US\$0.01	09/03/2012	08/03/2018	309,989	
		Men Nei	Batch C	US\$0.04	26/07/2013	08/03/2018	661,308	
		Dongcheng	Batch D	US\$0.04	05/03/2014	15/05/2019	442,841	
		District Beijing	Batch E	US\$0.54	01/09/2014	31/08/2020	1,182,153	
		PRC	Batch F	US\$1.06	01/03/2015	01/03/2021	1,800,633	
			Batch G	US\$0.62	30/09/2016	25/04/2022	679,022	
			Batch H	US\$0.56	01/11/2013	31/07/2023	730,120	
			Batch I	US\$0.56	01/08/2017	31/07/2023	590,454	
			Total				6,544,134	2.18%
Loong, Manfred Man-tsun	Executive vice president and chief financial officer of the Company	Flat A, 25/F, Blk 21 Hong Kong Gold Coast Ph 2C 1 Castle Peak Road Tuen Mun New Territories Hong Kong		US\$0.14	01/11/2013	31/07/2023	6,544,129	2.18%
Subtotal:							<u>13,088,263</u>	<u>4.36%</u>

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Below is a list of the connected persons (other than the Directors) who are grantees under the Pre-IPO Share Option Scheme:

							Number of Shares underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	Approximate percentage of shareholding held underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering
Grantee	Position	Address	Batch	Exercise Price	Vesting Date	Expiration Date		
Sonny Wu ⁽¹⁾	Director of SMIT	Room 2923 Four	Batch A	US\$0.01	09/03/2010	08/03/2018	36,904	
	Hong Kong and	Seasons Place	Batch B	US\$0.01	09/03/2012	08/03/2018	36,904	
	SMIT Shenzhen	Hong Kong	Batch C	US\$0.04	26/07/2013	08/03/2018	236,182	
			Total				309,990	0.10%
Li Yanrong	General manager of SMIT Germany	Flat 4C Ouxiang	Batch A	US\$0.01	09/03/2012	08/03/2018	26,571	
		Court Baozhu	Batch B	US\$0.04	26/07/2013	08/03/2018	41,332	
		Garden 249	Batch C	US\$0.04	05/03/2014	15/05/2019	51,665	
		Zhuguang Road	Batch D	US\$0.75	31/12/2014	30/12/2020	73,807	
		Nanshan District	Batch E	US\$0.62	30/09/2016	25/04/2022	221,421	
		Shenzhen PRC	Batch F	US\$0.56	01/08/2017	31/07/2023	147,614	
		Total				562,410	0.19%	
Bai Yu	General manager of SMIT Germany	Room 2309A	Batch A	US\$0.01	09/03/2012	08/03/2018	11,810	
		Jinhui Tower Area	Batch B	US\$0.04	26/07/2013	08/03/2018	29,523	
		B 2079 Nanhai	Batch C	US\$0.04	05/03/2014	15/05/2019	41,332	
		Avenue Nanshan	Batch D	US\$0.75	31/12/2014	30/12/2020	73,807	
		District Shenzhen	Batch E	US\$0.62	30/09/2016	25/04/2022	73,807	
		PRC	Batch F	US\$0.56	01/08/2017	31/07/2023	73,807	
		Total				304,086	0.10%	
Cykorp Limited ⁽²⁾	Wholly owned by Mr. Kwan Allan Chung-yuen	Flat A, 15/F Pak	Batch A	US\$0.01	09/03/2012	08/03/2018	36,904	
		Hoi Mansion 1	Batch B	US\$0.04	26/07/2013	08/03/2018	442,841	
		Taikoo Wan Road	Batch C	US\$0.04	05/03/2014	15/05/2019	442,841	
		Quarry Bay Hong Kong	Total				922,586	0.31%
Smart Tiger Holdings Limited ⁽³⁾	Wholly owned by Mr. Sonny Wu	Room 2923 Four	Batch A	US\$0.04	05/03/2014	15/05/2019	442,841	
		Seasons Place	Batch B	US\$1.06	01/03/2015	01/03/2021	295,227	
		Hong Kong	Total				738,068	0.25%
Subtotal:							2,837,140	0.95%

Notes:

1. Mr. Sonny Wu is interested in share options granted under the Pre-IPO Share Option Scheme to subscribe for a total of 1,048,058 Shares which are held as follows: (i) options held in Mr. Wu's personal capacity to subscribe for 309,990 Shares, and (ii) options held by Smart Tiger Holdings Limited, a company wholly owned by Mr. Wu, to subscribe for 738,068 Shares.
2. Cykorp Limited is wholly owned by Mr. Kwan, Allan Chung-yuen.
3. Smart Tiger Holdings Limited is wholly owned by Mr. Sonny Wu.

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Below is a list of the consultants of the Group who are grantees under the Pre-IPO Share Option Scheme

Grantee	Position	Address	Batch	Exercise Price	Vesting Date	Expiration Date	Number of Shares underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	Approximate percentage of shareholding held underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering
Edgar Tu	Consultant	5 Cold Hill Road South, Ste. 28 Mendham, NJ07945, USA	Batch A	US\$1.06	01/03/2011	01/03/2021	274,390	
			Batch B	US\$1.06	01/09/2014	01/03/2021	274,390	
			Batch C	US\$1.21	01/03/2016	01/03/2022	274,390	
			Batch D	US\$0.62	01/03/2017	01/03/2023	274,390	
			Batch E	US\$0.41	01/03/2018	01/03/2024	274,390	
			Total				1,371,950	0.46%
Meisi Amaral	Consultant	2260 Green Cedar Drive, Bel Air, MD 21015, USA	Batch A	US\$0.54	01/09/2014	31/08/2020	2,743,903	
			Batch B	US\$1.06	01/03/2015	01/03/2021	285,787	
			Batch C	US\$0.62	30/09/2016	25/04/2022	295,227	
			Total				3,324,917	1.11%
Super Asset Holdings Limited ⁽¹⁾	Consultant	SP Tower A, Suite 907, Tsinghua Science Park, Building 8, No.1, Haidian District, Beijing, 100084	Batch A	US\$0.01	09/03/2010	08/03/2018	36,904	
			Batch B	US\$0.01	09/03/2012	08/03/2018	184,517	
			Batch C	US\$0.04	26/07/2013	08/03/2018	442,841	
			Total				664,262	0.22%
Wesley Wong	Consultant	Room 831, Hong Dou Liansuo Gongyu, 362 Baoxin Road, Xin'an Street, Bao'an District, PRC	Batch A	US\$0.01	09/03/2012	08/03/2018	73,807	
			Batch B	US\$0.04	26/07/2013	08/03/2018	73,807	
			Total				147,614	0.05%
Alex Pan	Consultant	Room 804, Block 11, Yaojiang Wending Gardens, Xi'hu District, Hang Zhou City, PRC		US\$0.04	26/07/2013	08/03/2018	147,614	0.05%
Guo Ke	Consultant	2-1A, Block 202 Daxiyang Xincheng B Area Chaoyang District Beijing PRC		US\$0.04	26/07/2013	08/03/2018	73,807	0.02%
Robert Yung	Consultant	11445 SE 193rd Terr, Kent, WA 98031-0038, USA		US\$0.04	26/07/2013	08/03/2018	29,523	0.01%

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Grantee	Position	Address	Batch	Exercise Price	Vesting Date	Expiration Date	Number of Shares underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	Approximate percentage of shareholding held underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering
Asia Alliance Financial Management Ltd. ⁽²⁾	Consultant	Room 1, 1/F, Block G, Pine Villa, 4-14 Lok Yuen Path, Shatin, New Territories, Hongkong		US\$0.04	26/07/2013	08/03/2018	147,614	0.05%
Tian Qing	Consultant	10F, 878 East Area, No. 24, Jiuxian Road, Chaoyang District, Beijing		US\$0.04	26/07/2013	08/03/2018	295,227	0.10%
Martin Wu	Consultant	Room 804, No. 13, Baishi Zhou East Square, Nanshan District, Shenzhen		US\$0.54	01/09/2014	31/08/2020	147,614	0.05%
Kian Bin Teo	Consultant	1801, Wing On Central Building, 26 Des Voeux Road, Central, Hongkong		US\$0.54	01/09/2014	31/08/2020	17,714	0.01%
Zhang Li	Consultant	1-302, Block 30, Wanliu Wanquan New Home, Haidian District, Beijing		US\$0.54	01/09/2014	31/08/2020	29,523	0.01%
James Zhou	Consultant	Room E, 6/F, Leapont Centre, 18-28 Wo Liu Hang Street, Fo Tan, Shatin, Hong Kong		US\$0.54	01/09/2014	31/08/2020	147,614	0.05%
Louis Luk	Consultant	8A, Skyscraper, 132-142 Tin Hau Temple Road, Hong Kong		US\$1.21	01/03/2013	01/03/2022	73,807	0.02%
Jack Chang	Consultant	No. 64, Sec.2, Chang An East Road, Taipei, 104, Taiwan. ROC		US\$0.56	01/08/2017	31/07/2023	147,614	0.05%
Subtotal:							<u>6,766,414</u>	<u>2.26%</u>

Notes:

1. Super Asset Holdings Limited is a financial consultancy company. Pre-IPO Share Options were granted to Super Asset Holdings Limited in recognition of its contribution in assisting SMIT Corporation to identify and procure potential investors during the Series B Investment and the Series C Investment.
2. Asia Alliance Financial Management Ltd. is a financial consultancy company. Pre-IPO Share Options were granted to Asia Alliance Financial Management Ltd. in recognition of its contribution in preparing financial and business models for SMIT Corporation in relation to the Series B Investment.

Below is a list of the remaining grantees (other than the Directors, the Company's senior management members and the connected persons of the Company) who have each been granted the Pre-IPO Share Options to subscribe for 700,000 or more Shares (immediately following completion of the Capitalisation Issue and the Global Offering):

Grantee	Position	Address	Batch	Exercise Price	Vesting Date	Expiration Date	Number of Shares	Approximate
							underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	percentage of shareholding held underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering
Lei Jie	Employee	Flat 1205, Block 1, Cuijingyuan Jingtian Area Futian District Shenzhen, PRC	Batch A	US\$0.01	09/03/2010	08/03/2018	73,807	
			Batch B	US\$0.01	09/03/2010	08/03/2018	147,614	
			Batch C	US\$0.01	09/03/2012	08/03/2018	258,324	
			Batch D	US\$0.04	26/07/2013	08/03/2018	287,847	
			Batch E	US\$0.04	05/03/2014	15/05/2019	147,614	
			Batch F	US\$0.54	01/09/2014	31/08/2020	221,421	
			Batch G	US\$0.75	31/12/2014	30/12/2020	29,523	
			Batch H	US\$1.06	01/03/2015	01/03/2021	295,227	
			Batch I	US\$0.62	30/09/2016	25/04/2022	442,841	
			Batch J	US\$0.56	01/08/2017	31/07/2023	221,421	
			Total				2,125,639	0.71%
Gong Jun	Employee	Flat 202, Block 6, 6 Airport Alley Lianhu Road Xi'an, PRC	Batch A	US\$0.01	09/03/2010	08/03/2018	73,807	
			Batch B	US\$0.01	09/03/2010	08/03/2018	295,227	
			Batch C	US\$0.01	09/03/2012	08/03/2018	258,324	
			Batch D	US\$0.04	26/07/2013	08/03/2018	287,847	
			Batch E	US\$0.04	05/03/2014	15/05/2019	147,614	
			Batch F	US\$0.54	01/09/2014	31/08/2020	221,421	
			Batch G	US\$0.75	31/12/2014	30/12/2020	103,330	
			Total				1,387,570	0.46%

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Grantee	Position	Address	Batch	Exercise Price	Vesting Date	Expiration Date	Number of Shares	Approximate
							underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	percentage of shareholding held underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering
Chen Ying	Employee	Flat 27C, Block 3, Phase 6, Xinghai Mingcheng, 3101 Qianhai Road, Nanshan District, Shenzhen, PRC	Batch A	US\$0.01	09/03/2010	08/03/2018	22,143	
			Batch B	US\$0.01	09/03/2010	08/03/2018	147,614	
			Batch C	US\$0.01	09/03/2012	08/03/2018	154,995	
			Batch D	US\$0.04	26/07/2013	08/03/2018	214,040	
			Batch E	US\$0.04	05/03/2014	15/05/2019	147,614	
			Batch F	US\$0.75	31/12/2014	30/12/2020	154,995	
			Batch G	US\$0.54	01/09/2014	31/08/2020	177,137	
			Batch H	US\$1.06	01/03/2015	01/03/2021	221,421	
			Batch I	US\$0.62	30/09/2016	25/04/2022	221,421	
			Batch J	US\$0.56	01/11/2013	31/07/2023	177,137	
			Batch K	US\$0.56	01/08/2017	31/07/2023	221,421	
			Total				1,859,938	0.62%
You Quan	Employee	1-206, Lotus Beicun, Futian District, Shenzhen, PRC	Batch A	US\$0.01	09/03/2010	08/03/2018	22,143	
			Batch B	US\$0.01	09/03/2010	08/03/2018	147,614	
			Batch C	US\$0.01	09/03/2012	08/03/2018	154,995	
			Batch D	US\$0.04	26/07/2013	08/03/2018	243,563	
			Batch E	US\$0.04	05/03/2014	15/05/2019	147,614	
			Batch F	US\$0.54	01/09/2014	31/08/2020	177,137	
			Batch G	US\$0.75	31/12/2014	30/12/2020	162,375	
			Batch H	US\$1.06	01/03/2015	01/03/2021	221,421	
			Batch I	US\$0.62	30/09/2016	25/04/2022	221,421	
			Batch J	US\$0.56	01/11/2013	31/07/2023	177,137	
			Batch K	US\$0.56	01/08/2017	31/07/2023	221,421	
			Total				1,896,841	0.63%
Yuan Peiliang	Employee	Flat 1102, Block 5, Mingxigu, 12 Gongye, 6th Road, Nanshan District, Shenzhen, PRC	Batch A	US\$0.01	09/03/2010	08/03/2018	22,143	
			Batch B	US\$0.01	09/03/2010	08/03/2018	147,614	
			Batch C	US\$0.01	09/03/2012	08/03/2018	103,330	
			Batch D	US\$0.04	26/07/2013	08/03/2018	191,898	
			Batch E	US\$0.04	05/03/2014	15/05/2019	118,091	
			Batch F	US\$0.75	31/12/2014	30/12/2020	110,711	
			Batch G	US\$0.54	01/09/2014	31/08/2020	177,137	
			Batch H	US\$1.06	01/03/2015	01/03/2021	191,898	
			Total				1,062,822	0.35%
Zhang Shaohua	Employee	Flat 1102, Block 5, Mingxigu, 12 Gongye, 6th Road, Nanshan District, Shenzhen, PRC	Batch A	US\$0.01	09/03/2012	08/03/2018	103,330	
			Batch B	US\$0.04	26/07/2013	08/03/2018	221,421	
			Batch C	US\$0.04	05/03/2011	15/05/2019	147,614	
			Batch D	US\$0.54	01/09/2014	31/08/2020	221,421	
			Batch E	US\$0.75	31/12/2014	30/12/2020	177,137	
			Batch F	US\$1.06	01/03/2015	01/03/2021	295,227	
			Total				1,166,150	0.39%

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Grantee	Position	Address	Batch	Exercise Price	Vesting Date	Expiration Date	Number of Shares	Approximate
							underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering	percentage of shareholding held underlying the options granted immediately following completion of the Capitalisation Issue and the Global Offering
Yu Songliang	Employee	Flat 801, Gate 2, Block 208, Wangjing Dongyuan, Area 2 Chaoyang District, Beijing, PRC	Batch A	US\$0.01	09/03/2012	08/03/2018	35,428	
			Batch B	US\$0.04	26/07/2013	08/03/2018	73,807	
			Batch C	US\$0.04	05/03/2014	15/05/2019	73,807	
			Batch D	US\$0.54	01/09/2014	31/08/2020	103,330	
			Batch E	US\$0.75	31/12/2014	30/12/2020	162,375	
			Batch F	US\$1.06	01/03/2015	01/03/2021	295,227	
			Batch G	US\$0.62	30/09/2016	25/04/2022	295,227	
			Batch H	US\$0.56	01/08/2017	31/07/2023	221,421	
			Total				1,260,622	0.42%
Mei Wang	Employee	1-901, Block 7, 23 Shijingshan Road, Shijingshan District, Beijing, PRC	Batch A	US\$0.01	09/03/2012	08/03/2018	73,807	
			Batch B	US\$0.04	26/07/2013	08/03/2018	442,841	
			Batch C	US\$0.04	05/03/2014	15/05/2019	147,614	
			Batch D	US\$1.06	01/03/2015	01/03/2021	44,285	
			Total				708,547	0.24%
Hongrong Liu	Employee	13C, Block 15, Garden City, Gongye Avenue, Nanshan District, Shenzhen, PRC	Batch A	US\$0.01	09/03/2012	08/03/2018	7,381	
			Batch B	US\$0.04	26/07/2013	08/03/2018	29,523	
			Batch C	US\$0.04	05/03/2014	15/05/2019	44,285	
			Batch D	US\$0.54	01/09/2014	31/08/2020	73,807	
			Batch E	US\$0.75	31/12/2014	30/12/2020	132,853	
			Batch F	US\$1.06	01/03/2015	01/03/2021	118,091	
			Batch G	US\$0.62	30/09/2016	25/04/2022	147,614	
			Batch H	US\$0.56	01/08/2017	31/07/2023	147,614	
			Total				701,168	0.23%
Subtotal:							12,169,297	4.06%

Carving out the 34 grantees whose details are listed above, the remaining 104 grantees, being employees, former employees or consultants of the Group, have been granted options to subscribe for an aggregate of 8,595,714 Shares under the Pre-IPO Share Option Scheme immediately following completion of the Capitalisation Issue and the Global Offering, exercisable at the respective exercise price between US\$0.01 per Share and US\$1.06 per Share, collectively representing 2.87% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme.

Our Company has applied to the Stock Exchange and the SFC respectively for and has been granted (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Further details of the waiver/exemption applications and the reasons and conditions for such waivers/exemption are provided in the section headed “Waivers from Strict Compliance with the Listing Rules and Exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance” in this Prospectus.

After completion of the Global Offering and the Capitalisation Issue, the shareholding in the Company before and after the full exercise of all the options granted under the Pre-IPO Share Option Scheme will be as follows:

Shareholders	Before any exercise		After full exercise	
	Shares	%	Shares	%
Infortune International	13,965,149	4.66%	13,965,149	3.90%
Capital Tower	5,981,744	1.99%	5,981,744	1.67%
Junjie International	19,140,656	6.38%	19,140,656	5.34%
Statemicroelectronics	15,957,463	5.32%	15,957,463	4.45%
Pacven Walden	27,541,195	9.18%	27,541,195	7.68%
Mayfield	22,741,317	7.58%	22,741,317	6.34%
David Mixer	3,690,335	1.23%	3,690,335	1.03%
GSR	47,023,545	15.67%	47,023,545	13.12%
Castlewilder	3,690,335	1.23%	3,690,335	1.03%
Silverose	7,380,669	2.46%	7,380,669	2.06%
Oak	57,887,592	19.30%	57,887,592	16.15%
Grantees under the Pre-IPO Share Options Scheme	—	—	58,470,406	16.31%
Other shareholders	75,000,000	25.00%	75,000,000	20.92%
	<u>300,000,000</u>	<u>100.00%</u>	<u>358,470,406</u>	<u>100.00%</u>

We will ensure compliance with the minimum public float requirement of Rule 8.08 of the Listing Rules. The Directors and our connected persons will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(3). *Effect on the Earnings per Share as a Result of the Pre-IPO Share Options*

Upon completion of the Capitalisation Issue and the Global Offering, the maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 58,470,406 Shares, representing approximately 19.49% of the issued share capital of the Company, or approximately 16.31% of the enlarged issued share capital of the Company upon full exercise of all outstanding options under the Pre-IPO Share Option Scheme. Accordingly, assuming full exercise of

the outstanding options granted under the Pre-IPO Share Option Scheme, the shareholding of the Shareholders immediately following completion of the Capitalisation Issue and the Global Offering will be diluted by approximately 16.31%. Further, assuming that (i) the Company had been listed on the Stock Exchange since 1 January 2015 with 300,000,000 Shares in issue, and (ii) all the Pre-IPO Share Option Scheme in respect of the 58,470,406 Shares were exercised in full on 1 January 2015, the earning per Share on a pro forma diluted basis would be approximately US\$0.009 for the year ended 31 December 2015. This calculation has been prepared on the assumption that we will not receive any proceeds from the exercise of any option under the Pre-IPO Share Option Scheme, without taking into account the impact of fair value of the Shares on computation of the number of potentially dilutive Shares, and without taking into account the impact of the fair value of the options under the Pre-IPO Share Option Scheme on the audited net profit for the year ended 31 December 2015. As at the Latest Practicable Date, none of the options granted under the Pre-IPO Share Option Scheme had been exercised by the grantees.

15. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands, Hong Kong, PRC or Germany.

16. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against our Company or any of our subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Company.

17. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$5,850 and are payable by our Company.

18. Promoters

- (a) Our Company has no promoter for the purposes of the Listing Rules.
- (b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters in connection with the Global Offering or the related transactions described in this prospectus.

19. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The Sole Sponsor is independent of our Company in accordance with Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fee in relation to the Listing is HK\$6,000,000.

20. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

Name	Qualification
Haitong International Capital Limited	Licensed to engage in type 6 (advising on corporate finance) regulated activities under the SFO
Zhong Lun Law Firm	Legal adviser to our Company as to PRC laws
Maples and Calder	Legal adviser to our Company as to Cayman Islands laws
PricewaterhouseCoopers	Certified Public Accountants
Frost & Sullivan	Industry consultant
DLA Piper Hong Kong	Legal adviser to our Company as to sanctions laws

21. Consents of experts

Each of the Sole Sponsor, Zhong Lun Law Firm, Maples and Calder, PricewaterhouseCoopers, Frost & Sullivan and DLA Piper Hong Kong has given and has not withdrawn its written consent to the issue of this prospectus with copies of its reports, valuation, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

22. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

23. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) *The Cayman Islands*

Under the present Cayman Islands law, no stamp duty is payable in the Cayman Islands on transfers and other dispositions of the Shares.

(c) *Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, the Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

24. Miscellaneous

(a) Save as disclosed herein:

(i) within two years preceding the date of this prospectus:

(aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(b) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2015 (being the date to which the latest audited consolidated financial statements of our Group were made up);

(c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus; and

- (d) our Group had not issued any debentures or did it have any outstanding debentures nor any convertible debt securities as at the Latest Practicable Date.

25. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the **WHITE, YELLOW** and **GREEN** application forms, the written consents referred to under the section headed “Statutory and General Information — Other Information — 21. Consents of experts” in Appendix IV to this prospectus, and certified copies of the material contracts referred to in the section headed “Statutory and General Information — Further Information about the Business of Our Company — 8. Summary of material contracts” in Appendix IV to this prospectus.

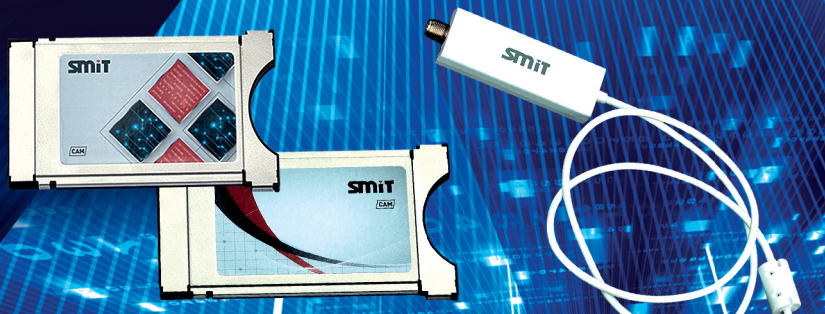
2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Norton Rose Fulbright Hong Kong at 38/F Jardine House, 1 Connaught Place, Central, Hong Kong, during normal business hours from 9:00 a.m. up to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountant’s Report from PricewaterhouseCoopers in respect of the historical financial information of the Group for the three years ended 31 December 2013, 2014 and 2015, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information of the Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;
- (d) the consolidated audited financial statements of the Group for the three years ended 31 December 2013, 2014 and 2015;
- (e) the Companies Law;
- (f) the letter of advice prepared by Maples and Calder summarising certain aspects of the Cayman Islands Company Law referred to in Appendix III to this prospectus;
- (g) the legal opinions prepared by Zhong Lun Law Firm in respect of certain aspects of the Group and summary of PRC laws and regulations relating to our business;
- (h) the memorandum prepared by DLA Piper Hong Kong in respect of certain aspects of international sanctions law and regulations relating to our business;
- (i) the industry report prepared by Frost & Sullivan, the industry consultant;
- (j) the material contracts referred to in the section headed “Statutory and General Information — Further Information about the Business of our Company — 8. Summary of material contracts” in Appendix IV to this prospectus;

- (k) the written consents referred to in the section headed “Statutory and General Information — Other Information — 21. Consents of experts” in Appendix IV to this prospectus;
- (l) the Pre-IPO Share Option Scheme;
- (m) a full list of all the grantees who have been granted options to subscribe Shares under the Pre-IPO Share Option Scheme; and
- (n) the service contracts referred to in the section headed “Statutory and General Information — Further Information about Directors and Shareholders — 11. Directors” in Appendix IV to this prospectus.

國微技術控股有限公司 SMIT HOLDINGS LIMITED



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