

國微技術控股有限公司 SMIT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2239

2016

Interim Report



CONTENTS

Corporate Information	2
Management Discussion and Analysis	3
Other Information	6
Independent Auditors' Report	20
Condensed Consolidated Statement of Financial Position	21
Condensed Consolidated Statement of Comprehensive Income	22
Condensed Consolidated Statement of Changes in Equity	23
Condensed Consolidated Statement of Cash Flows	25
Notes to the Condensed Interim Financial Information	26

Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. Huang Xueliang (*Chairman and Executive Director*)

Non-Executive Directors

Mr. Zeng Zhijie

Mr. Kwan, Allan Chung-yuen

Independent Non-Executive Directors

Mr. Zhang Junjie

Mr. Woo Kar Tung, Raymond

Mr. Jin Yufeng

SENIOR MANAGEMENT

Mr. Shuai Hongyu

Mr. Loong, Manfred Man-tsun

COMPANY SECRETARY

Mr. Cheng Kai Pui, Eric (*CPA*)

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

REGISTERED OFFICE IN THE CAYMAN ISLANDS

Maples Corporate Services Limited

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Grand Cayman, KY1-1104

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Gao Xin Nan First Avenue

High-Tech Park South

Nanshan District

Shenzhen, PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai

Hong Kong

COMPANY'S WEBSITE

www.smit.com.cn

CAYMAN SHARE REGISTRAR AND TRANSFER AGENT

Maples Fund Services (Cayman) Limited

PO Box 1093, Boundary Hall

Cricket Square

Grand Cayman, KY1-1102

Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

COMPLIANCE ADVISER

Haitong International Capital Limited

22/F, Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

PRINCIPAL BANKER

Citibank N.A. Hong Kong Branch

21/F, Tower 1, The Gateway, Harbour City

Tsim Sha Tsui

Kowloon

Hong Kong

AUDITOR

PricewaterhouseCoopers

STOCK CODE

2239

Management Discussion and Analysis

The Board (the “Board of Directors”) of SMIT Holdings Limited (“SMIT” or the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 (the “Review Period”), together with the unaudited figures of the corresponding period in 2015.

BUSINESS REVIEW

The Group is a leading security devices provider globally for pay TV broadcasting access and for mobile point-of-sales, or mPOS, payment systems in China. The Group designs, develops and markets security devices primarily for the pay TV industry worldwide through sales of conditional access module, or CAM, products which provide end users with access to pay TV content. The group also develops and markets mobile point-of-sale, or mPOS devices for the hardware-based mobile payment industry in China, which enable users to make credit and debit card transactions with mobility using their smartphones or tablets rather than a traditional stationary POS terminal.

On 30 March 2016, the shares of the Company were listed (the “**Listing**”) on the Main Board of the Stock Exchange.

CAMs

Over the past few years, the growth of the market for CAM solutions has been driven by the continued digitisation of television broadcasting around the world. However, in the past half year, the overall CAM market has performed below expectations mainly due to the economic slowdown in the PRC and enduring poor market conditions in Russia. In the first half of 2016, the Group’s CAM sales recorded revenue of approximately US\$18.6 million, representing a decrease of 8% when compared to the first half of 2015, and accounted for 69.2% of total revenue of the Group (the corresponding period in 2015: 58.8%). The Russian market was affected by the persistence of an economic slowdown which led to a sluggish overall market as well as a slowdown in the development of the digitisation process in Russia. As a result, the sales volume during the first half of 2016 decreased compared to the first half of 2015 and revenue from the Russian market recorded a decrease of 39.7% compared to the first half of 2015. In the PRC, the local economic downturn resulted in a decrease in sales volume. As such, revenue from the PRC sales of CAM products during the Review Period decreased by 53.4%, compared to the corresponding period in 2015. Revenue from other regions during the first half of 2016 represented 2.9% of the total revenue of the Group and declined by 44.3% compared to the first half of 2015, due to poor economic conditions in various regions.

However, the gross profit margin of the Group’s CAMs products increased by approximately four percentage points resulting in a slight increase in gross profit when compared to the first half of 2015. This was primarily due to strong sales in the European market, which is the core geographical market for CAM sales.

During the period, the Group achieved sound performance in the European market, as major customers resumed purchasing after a period of transition in 2015, the Group obtained new customers and the development of terrestrial television broadcast systems created new business opportunities, which exerted a positive effect on sales volume and revenue. The revenue from CAM sales in Europe in the first half of 2016 increased by 29.2%, compared to the first half of 2015.

Management Discussion and Analysis

During the Review Period, the Group actively sought out new customers and business opportunities. In June 2016, the Group, together with Irdeto, a major conditional access provider, supplied CAMs to MEDIA BROADCAST, a German broadcasting operator which is launching the first commercial television channels on the German digital terrestrial broadcasting system. This is part of Germany's conversion to DVB-T2, the new terrestrial broadcasting system standard. Germany is currently leading the European market in this conversion, and by producing and selling compatible CAM products at this early stage, the Group has positioned itself as an industry leader. These CAM products also represent the rollout of the Group's new generation of 1680 chipsets, with improved processing capacity, security and greater support functionality.

Moreover, the Group also collaborated with Irdeto to obtain RCSRDS, a new major broadcasting operator customer in Romania, providing a cardless solution developed based on the Group's 1670 chipset and Irdeto's advanced security standards. This cardless solution also supports the customer's own customized features, such as parental rating and menu/screen displays. The Company will continue to co-operate with industry partners so as to constantly explore new business opportunities as CAM technology continues to develop.

mPOS

During the Review Period, the PRC government published a policy regarding regulations on risks associated with non-bank payment institutions, which affects mobile payment service providers like our mPOS customers. This policy was instituted across various government entities and is aimed at improving the quality of payment services and reducing risks in the industry. There were concerns about whether this policy may reduce flexibility in mobile payment services and the opportunity for growth. Because of the uncertainties surrounding the policy, mobile payment service providers, including those who buy mPOS devices from the Group, slowed down their business in anticipation of further developments, which meant they reduced their orders for mPOS products in the meantime.

As a result, the Group's sales volume for mPOS products during the first half of 2016 was considerably reduced and revenue from mPOS products in the first half of 2016 decreased 41.9% compared to the first half of 2015, and accounted for only 30.8% of total revenue of the Group (the corresponding period in 2015: 41.2%). Additionally, during the first half of 2016, the Group sold a greater proportion of an mPOS model with a lower selling price, thus decreasing the average selling price and reducing revenue.

During the Review Period, the Group and Bank of Urumqi jointly developed the Xuelianbao Facilitated Service Project (雪蓮寶便民專案) and successfully launched it to the market. It is the Group's first joint project with a traditional commercial bank, which provides equipment support for the bank's online to offline payment systems. The Group believes that traditional commercial banks represent a considerable opportunity for future growth in its mPOS business.

Additionally, in light of the continually diversifying landscape of payment options and evolving customer needs, the Group is actively developing new products such as an intelligent cash register and intelligent POS, in order to further broaden the customer base.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2016, revenue of the Group was US\$26.9 million (the corresponding period in 2015: US\$34.7 million). The following table shows revenue breakdown by business segment as follows:

	Six months ended 30 June				
	2016		2015		Change in %
	US\$'000,000	%	US\$'000,000	%	
CAMs	18.6	69.2%	20.4	58.8%	-8.5%
mPOS devices	8.3	30.8%	14.3	41.2%	-41.9%
	26.9	100%	34.7	100%	-22.3%

During the Review Period, revenue of the Group decreased by 22.3% when compared to the corresponding period in 2015, mainly due to reduced orders of mPOS products resulting from industry stagnation in response to new PRC regulations.

Gross Profit and Gross Profit Margin

Gross profit amounted to US\$11.4 million for the six months ended 30 June 2016, representing a decrease of US\$0.6 million when compared to the corresponding period in 2015. The gross profit margin increased from 34.4% in the corresponding period in 2015 to 42.2%, mainly due to increased gross profit margins in both mPOS and CAM products. The model of the majority of mPOS products sold during first half of 2016 had a greater gross profit margin compared to the model most sold in the first half of 2015. The gross profit margin for CAMs increased during the Review Period due to a greater percentage of revenue being derived from Europe, where selling prices are generally higher than the Group's overall average CAM selling price.

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. During the Review Period, research and development expenses slightly increased by 1.1% from US\$3.2 million to US\$3.3 million, mainly due to additional allocation of resources to research and develop improvements for existing products and to create new products, as well as an increase in testing certification fees.

Selling and Distribution Expenses

Selling and distribution expenses include mainly salaries and benefits of sales and marketing staff, marketing, training and promotion expenses, travel and entertainment and rental and office expenses. During the Review Period, selling and distribution expenses were US\$1.6 million, approximately the same as the corresponding period in 2015, as the Group adapted and optimized its selling and distribution model to maintain efficiency.

Management Discussion and Analysis

General and Administrative Expenses

General and administrative expenses mainly include salaries and benefits of management, administrative and finance staff, share-based compensation for general and administrative staff, professional service fees, rental and office expenses, provision for doubtful debts, and travel and entertainment. During the Review Period, general and administrative expenses decreased slightly from US\$3.4 million during the first half of 2015 to US\$3.3 million during the first half of 2016, mainly due to a slight decrease in share-based compensation and provision for doubtful debts.

Income Tax Expense

For the Review Period, income tax expense consists of PRC corporate income tax and Hong Kong profits tax for our PRC and Hong Kong subsidiaries. Income tax expense decreased from US\$0.7 million for the first half of 2015 to US\$0.6 million for the first half of 2016, mainly due to the decrease in profit before tax of the Group.

Listing Expenses

For the six months ended 30 June 2016, the Group incurred non-recurring expenses relating to the Listing which amounted to US\$1.9 million.

Profit for the Period

Profit for the period amounted to US\$2.0 million, compared to US\$3.2 million in the corresponding period in 2015. However, excluding the impact from Listing expenses, the Group recorded a profit of approximately US\$3.9 million, which was relatively stable compared to the corresponding period in 2015.

Liquidity, Financial Resources and Debt Structure

During the Review Period, the Group continued to maintain a healthy liquidity position. As at 30 June 2016, total cash and cash equivalents of the Group amounted to US\$75.3 million primarily (as at 31 December 2015: US\$34 million). The Group's cash and cash equivalents were denominated in RMB and USD as at 30 June 2016. The Group recorded net current assets amounting to US\$85.3 million (as at 31 December 2015: US\$50.4 million). As at 30 June 2016, the Group's current ratio, calculated by dividing total current assets by total current liabilities, was 965.9% (as at 31 December 2015: 400.8%).

As at 30 June 2016, the Group did not have any other outstanding indebtedness, 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. Therefore, a gearing ratio is not applicable.

Management Discussion and Analysis

Use of Net Proceeds from Listing

The aggregate net proceeds raised by the Company from the Listing through the issue of an aggregate of 75,000,000 new shares (the “**Offer Shares**”) at the final offer price of HK\$3.78 per Offer Share pursuant to the Global Offering referred to in the prospectus issued by the Company on 16 March 2016 (the “**Prospectus**”), after deduction of underwriting commissions and expenses directly attributable to the Global Offering, were approximately HK\$251.60 million. Based on the net proceeds derived from the Global Offering, proposed application of net proceeds as stated in the Prospectus had been adjusted according to the principles as specified in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

During the period from 30 March 2016 (the “**Listing Date**”), being the date on which dealings in the shares of the Company first commenced in the Stock Exchange, to the date of this announcement, the net proceeds had been applied as follows:

Business objectives as stated in the Prospectus	Percentage of proceeds as stated in the Prospectus	Use of proceeds adjusted according to the actual gross proceeds less estimated listing expense HK\$ million	Actual use of proceeds from the Listing Date to the date of this announcement HK\$ million
Product planning and research and development	40%	100.64	3.32
Sales and marketing expenditures	30%	75.48	—
Possible mergers and acquisitions	20%	50.32	—
Working capital and general corporate purposes	10%	25.16	—
	100%	251.60	3.32

Capital Commitments

As at 30 June 2016, the Group did not have any contracted but not provided for capital commitments (as at 31 December 2015: nil) or authorised but not contracted for capital commitments (as at 31 December 2015: nil).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies

The Group did not hold any other significant investment nor make any material acquisition or disposal of subsidiaries during the Review Period.

Management Discussion and Analysis

Contingent Liabilities

As at 30 June 2016, the Group did not have any significant contingent liabilities.

Currency Risk and Management

The Group sales are primarily in Europe, in USD denominated transactions and the PRC, in RMB denominated transactions. Sales of CAMs of the Group were predominantly denominated in USD while sales of mPOS devices were denominated in RMB. The Group's costs of production are predominantly denominated in RMB.

During the Review Period, the Group did not enter any foreign currency forward contracts or use any derivative contracts to hedge against its exposure. The Group 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.

Employees and Remuneration Policy

As at 30 June 2016, the Group employed 253 employees (as at 31 December 2015: 261), of whom 245 were based in Shenzhen, five in Hong Kong and three in Munich, Germany. Staff costs (including salaries, social insurance, provident funds and share incentive plan) amounted to US\$4.5 million in aggregate, representing 16.7% of total revenue of the Group during the Review Period.

The Group has entered into employment agreements with all of its full time employees. Certain senior management and key research and development personnel have signed confidentiality agreements and non-competition agreements with the Group. 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 employment duties, any confidential information, trade secrets or know-how of our company or the confidential information of any third party received by the Group. 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.

The Group's success depends on its ability to attract, retain and motivate qualified personnel. The Group is dedicated to the training and development of our employees. The Group leverages the resources of its research and development centre, research laboratories and project management team to ensure that each employee maintains a current skill-set through continuous training on topics ranging from technologies, solutions and services to clients, markets and the industry. The Group provides introductory training and orientation for all new employees, as well as on-the-job training to continually improve employees' technical, professional and management skills.

Management Discussion and Analysis



OUTLOOK

Looking forward to the second half of this year, the risk of economic uncertainties will continue to exist. In particular, the Group's business may be affected by continued economic slowdown in various major markets, the possible consequences across Europe resulting from the Brexit referendum, as well as the lingering impact of the new PRC policy regulating mobile payment service providers.

In light of the business environment being full of challenges, the Group will continue to adjust its business strategy and proactively co-operate with industry partners and customers to develop new projects and business opportunities. The CAM solution supplied to MEDIA BROADCAST by the Group and Irdeto will help set the industry standard for CAM products as the DVB-T2 conversion rolls out across Europe. The Group plans to pursue similar opportunities and continue improving its research and development capabilities in order to further solidify its leading position in the global CAM market.

As for the mPOS market, the Group anticipates that the destabilising effect on the mobile payment service industry stemming from the new PRC regulatory policy will continue in the short-term. However, the Group anticipates that the mobile payment services industry will be able to recover as it adapts to the new standards in the long term. As a major supplier of mPOS devices in the PRC, the Group intends to leverage its position for further growth opportunities once the industry stabilises.

In anticipation of further developments in the mobile payments industry, the Group is continuing to develop mPOS products in accordance with international security standards. The Group's new generation of mPOS products are in the process of obtaining UnionPay certifications. Additionally, the Group has obtained EMV certification, an internationally recognized technical standard for payment devices, for its most commonly sold mPOS product model, in order to lay down a solid technological foundation for expansion to an overseas market.

Moreover, the Group plans to upgrade its mPOS security systems and develop new product models to support more diverse payment methods and other value-added features. The Group also intends to continue to strengthen our relationship with major mPOS customers while also pursuing new cooperative opportunities with commercial banks and other types of potential mPOS customers.

In order to further promote business development, the Group will actively seek suitable merger and acquisition opportunities so as to enhance its development capabilities for security devices and expand business to new products and service areas in order to bring greater returns to shareholders.

Other Information

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on information that was publicly available to the Company and to the best knowledge of the Board, as at the date of this report, the Company maintained the prescribed public float of no less than 25% under the Listing Rules.

CHANGES IN DIRECTOR'S INFORMATION

There is no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in our Company
Huang Xueliang ⁽²⁾	Beneficial interest and interest in a controlled corporation	43,607,445 Shares (L)	14.48%
Kwan, Allan Chung-yuen ⁽³⁾	Beneficial interest	3,029,693 Shares (L)	1.01%
Zeng Zhijie ⁽⁴⁾	Beneficial interest	826,638 Shares (L)	0.27%

Notes:

- (1) The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.
- (2) As at 30 June 2016, Mr. Huang Xueliang was interested in 1,605,000 Shares and was interested in share options to subscribe for 12,079,833 Shares. Mr. Huang also held a 100% interest in Infortune International Limited and a 50% interest in Statemicroelectronics International Co., Ltd. Mr. Huang was therefore also deemed to be interested in the 13,965,149 Shares and 15,957,463 Shares interested by Infortune International Limited and Statemicroelectronics International Co., Ltd respectively as at 30 June 2016.

Other Information

(3) As at 30 June 2016, Mr. Kwan, Allan Chung-yuen was interested in share options to subscribe for 3,029,693 Shares.

(4) As at 30 June 2016, Mr. Zeng Zhijie was interested in share options to subscribe for 826,638 Shares.

Save as disclosed above, as at 30 June 2016, none of the Directors and/or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, so far as is known to the Directors of the Company, the interests or short positions of substantial shareholders/other persons (other than Directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Capacity/nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding
Statemicroelectronics International Co., Ltd.	Beneficial owner	15,957,463 Shares (L)	5.30%
Mr. Zhu Changhua ⁽²⁾	Interest in a controlled corporation	22,507,521 Shares (L)	7.47%
Junjie International Co., Ltd.	Beneficial owner	19,140,656 Shares (L)	6.36%
Mr. Gong Jun ⁽³⁾	Interest in a controlled corporation	20,528,226 Shares (L)	6.82%
Pacven Walden Ventures V, L.P.	Beneficial owner	25,779,560 Shares (L)	8.56%
Pacven Walden Management V Co. Ltd ⁽⁴⁾	Interest in a controlled corporation	27,541,195 Shares (L)	9.15%
Mayfield XI Qualified, a Delaware Limited Partnership	Beneficial owner	19,693,985 Shares (L)	6.54%
Mayfield XI Management, L.L.C. ⁽⁵⁾	Interest in a controlled corporation	22,741,317 Shares (L)	7.55%
GSR Ventures I, L.P.	Beneficial owner	45,612,840 Shares (L)	15.15%
GSR Partners I, L.P. ⁽⁶⁾	Interest in a controlled corporation	47,023,545 Shares (L)	15.61%
GSR Partners I, Ltd. ⁽⁷⁾	Interest in a controlled corporation	47,023,545 Shares (L)	15.61%
Oak Investment Partners X, L.P.	Beneficial owner	56,972,972 Shares (L)	18.92%
Oak Associates X, LLC ⁽⁸⁾	Interest in a controlled corporation	56,972,972 Shares (L)	18.92%

Other Information

Notes:

- (1) All interests stated are long positions.
- (2) Mr. Zhu Changhua held share options to subscribe for 568,314 Shares as at 30 June 2016. Mr. Zhu Changhua also held a 100% interest in Capital Tower Profits Limited and a 50% interest in Statemicroelectronics International Co., Ltd. Mr. Zhu Changhua was therefore deemed to be interested in the 5,981,744 Shares and 15,957,463 Shares held by Capital Tower Profits Limited and Statemicroelectronics International Co., Ltd. respectively as at 30 June 2016.
- (3) Mr. Gong Jun held share options to subscribe for 1,387,570 Shares as at 30 June 2016. Mr. Gong Jun also held a 100% interest in Junjie International Limited. Mr. Gong Jun was therefore deemed to be interested in the 19,140,656 Shares held by Junjie International Limited as at 30 June 2016.
- (4) 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. was 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 as at 30 June 2016.
- (5) 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. was 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 as at 30 June 2016.
- (6) 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. was 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 as at 30 June 2016.
- (7) 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. was 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 as at 30 June 2016.
- (8) 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 was deemed to be interested in the 56,972,972 Shares held by Oak Investment Partners X, L.P. as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company.

SHARE OPTION SCHEME

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 on 21 February 2008 (the “**2008 Share Plan**”). As part of the reorganisation in preparation for the listing of the Company, the Company assumed the 2008 Share Plan as the Pre-IPO Share Option Scheme (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 the Company in accordance with their terms, as if such options had been granted by the Company under the Pre-IPO Share Option Scheme.

No further options were granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

Set out below are details of the outstanding options under the Pre-IPO Share Option Scheme:

Category/ Name of Grantee	Number of Shares underlying the options granted as at the Listing Date	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised since Listing Date up to 30 June 2016	Cancelled since Listing Date up to 30 June 2016	Lapsed since Listing Date up to 30 June 2016	Outstanding as of 30 June 2016
Directors									
Huang Xueliang	36,904	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	36,904
	73,807	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	73,807
	590,454	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	590,454
	1,476,134	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	1,476,134
	1,476,134	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	1,476,134
	4,578,278	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	4,578,278
	2,372,208	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	2,372,208
	737,847	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	737,847
738,067	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	738,067	
Kwan, Allan	236,182	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	236,182
Chung-yuen ⁽¹⁾	1,585,138	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	1,585,138
	285,787	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	285,787
Zeng Zhijie	36,904	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	36,904
	36,904	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	36,904
	236,182	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	236,182
	442,841	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	442,841
	73,807	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	73,807

Other Information

Category/ Name of Grantee	Number of Shares underlying the options granted as at the Listing Date	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised since Listing Date up to 30 June 2016	Cancelled since Listing Date up to 30 June 2016	Lapsed since Listing Date up to 30 June 2016	Outstanding as of 30 June 2016
Senior management									
Shuai Hongyu	147,614	09/03/2008	US\$0.01	09/03/2010	08/03/2018	147,614	—	—	0
	309,989	09/03/2008	US\$0.01	09/03/2012	08/03/2018	309,989	—	—	0
	661,308	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	661,308
	442,841	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	442,841
	1,182,153	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	1,182,153
	1,800,633	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	1,800,633
	679,022	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	679,022
	730,120	01/08/2013	US\$0.56	01/11/2013	31/07/2023	—	—	—	730,120
590,454	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	590,454	
Loong, Manfred Man-tsun	6,544,129	01/08/2013	US\$0.14	01/11/2013	31/07/2023	—	—	—	6,544,129
Connected persons									
Sonny Wu ⁽²⁾	36,904	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	36,904
	36,904	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	36,904
	236,182	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	236,182
Li Yanrong	26,571	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	26,571
	41,332	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	41,332
	51,665	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	51,665
	73,807	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	73,807
	221,421	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	221,421
	147,614	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	147,614
Bai Yu	11,810	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	11,810
	29,523	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	29,523
	41,332	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	41,332
	73,807	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	73,807
	73,807	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	73,807
	73,807	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	73,807
Cykorp Limited ⁽³⁾	36,904	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	36,904
	442,841	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	442,841
	442,841	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	442,841
Smart Tiger Holdings Limited ⁽⁴⁾	442,841	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	442,841
	295,227	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	295,227
Consultants									
Edgar Tu	274,390	01/03/2011	US\$1.06	01/03/2011	01/03/2021				274,390
	274,390	01/03/2011	US\$1.06	01/09/2014	01/03/2021				274,390
	274,390	01/03/2012	US\$1.21	01/03/2016	01/03/2022				274,390
	274,390	01/03/2013	US\$0.62	01/03/2017	01/03/2023				274,390
	274,390	01/03/2014	US\$0.41	01/03/2018	01/03/2024				274,390

Other Information

Category/ Name of Grantee	Number of Shares underlying the options granted as at the Listing Date	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised since Listing Date up to 30 June 2016	Cancelled since Listing Date up to 30 June 2016	Lapsed since Listing Date up to 30 June 2016	Outstanding as of 30 June 2016
Meisi Amaral	2,743,903	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	2,743,903
	285,787	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	285,787
	295,227	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	295,227
Super Asset Holdings Limited	36,904	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	36,904
	184,517	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	184,517
	442,841	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	442,841
Wesley Wong	73,807	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	73,807
	73,807	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	73,807
Alex Pan	147,614	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	147,614
Guo Ke	73,807	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	73,807
Robert Yung	29,523	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	29,523
Asia Alliance Financial Management Ltd.	147,614	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	147,614
Tian Qing	295,227	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	295,227
Martin Wu	147,614	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	147,614
Kian Bin Teo	17,714	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	17,714
Zhang Li	29,523	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	29,523
James Zhou	147,614	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	147,614
Louis Luk	73,807	01/03/2012	US\$1.21	01/03/2013	01/03/2022	—	—	—	73,807
Jack Chang	147,614	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	147,614
Remaining grantees who have been granted the Pre-IPO Share Options to subscribe for 700,000 or more Shares									
Lei Jie	73,807	09/03/2008	US\$0.01	09/03/2010	08/03/2018	71,421	—	—	2,386
	147,614	09/03/2008	US\$0.01	09/03/2010	08/03/2018	108,324	—	—	39,290
	258,324	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	258,324
	287,847	26/07/2009	US\$0.04	26/07/2013	08/03/2018	287,847	—	—	0
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	147,614	—	—	0
	221,421	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	221,421
	29,523	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	29,523
	295,227	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	295,227
	442,841	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	442,841
	221,421	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	221,421

Other Information

Category/ Name of Grantee	Number of Shares underlying the options granted as at the Listing Date	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised since Listing Date up to 30 June 2016	Cancelled since Listing Date up to 30 June 2016	Lapsed since Listing Date up to 30 June 2016	Outstanding as of 30 June 2016
Gong Jun	73,807	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	73,807
	295,227	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	295,227
	258,324	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	258,324
	287,847	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	287,847
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	147,614
	221,421	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	221,421
	103,330	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	103,330
Chen Ying	22,143	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	22,143
	147,614	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	147,614
	154,995	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	154,995
	214,040	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	214,040
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	147,614
	154,995	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	154,995
	177,137	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	177,137
	221,421	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	221,421
	221,421	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	221,421
	177,137	01/08/2013	US\$0.56	01/11/2013	31/07/2023	—	—	—	177,137
221,421	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	221,421	
You Quan	22,143	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	22,143
	147,614	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	147,614
	154,995	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	154,995
	243,563	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	243,563
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	147,614
	177,137	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	177,137
	162,375	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	162,375
	221,421	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	221,421
	221,421	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	221,421
	177,137	01/08/2013	US\$0.56	01/11/2013	31/07/2023	—	—	—	177,137
221,421	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	221,421	
Yuan Peiliang	22,143	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	22,143
	147,614	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	147,614
	103,330	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	103,330
	191,898	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	191,898
	118,091	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	118,091
	110,711	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	110,711
	177,137	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	177,137
	191,898	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	191,898
	—	—	—	—	—	—	—	—	—
Zhang Shaohua	103,330	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	103,330
	221,421	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	221,421
	147,614	05/03/2010	US\$0.04	05/03/2011	15/05/2019	—	—	—	147,614
	221,421	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	221,421
	177,137	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	177,137
	295,227	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	295,227

Other Information

Category/ Name of Grantee	Number of Shares underlying the options granted as at the Listing Date	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised since Listing Date up to 30 June 2016	Cancelled since Listing Date up to 30 June 2016	Lapsed since Listing Date up to 30 June 2016	Outstanding as of 30 June 2016
Yu Songliang	35,428	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	35,428
	73,807	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	73,807
	73,807	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	73,807
	103,330	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	103,330
	162,375	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	162,375
	295,227	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	295,227
	295,227	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	295,227
	221,421	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	221,421
Mei Wang	73,807	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	73,807
	442,841	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	442,841
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	147,614
	44,285	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	44,285
Hongrong Liu	7,381	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	7,381
	29,523	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	29,523
	44,285	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	44,285
	73,807	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	73,807
	132,853	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	132,853
	118,091	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	118,091
	147,614	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	147,614
	147,614	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	147,614
Other employees									
85 employees	7,686,399					53,667	—	—	7,632,732
Other eligible participants (including former employees)									
19 other eligible participants	909,315					22,143	473,594	272,069	141,509
Total	58,470,406					1,148,619	473,594	272,069	56,576,124

Notes:

- (1) 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 Share, and (ii) options held by Cykorp Limited, a company wholly owned by Mr. Kwan, to subscribe for 922,586 Shares.
- (2) 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.
- (3) Cykorp Limited is wholly owned by Mr. Kwan, Allan Chung-yuen.
- (4) Smart Tiger Holdings Limited is wholly owned by Mr. Sonny Wu.

Other Information

During the period after the Listing Date and up to 30 June 2016, a total number of 1,148,619 Shares were issued by the Company upon exercise of Pre-IPO Share Options by optionees of the Group. The weighted average closing price of the Shares immediately before the dates on which the Pre-IPO Share Options were exercised is HK\$2.76.

During the period after the Listing Date and up to 30 June 2016, a total number of 473,594 Pre-IPO Share Options were cancelled, with the respective exercise price between US\$0.014 per Share and US\$0.745 per Share.

During the period after the Listing Date and up to 30 June 2016, a total number of 272,069 Pre-IPO Share Options had lapsed in accordance with the terms of the Pre-IPO Share Option Scheme.

Save as disclosed above, no other Pre-IPO Share Options were exercised, cancelled or lapsed during the period after the Listing Date and up to 30 June 2016.

The number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme as 30 June 2016 was 56,576,124 Shares, exercisable at the respective exercise price between US\$0.01 per Share and US\$1.06 per Share, representing approximately 18.79% of the issued share capital of the Company as at 30 June 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance since the Listing Date. The Company has complied with the code provisions of the CG Code set out therein except for the code provision A.2.1 of the CG Code throughout the period after the Listing Date and up to the date of this report.

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separated and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Huang Xueliang, the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in Mr. Huang Xueliang due to his extensive experience in the industry, personal profile and critical role in our Group and its historical development. The Board believes that the dual role arrangement provides strong and consistent leadership and allows for more effective planning and management of the Group. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the Directors. Having made specific enquiries with all the Directors, the Company confirms that all the Directors have complied with the required standard as set out in the Model Code throughout the period after the Listing Date and up to the date of this report.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2016. At the request of the Board, the Company's external auditor, PricewaterhouseCoopers, has carried out a review of the unaudited interim financial information in accordance with Hong Kong Standard on Review Engagement 2410 issued by the Hong Kong Institute of Certified Public Accountants.

By order of the Board
SMIT Holdings Limited
Huang Xueliang
Chairman

Hong Kong, 4 August 2016



Independent Auditors' Report

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF SMIT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 40, which comprises the condensed consolidated statement of financial position of SMIT Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2016 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion of this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 4 August 2016

Condensed Consolidated Statement of Financial Position

As at 30 June 2016 and 31 December 2015

	Note	Unaudited 30 June 2016 USD	Audited 31 December 2015 USD
ASSETS			
Non-current assets			
Property, plant and equipment	8	2,091,134	2,365,533
Other intangible assets	8	300,473	490,661
Goodwill	8	6,473,973	6,611,157
Prepayments and other receivables		214,449	208,529
Deferred income tax assets		1,971,239	2,093,095
		11,051,268	11,768,975
Current assets			
Inventories		4,806,245	7,471,869
Trade and other receivables	9	14,742,866	25,416,236
Income tax recoverable		308,022	308,022
Cash and cash equivalents		75,329,178	33,972,375
		95,186,311	67,168,502
Total assets		106,237,579	78,937,477
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	10	6,023	3,049
Share premium	10	97,326,803	63,331,486
Merger reserve		(48,810,141)	(48,810,141)
Share-based payment reserve		20,524,879	20,894,252
Statutory reserve		3,389,227	3,389,227
Retained earnings		21,426,784	19,473,459
Capital reserve		1,212,543	1,212,543
Exchange reserve		1,306,294	2,682,985
Total equity		96,382,412	62,176,860
LIABILITIES			
Current liabilities			
Trade payables	11	3,323,125	7,881,504
Other payables and accruals		3,847,568	5,829,539
Deferred revenue		1,293,959	1,552,507
Income tax payable		1,390,515	1,497,067
Total liabilities		9,855,167	16,760,617
Total equity and liabilities		106,237,579	78,937,477
Net current assets		85,331,144	50,407,885
Total assets less current liabilities		96,382,412	62,176,860

The notes on pages 26 to 40 form an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	Note	Unaudited	
		30 June 2016	30 June 2015
		USD	USD
Revenue	6	26,943,672	34,671,169
Cost of sales	12	(15,585,891)	(22,736,239)
Gross profit		11,357,781	11,934,930
Other gains/(losses), net	7	743,602	(30,739)
Other income	7	460,302	874,475
Research and development expenses	12	(3,269,581)	(3,234,142)
Selling and distribution expenses	12	(1,629,887)	(1,641,165)
General and administrative expenses	12	(5,188,295)	(4,135,987)
Operating profit		2,473,922	3,767,372
Finance income		83,312	90,619
Finance cost		—	(38,659)
Finance income — net		83,312	51,960
Profit before income tax		2,557,234	3,819,332
Income tax expense	13	(603,909)	(669,054)
Profit for the period attributable to owners of the Company		1,953,325	3,150,278
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Translation differences		(1,376,691)	110,485
Fair value gain on available-for-sale financial assets, net of tax		—	529,034
Reserve released on settlement of available-for-sale financial assets, net of tax		—	(503,746)
Total comprehensive income for the period attributable to owners of the Company		576,634	3,286,051
Earnings per share attributable to owners of the Company for the period (expressed in USD per share)			
Basic earnings per share	15	0.007	0.014
Diluted earnings per share	15	0.007	0.013

The notes on pages 26 to 40 form an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Unaudited								
	Attributable to owners of the Company								
	Share capital	Share premium	Merger reserve	Share-based payment reserve	Statutory reserve	Capital reserve	Exchange reserve	Retained earnings	Total equity
	USD	USD	USD	USD	USD	USD	USD	USD	USD
For the period ended 30 June 2016									
Balance at 1 January 2016	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
Comprehensive income									
Profit for the period	—	—	—	—	—	—	—	1,953,325	1,953,325
Translation differences	—	—	—	—	—	—	(1,376,691)	—	(1,376,691)
Total comprehensive income for the period									
	—	—	—	—	—	—	(1,376,691)	1,953,325	576,634
Transaction with owners									
Share-based compensation	—	—	—	49,764	—	—	—	—	49,764
Appropriation to statutory reserves	—	—	—	—	—	—	—	—	—
Issues of shares under the capitalisation issue	1,451	(1,451)	—	—	—	—	—	—	—
Issues of shares under the open offer	1,500	33,548,332	—	—	—	—	—	—	33,549,832
Exercise of share options	23	448,436	—	(419,137)	—	—	—	—	29,322
Transaction with owners, recognised directly in equity									
	2,974	33,995,317	—	(369,373)	—	—	—	—	33,628,918
Balance at 30 June 2016	6,023	97,326,803	(48,810,141)	20,524,879	3,389,227	1,212,543	1,306,294	21,426,784	96,382,412

The notes on pages 26 to 40 form an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Unaudited Attributable to owners of the Company										
	Share capital USD	Share premium USD	Merger reserve USD	Combined capital USD	Share-based payment reserve USD	Statutory reserve USD	Available- for-sale investments reserve USD	Capital reserve USD	Exchange reserve USD	Retained earnings USD	Total Equity USD
For the period ended 30 June 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 period	—	—	—	—	—	—	—	—	—	3,150,278	3,150,278
Fair value gain on available-for-sale financial assets, net of tax	—	—	—	—	—	—	529,034	—	—	—	529,034
Reserve released on settlement of available-for-sale financial assets, net of tax	—	—	—	—	—	—	(503,746)	—	—	—	(503,746)
Translation differences	—	—	—	—	—	—	—	—	110,485	—	110,485
Total comprehensive income for the period	—	—	—	—	—	—	25,288	—	110,485	3,150,278	3,286,051
Transaction with owners											
Share-based compensation	—	—	—	—	203,324	—	—	—	—	—	203,324
Deemed contribution from shareholders	—	—	—	—	—	—	—	273,257	—	—	273,257
Transaction with owners, recognised directly in equity	—	—	—	—	203,324	—	—	273,257	—	—	476,581
Balance at 30 June 2015	—	—	—	19,267,410	19,195,250	3,111,528	73,107	1,132,916	6,289,941	19,578,732	68,648,884

The notes on pages 26 to 40 form an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

		Unaudited	
		Six months ended	
	Note	30 June 2016 USD	30 June 2015 USD
Cash flows from operating activities			
Cash generated from operations		7,948,842	3,808,463
Income tax paid		(620,322)	(189,871)
Interest expense paid		—	(38,659)
Net cash generated from operating activities		7,328,520	3,579,933
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(82,536)	(238,192)
Purchase of other intangible assets	8	—	(194,581)
Purchase of available-for-sale financial assets		—	(53,951,458)
Settlement of available-for-sale financial assets		—	51,278,702
Decrease in deposits in restricted bank deposits		—	72,254
Interest income received		83,312	90,619
Net cash generated from/(used in) investing activities		776	(2,942,656)
Cash flows from financing activities			
Proceeds from borrowings		—	5,850,000
Repayments of borrowings		—	(5,850,000)
Payment for listing expenses		(1,741,972)	(903,889)
Issue of shares under open offer		36,346,153	—
Exercise of share options		29,322	—
Net changes in balances with related and shareholders		—	(3,030,083)
Net cash used in financing activities		34,633,503	(3,933,972)
Net increase/(decrease) in cash and cash equivalents		41,962,800	(3,296,695)
Cash and cash equivalents at 1 January		33,972,375	43,977,754
Effect of foreign exchange rate changes		(605,997)	(15,256)
Cash and cash equivalents at 30 June		75,329,178	40,665,803

The notes on pages 26 to 40 form an integral part of this interim condensed consolidated financial information.

Notes to the Condensed Interim Financial Information

1 GENERAL INFORMATION

SMIT Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) engage 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.

The Company is a limited liability company incorporated and domiciled in the Cayman Islands. The address of its registered office in the Cayman Islands is Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands and its registered office in the People’s Republic of China (“PRC”) is SSMEC Building, Gao Xin Nan First Avenue, High-Tech Park South, Nanshan District, Shenzhen, PRC.

This condensed consolidated interim financial information is presented in United States dollars (“USD”), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

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 1.1 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.

1.1 Reorganisation

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.

Notes to the Condensed Interim Financial Information

1 GENERAL INFORMATION (continued)

1.1 Reorganisation (continued)

- 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 152,425,225 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 materials
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 to the Condensed Interim Financial Information

1 GENERAL INFORMATION *(continued)*

1.1 Reorganisation *(continued)*

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.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six-month period ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with accountant's report in the prospectus issued by the Company on 16 March 2016 (the "Prospectus"), which were prepared in accordance with Hong Kong Financial Reporting Standards.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

HKAS 1 (Amendment)	Disclosure initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: bearer plants
HKAS 27 (Amendment)	Equity method in separate financial statements
HKFRS 10, HKFRS12 and HKAS 28 (Amendment)	Investment entities: applying the consolidation exception
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts
Annual improvements projects 2014	Annual improvements 2012-2014 cycle

These amended standards have not had a significant impact on the Group's condensed consolidated interim financial information for the six months ended 30 June 2016.

Notes to the Condensed Interim Financial Information

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The condensed consolidated income statement include all revenues, related costs, expenses and charges directly generated or incurred by the Listing Business, and the condensed consolidated balance sheet 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 condensed consolidated income statement and included as an item in the deemed distribution to or contribution from shareholders in the condensed consolidated statement 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 above.

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 interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's accountant's report in the Prospectus.

There have been no changes in risk management policies since year end.

3.2 *Liquidity risk*

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

Notes to the Condensed Interim Financial Information

3 FINANCIAL RISK MANAGEMENT *(continued)*

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 period ended 30 June 2016.

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, approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

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 Group based on a measure of profit after income tax and considers the Group 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.

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.

Notes to the Condensed Interim Financial Information

6 REVENUE

	Unaudited	
	Six months ended	
	30 June	30 June
	2016	2015
	USD	USD
Revenue		
– CAM	18,642,045	20,371,506
– mPOS devices	8,301,627	14,299,663
Total sales of goods	26,943,672	34,671,169

7 OTHER GAINS/(LOSSES), NET AND OTHER INCOME

	Unaudited	
	Six months ended	
	30 June	30 June
	2016	2015
	USD	USD
Other gains/(losses), net		
– Exchange gains/(losses)	743,602	(30,739)
Other income		
– Government grants	409,108	335,816
– Gain on settlement of available-for-sale financial assets	—	537,312
– Others	51,194	1,347
	460,302	874,475

Notes to the Condensed Interim Financial Information

8 GOODWILL, PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

	Goodwill USD	Unaudited Property, plant and equipment USD	Other Intangible assets USD
Period ended 30 June 2015			
Opening net book amount	7,015,886	2,777,510	417,520
Additions	—	238,192	194,581
Disposals	—	(5,948)	—
Depreciation and amortization (Note 12)	—	(334,515)	(172,287)
Currency translation differences	6,196	6,792	811
Closing net book amount	7,022,082	2,682,031	440,625
Period ended 30 June 2016			
Opening net book amount	6,611,157	2,365,533	490,661
Additions	—	82,536	—
Disposals	—	(6,763)	—
Depreciation and amortisation (Note 12)	—	(308,532)	(109,224)
Currency translation differences	(137,184)	(41,640)	(80,964)
Closing net book amount	6,473,973	2,091,134	300,473

9 TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2016 USD	Audited As at 31 December 2015 USD
Trade receivable – net of provision	13,339,040	23,798,884
Other receivables	1,403,826	1,617,352
	14,742,866	25,416,236

Notes to the Condensed Interim Financial Information

9 TRADE AND OTHER RECEIVABLES *(continued)*

The Group's credit terms granted to wholesale customers generally ranged from 30 to 180 days. An analysis of the trade receivables, net of provision, by age is as follows:

	Unaudited As at 30 June 2016 USD	Audited As at 31 December 2015 USD
Less than 30 days	5,867,906	4,409,608
31 to 60 days	465,061	3,224,895
61 to 90 days	125,640	1,290,904
91 to 180 days	6,624,584	9,497,527
181 to 365 days	211,035	5,321,469
Over 365 days	44,814	54,481
	13,339,040	23,798,884

10 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Normal value of ordinary shares USD	Share premium USD
Authorised:			
Ordinary share of USD0.00002 each at 29 June 2015 (date of incorporation), 31 December 2015 and 30 June 2016	2,500,000,000	50,000	—
Issue and fully paid			
At 29 June 2015 (date of incorporation) (note a)	1	—	—
Issue of ordinary shares of USD0.00002 each (note a)	152,425,224	3,049	63,331,486
As at 31 December 2015	152,425,225	3,049	63,331,486
Issues of shares under the capitalisation issue (note b)	72,574,775	1,451	(1,451)
Issues of shares under the open offer (note c)	75,000,000	1,500	33,548,332
Exercise of share options (note d)	1,148,619	23	448,436
As at 30 June 2016	301,148,619	6,023	97,326,803

Notes to the Condensed Interim Financial Information

10 SHARE CAPITAL AND SHARE PREMIUM *(continued)*

Note:

(a) Incorporation

The Company was incorporated on 29 June 2015 in the Cayman Islands with an authorised share capital of USD50,000 divided into 2,500,000,000 shares of USD0.00002 each. These shares rank pari passu in all aspects on the same date, 1 share of USD0.00002 was allotted for cash for working capital purpose.

On 21 September 2015, the issued share capital of the Company was increased to USD3,049 by the allotment of 152,425,225 share of USD0.00002 each.

(b) Capitalisation issue

Pursuant to the resolution passed by the shareholders of the Company on 6 March 2016 and conditional upon the share capital account of the Company being credited as a result of the issuance of new shares pursuant to the initial public offering of the Company's shares, the directors were authorised to capitalise an amount of USD1,451 standing to the credit any reserve account of the Company by applying such sum in paying up in full at par of 72,574,775 shares for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on 6 March 2016.

(c) Issuance of ordinary shares for initial public offering

On 30 March 2016, 75,000,000 ordinary shares of USD0.00002 par value were issued at a price of HKD3.78 per share upon the listing of the Company on the Exchange. The gross proceed received by the Company from the initial public offering amounted to HKD283,500,000 (equivalent to USD36,346,153), net of transaction costs directly attributable to issue of shares of USD2,796,321 was included as share capital and share premium of USD1,500 and USD33,548,332 respectively. Dealings in these shares on the Exchange commenced on 30 March 2016.

(d) Exercise of share options

During the six months ended 30 June 2016, 1,148,619 options were exercised to subscribe for 1,148,619 ordinary shares in the Company at a consideration of USD29,322 of which USD23 was credited to share capital and the balance of USD29,299 was credited to the share premium account. USD419,137 has been, as a result, transferred from the share-based compensation reserve to the share premium account. As at 30 June 2016, there were in total 56,576,124 options remain outstanding.

Notes to the Condensed Interim Financial Information

11 TRADE PAYABLES

Trade payables are aged as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2016	2015
	USD	USD
Less than 30 days	3,088,582	4,248,186
31 to 90 days	177,117	3,508,005
91 to 180 days	4,851	45,618
181 to 365 days	9,593	8,962
Over 365 days	42,982	70,733
	3,323,125	7,881,504

Notes to the Condensed Interim Financial Information

12 EXPENSES BY NATURE

	Unaudited	
	Six months ended	
	30 June	30 June
	2016	2015
	USD	USD
Auditors' remuneration – audit services	161,948	31,492
Advertising costs	563,584	396,138
Cost of inventories	12,747,699	19,653,458
Employee benefit expenses (including directors' emoluments)	4,510,209	4,862,277
Royalty expenses	1,809,612	1,728,766
Amortisation of intangible assets (Note 8)	109,224	172,287
Depreciation of property, plant and equipment (Note 8)	308,532	334,515
Legal and professional fees	389,174	113,241
Operating lease payments	561,038	585,849
Provision for impairment of trade receivables	25,130	147,652
Provision for impairment of inventories	355,139	557,498
Travelling and entertainment expenses	649,105	738,131
Listing expenses	1,908,416	778,311
Other expenses	1,574,844	1,647,918
	25,673,654	31,747,533
Representing:		
Cost of sales	15,585,891	22,736,239
Research and development expenses	3,269,581	3,234,142
Selling and distribution expenses	1,629,887	1,641,165
General and administrative expenses	5,188,295	4,135,987
	25,673,654	31,747,533

Notes to the Condensed Interim Financial Information

13 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the period.

Taxation on profits generated in the PRC has been calculated on the estimated assessable profit for the period at the rate of 15% (2015: 15%). Taxation on overseas profit has been calculated on the estimated assessable profits for the period 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.

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 a 3-year period from 2014 to 2016. An EIT tax rate at 15% was applied for six months ended 30 June 2015 and 30 June 2016.

The amount of income tax charged to the condensed consolidated income statement represented:

	Unaudited	
	Six months ended	
	30 June	30 June
	2016	2015
	USD	USD
Current income tax		
– PRC corporate income tax	506,922	940,090
Deferred income tax	96,987	(271,036)
Total income tax expense	603,909	669,054

14 DIVIDEND

No dividend has been paid or declared by the Company.

Notes to the Condensed Interim Financial Information

15 EARNINGS PER SHARE

For the purpose of computing basic and diluted earnings per share, ordinary shares were assumed to have been issued and allocated on 1 January 2015 as if the Company had 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 six month period ended 30 June 2016 and 2015:

	Unaudited	
	Six months ended	
	30 June	30 June
	2016	2015
	USD	USD
Profit attributable to owners of the Company	1,953,325	3,150,278
Weighted average number of ordinary shares in issue	263,821,525	225,000,000
Basic earnings per share	0.007	0.014

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.

	Unaudited	
	Six months ended	
	30 June	30 June
	2016	2015
	USD	USD
Profit attributable to owners of the Company	1,953,325	3,150,278
Weighted average number of ordinary shares in issue	263,821,525	225,000,000
Adjustments for share options	13,083,765	13,917,734
Weighted average number of ordinary shares for diluted earnings per share	276,905,290	238,917,734
Diluted earnings per share	0.007	0.013

Notes to the Condensed Interim Financial Information

16 COMMITMENTS

(a) Capital commitments

The Group did not have any maternal capital commitments as at 31 December 2015 and 30 June 2016.

(b) 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:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2016	2015
	USD	USD
Not later than 1 year	564,535	483,625
Later than 1 year and no later than 5 years	534,092	78,099
	1,098,627	561,724

17 RELATED PARTY BALANCES AND TRANSACTION

- (a) The directors are of the view that the following companies were related parties that had transactions or balances with the Group during the six-month period ended 30 June 2016 and year ended 31 December 2015:

Name of the related parties	Principal 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 Science and Technology Co., Ltd	Investment holding	Controlled by a director and the CEO of the Company

Notes to the Condensed Interim Financial Information

17 RELATED PARTY BALANCES AND TRANSACTION *(continued)*

(b) Transactions with related parties

The following transactions were undertaken by the Group with related parties:

	Unaudited	
	Six months ended	
	30 June	30 June
	2016	2015
	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	370,061	379,105

These transactions are made of terms mutually agreed by the relevant parties.

(c) 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:

	Unaudited	
	Six months ended	
	30 June	30 June
	2016	2015
	USD	USD
Basic salaries, allowances and benefits in kind	373,197	326,498
Discretionary bonuses	52,028	50,284
Share-based payments	25,510	88,602
Retirement benefit-defined contribution plan	21,250	24,224
	471,985	489,608