SMIT HOLDINGS LIMITED
國微技術控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2239)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "**Board**") of SMIT Holdings Limited (the "**Company**") hereby announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016 together with the comparative figures for the corresponding period in 2015 as follows.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

		Year ended 31 December	
		2016	**2015**
	Note	*USD*	*USD*
Revenue	4	59,053,896	65,141,051
Cost of sales	5	(35,596,258)	(41,016,720)
Gross profit		23,457,638	24,124,331
Other gains, net	4	2,159,243	661,785
Other income	4	1,286,406	1,373,870
Research and development expenses	5	(6,803,953)	(7,370,615)
Selling and distribution expenses	5	(2,851,516)	(3,340,549)
General and administrative expenses	5	(10,243,378)	(11,514,682)
Operating profit		7,004,440	3,934,140
Finance income	6	374,909	245,101
Finance cost	6	—	(38,659)
Finance income – net		374,909	206,442
Profit before income tax		7,379,349	4,140,582
Income tax credit/(expense)	7	121,237	(817,878)
Profit for the year attributable to owners of the Company		7,500,586	3,322,704
Earnings per share attributable to owners of the Company for the year (expressed in USD per share)			
Basic earnings per share	8	0.027	0.015
Diluted earnings per share	8	0.025	0.014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Year ended 31 December	
	2016	**2015**
	USD	*USD*
Profit for the year	7,500,586	3,322,704
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Translation differences	(4,267,838)	(3,496,471)
Fair value gain on available-for-sale financial assets, net of tax	—	644,720
Reserve released on settlement of available-for-sale financial assets, net of tax	—	(692,539)
Other comprehensive loss for the year, net of tax	(4,267,838)	(3,544,290)
Total comprehensive income/(loss) for the year attributable to owners of the Company	3,232,748	(221,586)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		As at 31 December	
		2016	**2015**
	Note	*USD*	*USD*
ASSETS			
Non-current assets			
Property, plant and equipment		2,009,722	2,365,533
Other intangible assets		192,409	490,661
Goodwill		6,188,584	6,611,157
Prepayments and other receivables	10	214,665	208,529
Deferred income tax assets		2,180,722	2,093,095
		10,786,102	11,768,975
Current assets			
Inventories		6,866,835	7,471,869
Trade and other receivables	10	22,100,681	25,416,236
Income tax recoverable		—	308,022
Short-term bank deposits		13,269,022	—
Cash and cash equivalents		56,409,071	33,972,375
		98,645,609	67,168,502
Total assets		109,431,711	78,937,477
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		6,037	3,049
Share premium		97,421,918	63,331,486
Merger reserve		(48,810,141)	(48,810,141)
Share-based payment reserve		20,483,902	20,894,252
Statutory reserve		4,099,819	3,389,227
Retained earnings		26,263,453	19,473,459
Capital reserve		1,212,543	1,212,543
Exchange reserve		(1,584,853)	2,682,985
Total equity		99,092,678	62,176,860
LIABILITIES			
Current liabilities			
Trade payables	11	2,312,533	7,881,504
Accruals and other payables		5,948,656	5,829,539
Deferred revenue		1,424,420	1,552,507
Income tax payable		653,424	1,497,067
Total liabilities		10,339,033	16,760,617
Total equity and liabilities		109,431,711	78,937,477
Net current assets		88,306,576	50,407,885
Total assets less current liabilities		99,092,678	62,176,860

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	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 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

	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 year ended 31 December 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 year	—	—	—	—	—	—	—	—	—	7,500,586	7,500,586
Translation differences	—	—	—	—	—	—	—	—	(4,267,838)	—	(4,267,838)
Total comprehensive income for the year	—	—	—	—	—	—	—	—	(4,267,838)	7,500,586	3,232,748
Transaction with owners											
Share-based compensation	—	—	—	—	85,058	—	—	—	—	—	85,058
Appropriation to statutory reserves	—	—	—	—	—	710,592	—	—	—	(710,592)	—
Issuance of shares under the capitalisation issue	1,451	(1,451)	—	—	—	—	—	—	—	—	—
Issuance of shares under open offer	1,500	33,548,332	—	—	—	—	—	—	—	—	33,549,832
Exercise of share options	37	543,551	—	—	(495,408)	—	—	—	—	—	48,180
Transaction with owners, recognised directly in equity	2,988	34,090,432	—	—	(410,350)	710,592	—	—	—	(710,592)	33,683,070
Balance at 31 December 2016	6,037	97,421,918	(48,810,141)	—	20,483,902	4,099,819	—	1,212,543	(1,584,853)	26,263,453	99,092,678
Representing:											
Capital	6,037	—	—	—	—	—	—	—	—	—	6,037
Reserves	—	96,838,064	(48,810,141)	—	20,483,902	4,099,819	—	1,212,543	(1,584,853)	26,263,453	98,502,787
2016 final dividend proposed	—	583,854	—	—	—	—	—	—	—	—	583,854
	6,037	97,421,918	(48,810,141)	—	20,483,902	4,099,819	—	1,212,543	(1,584,853)	26,263,453	99,092,678

NOTES:

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 listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 30 March 2016.

2 Basis of preparation

The consolidated financial statements of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRS 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.

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

HKAS 1 (Amendment)	Disclosure initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: bearer plants
HKAS 27 (Amendment)	Equity method in separate financial statements
HKFRS 10, HKFRS12 and HKAS 28 (Amendments)	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

The adoption of these new and amended standards did not have any impact on the current period or any prior period.

(b) New and amended standards not yet adopted

A number of new and amended standards are effective for annual periods beginning on or after 1 January 2017 and have not been applied in preparing these consolidated financial statements.

		Effective for annual periods beginning on or after
HKAS 7 (Amendment)	Disclosure initiative	1 January 2017
HKAS 12 (Amendment)	Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

The directors of the Company are in the process of assessing the financial impact of the adoption of the above new and amended standards. The directors of the Company will adopt the new and amended standards when they become effective.

3 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 Chief Executive Officer 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.

The Company is domiciled in the Cayman Islands while the Group operates its business in the People's Republic of China (the "PRC"). The Group's revenue of approximately USD23,238,000 (2015: USD32,796,000) was generated from customers in the PRC, and the Group's revenue of approximately USD35,816,000 (2015: USD32,345,000) was generated from customers located in countries other than the PRC for the year ended 31 December 2016. During the year, 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 2016 and 2015 are as follows:

	Year ended 31 December	
	2016	**2015**
	USD	*USD*
Customer A	12,377,077	27,566,670
Customer B	6,784,880	9,040,318
Customer C	8,003,985	—

4 Revenue, other income and other gains

The Group is principally engaged in the sales, design and development of digital security solution products. Turnover consists of revenue from sales of mobile point-of-sales ("mPOS") devices and conditional access modules ("CAM") and other products. Revenue recognised during the year is as follows:

	Year ended 31 December	
	2016	**2015**
	USD	*USD*
Revenue		
CAM	38,026,740	37,352,481
mPOS devices	21,027,156	27,788,570
	59,053,896	65,141,051
Other income		
Government grants	1,272,691	621,193
Gain on settlement of available-for-sale financial assets	—	716,356
Others	13,715	36,321
	1,286,406	1,373,870
Other gains, net		
Exchange gains, net	2,159,243	661,785

5 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	
	2016	**2015**
	USD	*USD*
Auditors' remuneration		
– Audit services	301,350	29,134
– Non-audit services	92,577	—
Loss on disposals of property, plant and equipment	25,069	60,128
Advertising costs	888,826	809,099
Cost of inventories sold	31,518,549	35,732,494
Employee benefit expenses (including directors' emoluments)	9,469,212	11,527,023
Royalty expenses	3,045,773	3,177,542
Freight charges	138,654	150,442
Other taxes	565,652	573,049
(Reversal of)/provision for impairment of inventories	(439,244)	599,582
Depreciation of property, plant and equipment	611,958	658,199
Amortisation of other intangible assets	214,546	311,479
Legal and professional fees	2,020,216	1,114,613
Listing fee	1,908,416	3,357,532
Consulting fee	26,049	336,212
Provision for impairment of trade receivables	353,638	196,136
Operating lease payments	996,316	1,143,561
Travelling and entertainment expenses	1,476,537	1,443,752
Office and utilities	898,783	953,225
Others	1,382,228	1,069,364
Total cost of sales, research and development expenses, selling and distribution expenses and general and administrative expenses	55,495,105	63,242,566

6 Finance income – net

	Year ended 31 December	
	2016	**2015**
	USD	*USD*
Finance income		
Interest income on short-term bank deposits	374,909	245,101
Finance cost		
Interest expense on bank borrowings (Note)	—	(38,659)
Finance income – net	374,909	206,442

Note: Short-term bank borrowings of USD5,850,000 were obtained by the Group in 2015 which were repaid in the same year. There was no outstanding bank borrowing as at 31 December 2016 and 2015.

7 Income tax (credit)/expense

Shenzhen State Micro Technology Co., Ltd. ("**SMIT Shenzhen**"), a subsidiary of the Company, was established in the Shenzhen Special Economic Zone, the PRC. In 2015, SMiT Shenzhen was approved as a High/New Technology Enterprise as defined under the New Enterprise Income Tax Law, accordingly, it is entitled to a reduced preferential enterprise income tax ("**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 years ended 31 December 2016 and 2015.

For the years ended 31 December 2016 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.

	Year ended 31 December	
	2016	**2015**
	USD	*USD*
Current income tax		
– PRC corporate income tax	1,049,679	1,158,213
– Overseas tax	44,658	—
– Hong Kong profits tax	—	87,040
Deferred income tax		
– Current year	(405,122)	(412,581)
(Over)/under-provision in prior years		
– Current income tax	(1,059,569)	(14,794)
– Deferred income tax	249,117	—
Income tax (credit)/expense	(121,237)	817,878

8 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 2015 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 in issue.

	Year ended 31 December	
	2016	**2015**
	USD	*USD*
Profit attributable to owners of the Company	7,500,586	3,322,704
Weighted average number of ordinary shares in issue	282,803,853	225,000,000
Basic earnings per share	0.027	0.015

Note:

The calculations of the basic and diluted earnings per share for the years ended 31 December 2016 and 2015 were adjusted retrospectively for the capitalisation issue of 72,574,775 shares taken place on 6 March 2016.

(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.

	Year ended 31 December	
	2016	**2015**
	USD	*USD*
Profit attributable to owners of the Company	7,500,586	3,322,704
Weighted average number of ordinary shares in issue	282,803,853	225,000,000
Adjustments for share options	18,703,873	12,851,731
Weighted average number of ordinary shares for diluted earnings per share	301,507,726	237,851,731
Diluted earnings per share	0.025	0.014

9 Dividends

	Year ended 31 December	
	2016	**2015**
	USD	*USD*
Proposed final dividend of HK$1.5 cents (equivalent to approximately US$0.2 cents) (2015: Nil) per share	583,854	—

A final dividend in respect of the year ended 31 December 2016 of HK$1.5 cents (equivalent to approximately US$0.2 cents) per share, amounting to a total dividend of US$583,854, will be proposed at the upcoming annual general meeting of the Company. This proposed final dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2016.

10 Trade, prepayments and other receivables

		As at 31 December	
		2016	**2015**
	Note	*USD*	*USD*
Trade receivables	(a)	18,739,298	24,760,039
Less: Provision for impairment of trade receivables		(1,208,748)	(961,155)
Trade receivables – net		17,530,550	23,798,884
Prepayments		3,247,476	1,571,091
Notes receivables		79,862	53,548
Other receivables		1,457,458	201,242
		4,784,796	1,825,881
Less: Non-current portion		(214,665)	(208,529)
		4,570,131	1,617,352
		22,100,681	25,416,236

(a) Trade receivables

As at 31 December 2016, the ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2016	**2015**
	USD	*USD*
Less than 30 days	6,086,764	4,409,608
31 to 60 days	3,920,039	3,224,895
61 to 90 days	2,944,571	1,290,904
91 to 180 days	4,500,721	9,497,527
181 to 365 days	283,300	5,325,779
Over 365 days	1,003,903	1,011,326
	18,739,298	24,760,039

The Group's credit terms granted to wholesale customers generally ranged from 30 to 180 days.

11 Trade payables

As at 31 December 2016, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2016	**2015**
	USD	*USD*
Less than 30 days	2,081,113	4,248,186
31 to 90 days	180,609	3,508,005
91 to 180 days	—	45,618
181 to 365 days	8,183	8,962
Over 365 days	42,628	70,733
	2,312,533	7,881,504

12 Events after reporting period

On 5 December 2016, Oak Investment Partners X, L.P., Oak X Affiliates Fund, L.P., Mayfield XI, Mayfield XI Qualified, Mayfield Associates Fund VI, Mayfield Principals Fund II, GSR Ventures I, L.P., and GSR Principals Fund I, L.P., (the "Vendors") and Green Flourish Limited (the "Offeror") entered into an agreement (the "Sale and Purchase Agreements"), pursuant to which the Vendors have agreed to sell and the Offeror has agreed to acquire 127,652,454 shares of the Company (the "Sales Shares"), representing approximately 42.29% of the total issued share capital of the Company as at the same date at a total cash consideration of approximately HK$283,691,000.

Completion of the Sale and Purchase Agreements, which took place on 5 December 2016, has resulted in the Offeror acquiring the Sale Shares, representing approximately 42.29% of the issued share capital of the Company as at the same date and incurring an obligation to make an unconditional mandatory cash offers (the "Offers") to acquire all the shares of the Company not already owned by the Offeror or parties acting in concert with it at a price of HK$2.25 per share and to cancel all the outstanding share options. The Offers were closed on 18 January 2017, upon which the Offeror and parties acting in concert with it were interested in an aggregate of 166,165,810 shares of the Company, representing approximately 55.05% of the entire issued share capital of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

CAMs

As the European market has gradually recovered, mass scale sales have also started in emerging markets. Supported by these favourable trends as well as the new growth drivers brought by exploring opportunities with existing customers, and the active expansion in new markets and customers, for the year ended 31 December 2016, the Group's sales revenue of CAMs reached approximately US$38.0 million, representing a modest increase of approximately 1.8% and accounting for approximately 64.4% of the Group's total revenue.

The Group has achieved a sound performance in the European market and successfully grasped development opportunities presented by the new DVB-T2 technology in the industry. Through DVB-T2, broadcasting operators are able to extend its coverage from free-to-air TV channels to paid TV channels and this has boosted the sales of CAM. As a result, the CAM sales in Europe has recorded a solid revenue increase of about 30.5%. In addition, driven by the uptake of sales in emerging markets led by India, revenue of CAM in other regions surged by nearly 61.2% and mass-scale sales began. Sales in Russia have declined by approximately 39.0% due to the slow economy in the first half of the year while the country has been observed a economic turnaround in the final quarter of 2016.

During the year, the Group has actively increased the number of its new customers and expanded into new markets, and the newly added customers included the largest German broadcasting operator MEDIA BROADCAST and the leading Romanian broadcast operator RCSRDS. The Group has also strengthened its strategic partnership with its existing customer Irdeto, the world leader in digital platform security, to jointly develop new markets and new customers. Furthermore, the Group has secured the exclusive project of CAM with USB plug, which is expected to bring substantial benefits and revenue. In the future, the Group plans to work closely with its industry partners to continue to develop new business opportunities while also exploring new applications in CAM technologies.

mPOS

In the first half of 2016, the PRC government published a policy regarding regulations on risks associated with non-bank payment institutions to rationalise the development of the entire industry. For the year ended 31 December 2016, the Group's mPOS products recorded revenue of US$21.1 million, down by about 24.3% year on year, and accounting for approximately 35.6% of total revenue.

During the year, the Group was committed to strengthening cooperation with existing mPOS customers. For example, upgrading current mPOS products and deepened its cooperation with iBOXPAY, a leading provider of mobile commerce and financial information solutions in China, as well as developing smart POS, smart cash registers and other new products to boost shipments and sales growth. In addition, the smart POS and smart cash register project between the Group and the Urumqi Bank has entered into the technical cooperation stage, and the project to upgrade and customise the Xuelian Quick Pass products for the Urumqi Bank has also begun the design process.

To facilitate the development of new customers and new products, the Group has actively expanded the prepaid card top-up solution, and is currently undergoing preliminary discussions with the City Commercial Bank and the Rural Commercial Bank in China, whilst also drawing the attention of a number of medium-sized banks within the financial sector. It is expected that the implementation of this solution will further expand the customer base of the Group. Besides, the Group has been awarded a number of safety and security standards certifications to lay a sound technical foundation for exploring overseas markets.

Financial Review

Revenue

For the year ended 31 December 2016, revenue of the Group was US$59.1 million, down by about 9.3% compared to 2015, which was mainly due to the effects of the new regulatory policies in China on mPOS products. The following table shows revenue breakdown by business segments:

	Year ended 31 December				
	2016		2015		
	US$'000,000	**%**	US$'000,000	%	Change in %
CAMs	**38.0**	**64.4**	37.3	57.3	+1.8%
mPOS devices	**21.1**	**35.6**	27.8	42.7	-24.3%
	59.1	**100%**	65.1	100%	-9.3%

Gross Profit and Gross Profit Margin

Gross profit amounted to US$23.5 million for the year ended 31 December 2016, representing a decrease of US$0.7 million or 2.8% when compared to the corresponding period in 2015. The gross profit margin increased by 2.7% from 37.0% to 39.7% as compared to 2015, which was mainly attributable to the Group's effort in strengthening its position in Europe, primarily in Germany.

Research and Development Expenses

Research and development expenses mainly include 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 year ended 31 December 2016, research and development expenses slightly decreased from US$7.4 million to US$6.8 million, mainly due to the decreased costs in the chip center, outsourcing service charges and option costs.

Selling and Distribution Expenses

Selling and distribution expenses mainly include salaries and benefits of sales and marketing staff, marketing, training and promotion expenses, travel and entertainment and rental and office expenses. During the year ended 31 December 2016, sales and distribution expenses were US$2.9 million, down by 14.6% compared to 2015, which was mainly due to the decrease in travelling costs of the Group's marketing personnel.

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 year ended 31 December 2016, general and administrative expenses decreased by 11.0% to US$10.2 million compared to 2015, mainly attributable to the lower share-based compensation expenses and benign cost control strategy of the Group.

Income Tax Credit / Expense

Income tax expense consists of PRC corporate income tax and Hong Kong profits tax for PRC and Hong Kong subsidiaries of the Group respectively. Income tax changed from US$0.8 million tax expense for the year ended 31 December 2015 to US$0.1 million tax credit for the year ended 31 December 2016, mainly due to the one-off write-back of tax provision in 2016 resulting from the approval of tax deduction on certain losses incurred by the PRC subsidiary by the relevant PRC tax authority.

Listing Expenses

For the year ended 31 December 2016, the Group incurred non-recurring expenses relate to the Listing which amounted to US$1.9 million.

Profit for the Year

Annual profit for the year ended 31 December 2016 amounted to US$7.5 million, rocketing by 125.7% compared to the year 2015. However, excluding the impact from Listing expenses, the Group recorded a profit of approximately US$9.4 million, representing an increase of 40.8%.

Liquidity, Financial Resources and Debt Structure

The Group continued to maintain a healthy liquidity position. As at 31 December 2016, total cash and cash equivalents of the Group amounted to US$56.4 million (as at 31 December 2015: US$34.0 million). The Group's cash and cash equivalents were denominated in RMB and USD as at 31 December 2016. The Group recorded net current assets amounting to US$88.3 million (as at 31 December 2015: US$50.4 million). As at 31 December 2016, the Group's current ratio, calculated by dividing total current assets by total current liabilities, was 954.1% (as at 31 December 2015: 400.8%).

As at 31 December 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, the gearing ratio is not applicable.

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 raised from the Listing 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 actual gross proceeds less estimated listing expense**	**Actual use of proceeds from the Listing Date to the date of this announcement**
		HK$ million	*HK$ million*
Product planning and research and development	40%	100.64	10.50
Sales and marketing expenditures	30%	75.48	3.56
Possible mergers and acquisitions	20%	50.32	—
Working capital and general corporate purposes	10%	25.16	—
	100%	251.60	14.06

The unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong and Mainland China in accordance with the intention of the Board as disclosed in the Prospectus. The Company has not utilised and will not utilise any net proceeds for purposes other than those disclosed in the Prospectus.

Capital Commitments

As at 31 December 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 and associated companies for the year ended 31 December 2016.

Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities.

Currency Risk and Management

The Group's sales are primarily made 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. For the year ended 31 December 2016, the Group did not enter into 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 foreign currency rates and may consider hedging significant foreign currency exposure should the need arise.

Employees and Remuneration Policy

As at 31 December 2016, the Group employed 248 employees (as at 31 December 2015: 261), of whom 240 were based in Shenzhen, five in Hong Kong and three in Munich, Germany. For the year ended 31 December 2016, staff costs (including salaries, social insurance, provident funds and share incentive plan) amounted to US$9.5 million in aggregate, representing 16.0% of the total revenue of the Group.

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 expiry of his or her term of 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 areas 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.

Outlook

As the global economic recovery advances and as the mobile payment service industry gradually overcomes the destabilizing impact of China's new regulatory policies, the Group will further optimize its internal control, enhance cost-effectiveness of its operations, and continue to actively expand new business development opportunities and secure new customers.

The Board is optimistic about the Group's business prospects for the year 2017. By virtue of the Group's leading position in the global CAM market and projects through its comprehensive technical capabilities and solid business relationships with industry players, the Group will work more closely with industry partners and broadcaster clients to initiate and develop more new projects. As a major supplier of mPOS devices in China, the Group will, under the new industry standards, take advantage of business opportunities in a timely manner, actively explore key market segments such as medium-sized commercial banks and devote more resources to product promotion and R&D to maintain the Group's leading position and competitiveness, as well as the prescient nature and advanced capabilities of its products.

Furthermore, the Group is actively engaged in information security and chip-related industries, seeking partners to establish strategic cooperation opportunities for further development and diversification of its businesses. The Group will, through the platform of the Hong Kong capital markets, focus on the objectives of the security-related business areas to find potential targets and opportunities for mergers and acquisitions, carry out strategic road map and expansion of businesses in more growing industries and, ultimately, bring greater returns to our shareholders.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.015 per share (2015: nil) for the year ended 31 December 2016. It is expected that the final dividend will be paid on Thursday, 15 June 2017 to shareholders whose names appear on the register of members of the Company on Monday, 5 June 2017 upon the approval of shareholders at the forthcoming annual general meeting to be held by the Company.

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

During the year ended 31 December 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 announcement, the Company maintained the public float requirement as prescribed under the Listing Rules of not less than 25%.

The Audit Committee

The audit committee has reviewed with the Company's management and the external auditors the accounting principles and practices adopted by the Group, and has discussed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2016.

MATERIAL ACQUISITIONS AND DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group did not undertake any material investments or capital assets, or material acquisitions or disposals of subsidiaries and associated companies, or significant investments for the year ended 31 December 2016. As at the date of this announcement, the Group has no plans to make any material investment in or acquisition of capital assets.

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 CG Code provision A.2.1, throughout the period from the Listing Date and up to the date of this announcement.

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 CG Code provision A.2.1. The Board believes that it is necessary to vest both the roles of chairman and chief executive in Mr. Huang Xueliang due to Mr. Huang's experience and established market reputation in the industry, and the importance of Mr. Huang Xueliang in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and considering that 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 to maintain 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 during the year ended 31 December 2016.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company will be dispatched to the shareholders of the Company and published on the Hong Kong Exchanges and Clearing Limited's website (www.hkexnews.hk) and the Company's website (www.smit.com.cn) in due course.

By order of the Board
SMIT Holdings Limited
Huang Xueliang
Chairman

Hong Kong, 23 March 2017

As at the date of this announcement, the executive Director is Mr. Huang Xueliang (chairman and chief executive officer), Mr. Shuai Hongyu and Mr. Loong, Manfred Man-tsun; the non-executive Directors are Mr. Zeng Zhijie, Mr. Kwan, Allan Chung-yuen and Mr. Gao Songtao; and the independent non-executive Directors are Mr. Zhang Junjie, Mr. Woo Kar Tung, Raymond and Mr. Jin Yufeng.