# 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
ANNUAL REPORT

# CONTENTS

# Corporate Information

## BOARD OF DIRECTORS

### *Executive Directors*

Mr. Huang Xueliang *(Chairman and Executive Director)*
Mr. Shuai Hongyu
Mr. Loong, Manfred Man-tsun

### *Non-Executive Directors*

Mr. Zeng Zhijie
Mr. Kwan, Allan Chung-yuen
Mr. Gao Songtao

### *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. Zhang Junjie

## 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
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

SSMEC Building
Gao Xin Nan First Avenue
High-Tech Park South
Nanshan District
Shenzhen, PRC

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat/Rm 4801
48/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

## COMPANY'S WEBSITE

www.smit.com.cn

## 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

# Chairman Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of SMIT Holdings Limited ("SMIT" or the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to announce the annual results of the Group for the year ended 31 December 2016.

The year 2016 marks an important milestone for the development of SMIT. The successful listing on the Main Board of The Stock Exchange of Hong Kong Limited on 30 March 2016 not only facilitates the Group's business development, but also strengthens its relationship with key industry players, bolstering and expanding the international sales network and further consolidating its market-leading position.

## BUSINESS REVIEW

Leveraging its industry leadership and strategic deployment, the Group recorded impressive results during the year and earlier issued a positive profit alert announcement. Benefiting from decreases in operational costs and increases in gains on exchange, the Group's net profit skyrocketed by 125.7% to USD7.5 million in 2016 compared to 2015. During the year, the Group recorded a revenue of USD59.1 million, and the figure in 2015 was USD65.1 million. The net profit margin in 2016 was 12.7%, a strong increase of 7.6 percentage points year-on-year. Over the years, the Group has continued to streamline the operation and focus on the development of its core business and enhance its operating efficiency while reducing the expenses. Excluding listing expenses, the Group recorded a net profit of USD9.4 million, representing a year-on-year surge of 40.8%. The basic earnings per share for the year were USD2.7 cents (2015: USD1.5 cents).

Thanks to the development of new growth drivers among existing clients and through actively exploring new markets and clients, the Group's CAM sales revenue recorded a modest increase of approximately 1.8% over the previous year to USD38.0 million in 2016, accounting for about 64.4% of total revenue. As the European market has gradually picked up, mass-scale sales in India and other emerging markets have also commenced. This favourable background coupled with the success of the Group to grasp the opportunities presented by the new DVB-T2 technology, as well as the technological innovations in the recently launched new generation of 1680 chipsets helped boost the gross margin of CAM products by 3.4 percentage points to 49.6%.

During the year, the Group focused on establishing strategic partnerships with broadcasting operators. Currently, the Company supplies CAMs to the largest German broadcasting operator MEDIA BROADCAST and the leading Romanian broadcasting operator RCSRDS, bringing new growth momentum to the product series. In addition, the strengthening of its strategic partnership with its existing customer Irdeto, the world leader in digital platform security, to co-develop new markets and new customers is expected to continue providing a revenue contribution to the Group.

As for the mPOS business, last year the Chinese government promulgated a policy on risk regulation related to non-bank payment institutions, which will benefit the industry to develop as a whole and become more regulated and healthy in the long term. In 2016, our mPOS products recorded a revenue of USD21.1 million, accounting for approximately 35.6% of total revenue. This business became more stable and the overall industry picked up in the second half of the year. The Group has strengthened its cooperation with existing customers in order to introduce new products such as smart POS and smart cash registers, and has invested resources in R&D technology to upgrade existing mPOS products, optimise product and safety and security performance, and enable greater cost-effectiveness. In addition, the Group has been awarded a number of safety and security standards certifications, so as to lay a solid foundation for expanding its business in overseas markets.

# Chairman Statement

Besides, I approached a number of fund companies in December 2016, including Oak Investment Partners X, L.P., Oak X Affiliates Fund, L.P., Mayfield XI (a Delaware limited partnership), Mayfield XI Qualified (a Delaware limited partnership), Mayfield Associates Fund VI (a Delaware limited partnership), Mayfield Principals Fund II (a Delaware limited partnership including multiple series), GSR Ventures I, L.P., GSR Principals Fund I, L.P. (the "Fund Shareholders") and repurchased a total of 127,652,454 shares, representing 42.29% of the total issued share capital of the Company. My shareholdings have increased to 56.74%, clearly demonstrating my confidence in the Group's prospects while also expediting decision-making, and providing benefits for products and market development in the future. I also wish to express my thanks for the continued support of the fund shareholders of the Group over the years.

Furthermore, in order to thank the shareholders for their support to the Group, the Board of Directors recommended the final dividend of HK$0.015 per share, equivalent to approximately USD0.002 per share, totalling USD583,854.

## PROSPECTS

With the gradual stabilisation of the global economy, China's new regulatory policies will be conducive to the long-term standardised and healthy development of the industry. By virtue of its leadership position in the global CAM market, its comprehensive technological capabilities, and solid business relationships with industry players, the Group will continue to actively develop more new projects. As a major supplier of mPOS devices in China, the Group will gradually adapt to and incorporate the new standards of the industry and actively explore new markets for medium-sized commercial banks to develop new customers and grasp new opportunities for cooperation.

The Group will also enhance its cost-effectiveness by further optimising its internal control procedures. In addition, in order to diversify its business, the Group is actively engaged in information security and chip-related industries to seek new strategic cooperative development opportunities with its partners in order to further expand their business.

## ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express our gratitude to all the shareholders, business partners and customers for their continued support and trust in the Group. In the meantime, I would like to thank the Board members, the management team and all employees for their input and contributions during the year. In 2017, we resolve to continue to expand our business and create greater value for our shareholders.

**Huang Xueliang**
*Chairman*
23 March 2017
Hong Kong

# 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 USD38.0 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.

# Management Discussion and Analysis

### *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 USD21.1 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 USD59.1 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 | | |
| | **USD'000,000** | **%** | USD'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 USD23.5 million for the year ended 31 December 2016, representing a decrease of USD0.7 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 USD7.4 million to USD6.8 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 USD2.9 million, down by 14.6% compared to 2015, which was mainly due to the decrease in travelling costs of the Group's marketing personnel.

# 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 year ended 31 December 2016, general and administrative expenses decreased by 11.0% to USD10.2 million compared to 2015, mainly attributable to the lower share-based compensation expenses and better 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 USD0.8 million tax expense for the year ended 31 December 2015 to USD0.1 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 USD1.9 million.

### *Profit for the Year*

Annual profit for the year ended 31 December 2016 amounted to USD7.5 million, rocketing by 125.7% compared to the year 2015. However, excluding the impact from Listing expenses, the Group recorded a profit of approximately USD9.4 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 USD56.4 million (as at 31 December 2015: USD34.0 million). The Group's cash and cash equivalents were mainly denominated in RMB and USD as at 31 December 2016. The Group recorded net current assets amounting to USD88.3 million (as at 31 December 2015: USD50.4 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).

# Management Discussion and Analysis

### *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 USD9.5 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 destabilising impact of China's new regulatory policies, the Group will further optimise 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.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is committed to achieving a high level of corporate governance. The Company has been in compliance with the principles and code provisions set out in the Code on Corporate Governance Practices ("CG Code") under Appendix 14 to the Listing Rules from the Listing Date to the date of this report, except the following deviation therefrom: -

### *Code Provision A.2.1*

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (CEO) should be separated and performed by different individuals. During the period from the Listing Date to the date of this report, the duties of the Company's Chairman and CEO were not separated from each other. Mr. Huang Xueliang has been serving as the Company's Chairman and CEO during the period from the Listing Date to the date of this report.

The Company believes that Mr. Huang Xueliang serving as both the Chairman and CEO will guarantee us strong and stable leadership to perform planning and management of the Group more effectively. In view of his extensive experience in the industry, personal credentials and key roles in the Group and its historical development, the Board believes that it is favorable to the business prospects of the Group for Mr. Huang Xueliang to serve as our Chairman and CEO on a continuous basis.

## BOARD OF DIRECTORS

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. As at the date of this report, the Board consists of nine directors ("Directors") of the Company, including three executive Directors, three non-executive Directors and three independent non-executive Directors. Their biographical details and relationships amongst them (if any) are set out on pages 29 to 33 of this annual report.

The Board shall perform the duties of corporate governance, and its responsibilities are to convene the general meetings and report its work to the shareholders; to implement the resolutions of general meetings; to formulate the Company's business plans, investment plans and annual budget and final accounts; to prepare the Company's profit distribution plan, loss recovery plan and proposals for increase or reduction of registered capital.

The Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals to review the Company's historical financial reports and operating conditions and approve the Company's budgets and overall strategies. Notices of no less than fourteen days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. Additional meetings should be held whenever the Board deems necessary. For other board meetings and board Committee meetings, reasonable notice is generally given by the Company. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the board meetings or board committee meetings to ensure that the Directors have sufficient time to review the papers and be adequately prepared for the meetings or board committee meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the board meetings and board committee meetings are recorded in sufficient detail on the matters considered by the Board and the board committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and board committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by the Directors.

The Directors actively participated in the meetings of the Company. The members of the Board as at the date of this report and their participation in the meetings of the Company during the period from the Listing Date to 31 December 2016 are as follows:

| Name of Director | Nomination Committee meeting | Remuneration Committee meeting | Audit Committee meeting | Regular Board meeting |
|---|---|---|---|---|
| Huang Xueliang | 1/1 | N/A | N/A | 3/3 |
| Zeng Zhijie | N/A | 1/1 | 2/2 | 3/3 |
| Kwan, Allan Chung-yuen | N/A | N/A | 2/2 | 3/3 |
| Zhang Junjie | N/A | 1/1 | N/A | 3/3 |
| Woo Kar Tung, Raymond | 1/1 | N/A | 2/2 | 3/3 |
| Jin Yufeng | 1/1 | 1/1 | N/A | 3/3 |
| Shuai Hongyu(1) | N/A | N/A | N/A | N/A |
| Loong, Manfred Man-Tsun(1) | N/A | N/A | N/A | N/A |
| Gao Songtao(1) | N/A | N/A | N/A | N/A |

(1) Appointed as Director on 23 March 2017.

The Company only held 3 meetings during the year under review as the shares of the Company were listed on the Stock Exchange on 30 March 2016. The Company is obliged to comply with the CG Code and will take appropriate arrangements for holding at least 4 regular Board meetings in the forthcoming year. No general meeting held during the year ended 31 December 2016.

To the best knowledge of the Company, there is no financial, business, family or other material/connected relationship among the Directors.

## *Committees of the Board*

There are Nomination Committee, Remuneration Committee and Audit Committee under the Board to help fully perform the duties of corporate governance. Each committee of the Board has the right to obtain any complete and reliable information required by it from the management. The committees shall, if necessary, seek independent professional advices to perform their duties at the expense of the Company.

The written terms of reference of the Nomination Committee, the Remuneration Committee and the Audit Committee are available on the website of the Company and, if applicable, on the website of the Stock Exchange.

## DELEGATION BY THE BOARD

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors have the recourse to seek independent professional advice in performing their duties at the Company's expense. Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

### *Nomination Committee*

The Nomination Committee is mainly responsible for reviewing the structure, number of members and composition (including skillsets, knowledge, experience and qualifications) of the Board, providing recommendations to the Board on candidates for any Directors and senior management members, determining the policy for the nomination of directors' exploring a Board diversity policy, and assessing the independence of the independent non-executive Directors. The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the period from the Listing Date to 31 December 2016, the Nominating Committee held a meeting to conduct annual review of the structure, number of members and composition of the Board, assess the independence of the independent non-executive Directors and discuss the Board diversity policy.

### *Remuneration Committee*

The Remuneration Committee is primarily responsible for advising on the remuneration policy and structure for all the Directors and senior management members of the Company; assessing performance of executive directors and approving terms of executive directors' service contracts; and developing a set of standardised and transparent procedures for making the remuneration policy. The Remuneration Committee is designated to determine the remuneration packages of certain executive Directors and senior management members.

During the period from the Listing Date to 31 December 2016, the Remuneration Committee held a meeting to review the remuneration policy and structure and determine the annual remunerations of the Directors and senior management members as well as other related matters.

### *Audit Committee*

The primary duties of the Audit Committee are as follows:

1. to make recommendations to the Board regarding the appointment, reappointment and removal of external auditor;

2. to review and monitor the external auditor's independence and objectivity under applicable standards, and to assess the efficacy of their audit procedures;

3. to review the integrity of the Company's financial statements, annual reports and accounts and interim reports, and to review the significant opinions in relation to the financial reporting contained therein; and

4. to supervise the Company's risk management and internal control systems, assist the Board in reviewing the effectiveness of the Company's risk management and internal control systems, and advise the Board on matters relating to corporate governance.

5. to review and monitor the Company's compliance with the Company's whistleblowing policy.

During the period from the Listing Date to 31 December 2016, the Audit Committee held two meetings to fulfill the above duties.

## *Director Training*

Any newly appointed Director would be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations.

All Directors participated in continuous professional development to develop and update their knowledge and skills. According to the records provided by the Directors, the training programmes received by each Director during the year are as follows:

| Name of Director | Director title | Seminars or other industry events attended |
|---|---|---|
| Huang Xueliang | Chairman, executive Director & CEO | √ |
| Zeng Zhijie | Non-executive Director | √ |
| Kwan, Allan Chung-yuen | Non-executive Director | √ |
| Zhang Junjie | Independent non-executive Director | √ |
| Woo Kar Tung, Raymond | Independent non-executive Director | √ |
| Jin Yufeng | Independent non-executive Director | √ |
| Shuai Hongyu(1) | Executive Director | N/A |
| Loong, Manfred Man-Tsun(1) | Executive Director | N/A |
| Gao Songtao(1) | Non-executive Director | N/A |

(1) Appointed as Director on 23 March 2017.

## CHAIRMAN AND CEO

During the period from the Listing Date to the date of this report, Mr. Huang Xueliang served as the Chairman and CEO to take charge of the Group's overall strategic planning and supervise the overall management of the Group.

## NON-EXECUTIVE DIRECTORS

The non-executive Directors (including the independent non-executive Directors) empower the Board with extensive industry knowledge and experience, financial expertise and independent judgments. They make effective recommendations on the Company's strategies and policies through engagement in committees of the Board, participation in Board meetings and review of the Company's relevant reports.

During the year, the Board had at least three independent non-executive Directors, one of whom has appropriate accounting or related financial management expertise as required by Rule 3.10 of the Listing Rules.

Each independent non-executive Director has provided with the Company an annual confirmation of his independence. Pursuant to Rule 3.13 of the Listing Rules, the Company considers that Mr. Zhang Junjie, Mr. Jin Yufeng and Mr. Woo Kar Tung, Raymond are independent in terms of identity and judgment, which is in compliance with the criteria set out in Rule 3.13 of the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELATED INDIVIDUALS

The Company has adopted a code of conduct for securities transactions by Directors ("Code of Conduct") on terms no less than the required standards under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. After specific inquiries, it is confirmed that all the Directors fully complied with the Model Code during the year 2016.

The Code of Conduct applies to all the individuals who may have access to inside information about the Company or its securities as a result of their respective positions or duties as defined by the CG Code, including employees of the Company or directors or employees of the Company's subsidiaries or parent company.

## AUDITOR'S REMUNERATION

The Audit Committee has received a letter from the Company's current auditor PricewaterhouseCoopers confirming its independence and objectivity. The remuneration paid for the services provided by PricewaterhouseCoopers and its affiliates (if any) is as follows:

| Nature of service | **2016**<br>**USD'000** | 2015<br>USD'000 |
|---|---|---|
| Audit and review services | **320** | 29 |
| Non-audit services (including risk assessment and internal control consultating services and professional service on general offer) | **74** | — |
| | **394** | 29 |

There is no disagreement between the Board and the Audit Committee on the selection, appointment, dismissal or removal of the external auditor. The Directors are not aware of any material uncertainties relating to events or situations which may have material impacts on the Group's ability to continue as a going concern.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Set out below are the responsibilities of the Directors for the consolidated financial statements, which should be read in conjunction with the Independent Auditor's Report on pages 49 to 53 that acknowledges the responsibilities of the Directors in this aspect distinguished from the former. The management has provided to the board such explanation and information as are necessary to enable the board to carry out an informed assessment of the Company's financial statements, which are put to the board for approval. The Company provides all members of the board with monthly updates on the Company's performance, positions and prospects.

## ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements for each financial year to give a true and fair view of the conditions of the Group.

## ACCOUNTING POLICIES

The Directors consider that in preparing the consolidated financial statements, the Group applies appropriate accounting policies consistently and follows all applicable accounting standards.

## ACCOUNTING RECORDS

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and enable the Group to prepare consolidated financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable accounting standards.

## RISK MANAGEMENT AND INTERNAL CONTROL

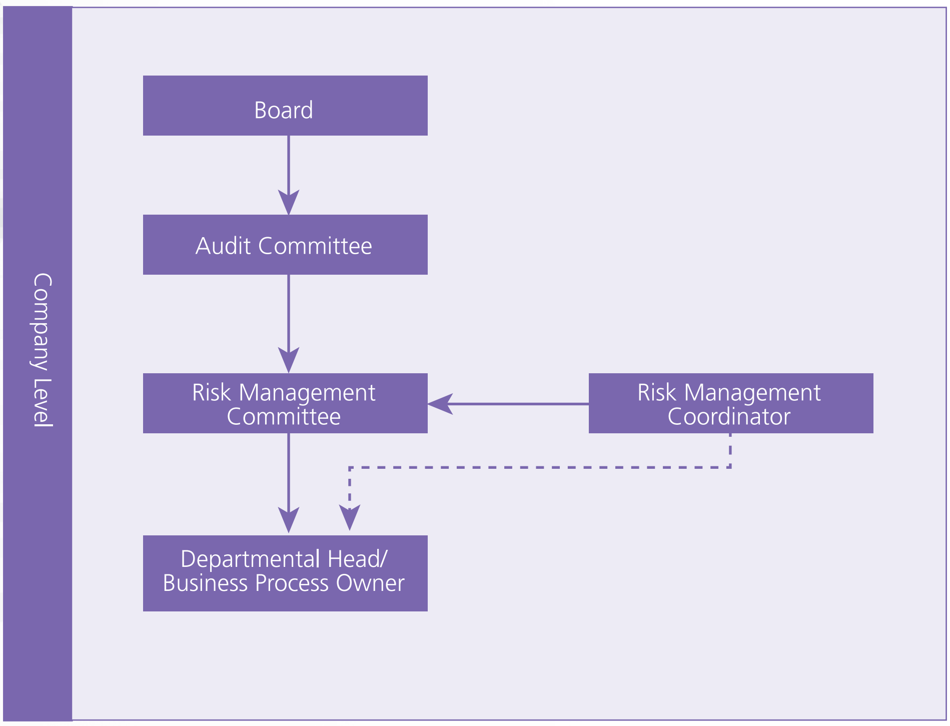
### *Responsibilities of the Board and Management*

The Board believes that a comprehensive set of risk management and internal control systems plays an essential role in achieving the Company's strategic goals and has therefore acknowledged its responsibility to maintain such systems, as well as review their effectiveness to protect the assets of both the shareholders and the Company. Specifically, the Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems, while the management is accountable for setting up and maintaining those systems as well as providing a confirmation on their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

## Risk Management and Internal Control Systems

With an aim to improve the Company's risk management and internal control systems while enhancing its management standards and ability to mitigate risks, the Board established its own organisational structure this year to guide risk assessment and persistent risk monitoring. The risk management organisational structure is a 3-tier framework, comprising of the Board and its Audit Committee, Risk Management Committee, as well as Risk Management Executives. The Company has also defined the direct management responsibility of each tier and the reporting line between them.

### Risk Management Structure



Roles performed by parties at all levels within the risk management structure are set out in the tables below:

**Board**

√ Approve plans and reports on risk management

√ Conduct risk management of material decisions, including approving related risk management reports and determining effective controls to the risks; and

√ Strengthen the cultivation of risk management culture

**Audit Committee**

√ Review the setups of the Risk Management Committee and its job description, as well as the fundamental management policies; and

√ Review assessment reports on material risks and various risk management reports

**Risk Management Committee**

√ Promote the formulation of risk management system and define the structure and responsibilities of risk management organisation

√ Regularly review the risk management policies and procedures and whether or not they have been carried out accordingly

√ Provide risk management suggestions on material decisions by reviewing and submitting risk management reports and risk response; and

√ Oversees the cultivation of the Company's general risk management culture

**Risk Management Coordinator**

√ Promote risk identification and evaluation on department level, formulate risk management reports and submit them to the Risk Management Committee

√ Coordinate the Risk Management Committee and senior management to conduct risk identification and evaluation on the Company level, propose countermeasures to material risks

√ Assist and monitor the risk management executives to perform risk management work and review relevant results

√ Organise trainings and share knowledge and best practices about risk management

√ Summarise the risk management results of both the Company level and business level and submit them to the Risk Management Committee and the Audit Committee

**Department Head/Business Process Owner**

- √ Coordinate with risk management coordinator in performing risk management of their own businesses
- √ Regularly update the risk lists of their own businesses
- √ Assess risks from the aspects of their probability and the severity of impact on the Company's businesses along with characteristics of specific businesses
- √ Prepare and implement contingency plans for the relevant specific business risks; Take responsibility for advancing and implementing the specific risk management measures
- √ Monitor and report various risks facing specific businesses to the risk management coordinator; and
- √ Process other work relevant to risk management.

The Company improves its management capability and adaptability, and further ensures the realisation of the business objectives and a sustainable growth through active and systematic identification, assessment and response to risk issues occurred in the operation process. The Company has defined risk management process and evaluation criteria in the Risk Management Manual. Risk evaluation is carried out annually on the Company level to determine the nature and extent of the risk and whether the existing control measures are enough through systematic risk management procedures, which are four steps including risk identification, evaluation, mitigation and reporting. The Company prioritises risks based on their probability and the severity of impact on the Company's businesses, and then develops risk management measures and annual risk assessment report based on the causes, influences of material risks and best practices of the industry to keep the risks at an acceptable level.

The Company's internal control system was constructed based on the internal control framework issued by the Committee of Sponsoring Organisation of the Treadway Commission, and considered the five components of internal control: control environment, risk assessment, control activities, information and communication and monitoring activities. The Company designs control activities to address the risk of each key business process and monitors the operating effectiveness to ensure control activities are conducted properly. The Audit Committee reviews the effectiveness and adequacy of the system on an annual basis. If any deficiency of internal control is identified, the Company addresses it by communicating with the management internally and ordering remediation to be taken. Any material deficiency identified in the control or procedures will be reported to the Board directly for communication and discussion.

The Company's internal audit work is carried out by internal audit team. Their responsibilities have been defined in the Internal Audit Charter. In the year of 2016, an external consulting firm has been appointed by the Company to independently assess the adequacy and effectiveness of the internal controls and reported directly to the Audit Committee. The Audit Committee then oversees the effectiveness of the internal controls system by reviewing and approving the assessment plan and reports.

For the management of inside information, the Company has formulated Inside Information Disclosure Management Policy to clarify the definition of such information and procedures to handle and release them. The Company discloses information to the public generally and non-exclusively through channels including websites of its own and HK Exchange, aiming to achieve fair and timely disclosure of information.

### *Review on the Risk Management and Internal Control Systems in 2016*

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. For the year ended 31 December 2016, the Board has finished reviewing the Company's risk management and internal control systems along with the Audit Committee and considered them to be effective and adequate. The review has covered the financial year of 2016 and all material aspects of control, including financial, operational and compliance controls and considered the changes in the nature and extent of significant risks as well as the Company's ability to respond to changes in its business and the external environment, the Board and Audit Committee are satisfied with the results.

The Board and Audit Committee have also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of its accounting, internal audit and financial reporting functions this year and are satisfied with the results.

## COMPANY SECRETARY

Mr. Cheng Kai Pui, Eric has served as the company secretary of the Company (the "Company Secretary") since the Listing Date. The Company Secretary reports to the Chairman of the Board, and the appointment and removal of the Company Secretary are determined by all the members of the Board.

The Company Secretary is responsible for assisting the Chairman of the Board and the chairmen of its committees in developing meeting agendas, preparing meeting minutes in a timely manner and sending them to the Directors and members of the committees; for ensuring that all the Directors comply with the Board's policies and procedures and all applicable regulations and rules; and for ensuring accurate recording of the meeting procedures, discussions and decisions of meetings of the Board/its committees.

Mr. Cheng Kai Pui, Eric had received more than 15 hours of professional training during the year in accordance with Rule 3.29 of the Listing Rules. His biographical details are set out in page 33 of this annual report.

## SHAREHOLDERS' EQUITY AND INVESTOR RELATIONS

### *Communication with Shareholders and Investors*

The general meetings of the Company provide a platform for direct communication between shareholders and the Board. Shareholders are welcome to make enquiries to the Board or the management thereat, and the Chairman of the Board, or in his absence, an executive Director, and chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other members of the such committees, will normally be present and available to answer questions. Shareholders may also send their written enquiries to the Company Secretary.

The Company is committed to enhancing its communication and relationship with its investors. To this end, the Board endeavors to provide shareholders with clear and comprehensive information on the Group through different media and official website. In addition to the circulars, notices and financial reports dispatched to shareholders, they may also visit the Group's website (www.smit.com.cn) for more information.

# Corporate Governance Report

### *Procedure for Making Proposals at Annual General Meetings*

Shareholders may make proposals or motions at annual general meetings in accordance with the Company's memorandum of association or the Companies Law of the Cayman Islands and the relevant provisions.

### *Procedures for Requisitioning an Extraordinary General Meeting*

Shareholders holding at the date of submission of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right to vote at general meetings of the Company may, by serving at any time a written requisition to the Board or the Company Secretary, require the Board to convene an extraordinary general meeting for the handling of the matters specified in the requisition.

## CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company adopted on 29 March 2016 the amended and restated Articles of Association, with effect from the Listing Date.

By order of the Board
**Huang Xueliang**
*Chairman*

Hong Kong, 23 March 2017

# Environmental, Social and Governance Report

We are a leading security devices provider for pay TV broadcasting access worldwide and for mobile point-of-sale, or mPOS, payment systems in China. Our conditional access module, or CAM, products are used to provide end users with access to pay TV content. Pursuant to the relevant requirements of the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group will continue to disclose an Environmental, Social and Governance Report ("ESG Report") on an annual basis. Set out below are the important contents of such report closely related to the Group's business:

## ENVIRONMENT

### *Emissions*

The Group's policy is to ensure compliance with applicable environmental laws and regulations and to reduce environmental footprints through efficient use of resources and application of environment-friendly technologies.

The Group is committed to promoting environmental awareness among its employees. The Group believes that raising environmental awareness is the key to environmental protection and the promotion of public health.

In view of the nature of the Group's business, the Company believes that the direct impact of its business operations on the environment and natural resources is very insignificant.

#### *Sewage Discharge*

The Group has no industrial sewage discharge, and its domestic water meeting relevant discharge standards is discharged into a municipal pipeline through the pipe network of the industrial zone, which is in compliance with the relevant provisions under the Law of the PRC on the Prevention and Control of Water Pollution, the Detailed Rules for the Law of the PRC on the Prevention and Control of Water Pollution, and the Measures on the Supervision of Sewage Treatment Facilities for Environmental Protection. The Company operates in accordance with the requirements on clean production and in compliance with the relevant requirements under the Law of the PRC on Promoting Clean Production.

#### *Noise Emissions*

All departments have conscientiously implemented the noise prevention measures and performed noise reduction processing for noise-producing equipment without working at night, which meets the relevant standards of the Emission Standard for Industrial Plant Noise at Boundary and which, coupled with the fact that there is no residential area in the proximity of the Company, is in compliance with applicable laws and regulations such as the Law of the PRC on the Prevention and Control of Environmental Noise Pollution.

### *Exhaust Emissions*

As the Company is in a high-tech park in terms of ambient air function zoning, the Company implements the medium-level standards for environmental air quality as provided under the Ambient Air Quality Standards (GB3095-96). Currently, all our emission indicators meet the relevant requirements. Our test and production process virtually produces no exhaust gas, which is in compliance with the Law of the PRC on the Prevention and Control of Air Pollution and meets the standards under the Integrated Emission Standards for Air Pollutants. There is no leak of Freon generated from air conditioning, which is in compliance with the relevant provisions of the Montreal Protocol on Substances that Deplete the Ozone Layer.

### *Hazardous Waste Management*

After self-inspections of all departments, it is confirmed that the hazardous waste of each department, including waste batteries, toner cartridges and ink cartridges, has been classified and put into separate dustbins in a timely manner, and all waste fluorescent lamps have to be returned in exchange for new ones. All hazardous waste is collected centrally for disposal. The production and domestic waste of the Company has been timely disposed of as required, which is in compliance with applicable laws and regulations such as the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Waste.

### *Procurement, Transport, Storage and Preservation of Hazardous Chemicals*

Presently, the Group is not involved in any use and management of chemicals.

In an effort to strictly follow the environmental protection requirements, the Group regularly hands out labor protection supplies to staff in positions with hidden danger, organises the staff to take annual physical examination, and affords them occupational disease detection. There is no environmental, safety and occupational disease issue occurred during the Company's operations.

## *Resource Utilisation*

All the departments and entities of the Group have specific control measures for consumption of domestic water, office electricity and paper, which satisfy the relevant requirements under the Energy Conservation Law of the PRC. The Group vigorously carries out an advice solicitation activity to encourage employees to make reasonable advices on cost reduction and efficiency improvement.

## *Environment and Natural Resources*

Since its inception, the Group has never compromised the environment and natural resources in any way and always strictly complied with the Environmental Protection Law of the PRC.

## SOCIETY

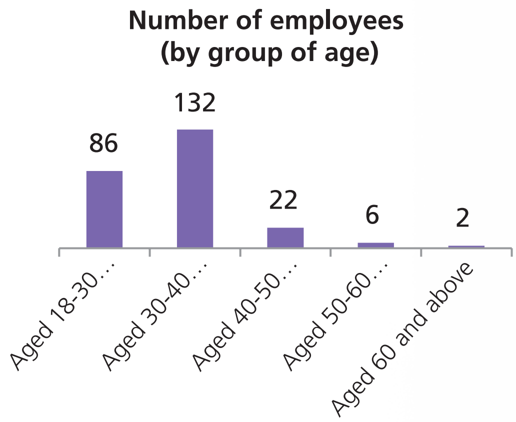
### *Employment and Labor Practices*

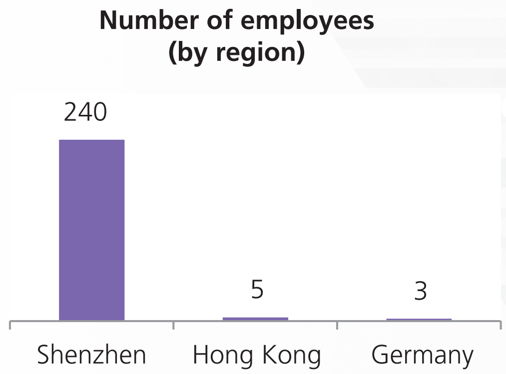
The Group's success relies on its ability to attract, retain and motivate qualified personnel. The Group generally is able to attract and retain qualified personnel and maintain a stable core management team. The Group is committed to the training and development of its employees. The Group engages its R&D center, research laboratories and project management team in ensuring that each employee receives continuous training on subjects from techniques, solutions and services to the Group's clients, the markets and industries where it operates, so as to maintain the employees' current skillsets. The Group provides orientation training for all new employees, and offers on-the-job training to continuously enhance the technical, professional and managerial capabilities of its employees.

The Group believes that the Group maintains a good working relationship with its employees. Since its inception, the Group has not embroiled in any significant labor dispute or any dispute with the labor authorities of the Chinese government.

As at 31 December 2016, the Group's breakdown of employees by gender, employment type, age group and region is as follows:

| Total number of employees | Employment type | By gender | |
|---|---|---|---|
| | | Male | Female |
| 248 | Full time with a labor contract signed | 177 | 71 |



As at 31 December 2016, the Group's employee turnover rates by gender, age group and region are as follows:

| Total turnover rate | By sex | | By age group | | | | | By region | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Aged 18 - 30 | Aged 30 - 40 | Aged 40 - 50 | Aged 50 - 60 | Aged 60 and above | Shenzhen | Hong Kong | Germany |
| 19.22% | 13.36% | 5.86% | 9.78% | 8.79% | 0.65% | — | — | 19.73% | — | — |

## *Health and Safety*

The Group is required to comply with the Safety Production Law, the Labor Law of the PRC and other relevant Chinese laws, administrative regulations, national standards and industry standards, which stipulate the requirements on maintaining a safe production environment and safeguarding employees' occupational health. In accordance with these regulations, an entity with any facility or equipment failing to guarantee safety production shall not engage in production and business operations. Entities operating in China must provide employees with safe production education and related training programmes as well as a safe working environment. The design, manufacturing, installation, use, inspection and maintenance of production facilities and equipment must meet applicable national or industry standards.

The Group has implemented safety measures within its production facilities to ensure compliance with applicable regulatory requirements and minimise the risk of injury to employees. The Group regularly examines its operating facilities to ensure that the Group's production and operations are in compliance with the existing laws and regulations. In addition, the Group requires new employees to receive job safety training.

In 2016, there was no work-related accident occurred thanks to the foregoing procedures and measures taken by the Group. In addition, each new employee is required to provide a qualified medical certificate, and the Company arranges health examination for the employees each year.

## *Development and Training*

The Group attaches great importance to the improvement of the staff's quality and related professional skills, and develops training programmes for them according to the business needs of each position.

In 2016, the employees of the Group received two hours of training on average, and the numbers of training sessions by type of training are set out below.

| | Training for senior and middle management | Technical training | Financial training | Production training | Orientation training |
|---|---|---|---|---|---|
| Number of training sessions | 2 | 4 | 2 | 4 | 2 |

### *Labor Standards*

The Group generally recruits talent via recruitment websites, and never employs child labor or forced labor. The Group also follows the relevant national laws and regulations to rationalise labor relations and division of labor by improving relevant measures and mechanisms, to safeguard the legitimate rights and interests of employees and to resist child labor or forced labor, thus guaranteeing no irregularities.

## OPERATIONAL MANAGEMENT

### *Supply Chain Management*

The Group's suppliers include (a) manufacturers from which the Group purchases components for its products and (b) subcontractors undertaking certain production processes for the Group's products. In 2016, the Company's qualified suppliers were mainly based in Guangdong, Jiangsu, Xi'an, Zhejiang, and Germany.

The Group requires its suppliers to import QP-13 procurement control procedures and QP-14 supplier evaluation and management control procedures using the Company's ISO filing system. All suppliers have been implemented and managed according to the system:

1. Access review: set up access requirements for suppliers and maintain supplier profiles; and review each supplier's operating conditions, production capacity, quality assurance system, product quality, delivery period and other related information to ensure that the raw materials purchased meet the quality and safety standards under the national laws, regulations and standards.

2. Process review: set up procedures for reviewing raw materials in the utilisation process and a traceability mechanism to ensure consistent product quality during the supply process; and review the purchase inspection, for-production utilisation, examination results and handling of substandard products with regard to the suppliers' products.

3. Evaluation management: establish an evaluation system to conduct comprehensive evaluation of suppliers on a regular basis; evaluate the product quality, delivery capacity, technical level and product qualification rate of each supplier, and weed out or request improvements from the unsatisfactory suppliers.

4. On-site review: conduct regular on-site reviews of key raw material suppliers in terms of production capacity, production process, quality control, etc.

### *Product Liability*

In the case of product returns because the products do not function normally due to any software issues or misuse of the product, the Company may, if necessary, dispatch a technician to clarify the causes for the customer face to face, and if possible, to try and resolve the problem on the spot, otherwise the Unqualified Product Control Procedures and the Control Procedures for Corrective and Preventive Measures shall apply.

The Group shall agree on certain confidentiality clauses or sign a confidentiality agreement with any entity which is commissioned by, or works with, the Group to develop new technologies or new products.

The Group follows the Quality Control Procedures and applies a product recall process to guarantee the specifications of all its products.

The Group strictly abides by the Law on Protection of the Rights and Interests of Consumers to safeguard the rights and interests of consumers and their privacy.

In 2016, none of the products sold were returned to the Group due to safety or health problems.

The Group also incorporates confidentiality clauses into labor contracts and has signed a confidentiality agreement with each employee to make it clear that the employees have the obligation to keep the Company's secrets. As for other relevant intellectual property rights, the national intellectual property protection standards are strictly followed.

### *Anti-corruption*

The Group's employee handbook and cooperation agreements with suppliers all have anti-corruption and bribery provisions, and a whistle-blowing mailbox is set up to strengthen the Company's internal control mechanism, so as to safeguard the Company's interests and prevent corruption and fraud.

In 2016, neither the Group nor its employees were implicated in any legal proceedings relating to corruption.

## COMMUNITY

### *Community Investment*

The Group has been actively living up to its responsibility to promote harmonious development of society as an important direction for its long-term development. Each year, the Group sponsors physical examination for the employees, and organises various group activities to entertain the employees. In addition, the Group also pays urban maintenance and construction tax for urban construction on an annual basis.

## EXECUTIVE DIRECTORS

**Mr. Huang Xueliang (黃學良)**, aged 54, is the chairman, an executive Director and the chief executive officer of our Company and the Founder of our Group. He was appointed as the chairman, executive Director and the chief executive officer of our Company with effect from 20 September 2015. He is also a director of SMIT Hong Kong. Mr. Huang is primarily responsible for the overall strategic planning and overseeing the general management of our Group. He has over 16 years of management experience in the IC design industry.

From March 1989 to December 1991, Mr. Huang worked in the China National Electronic Devices Corp., Shenzhen branch* (中國電子器件公司深圳公司), a company primarily engaged in distributing and selling computer related components and other electronic components. From January 1992 to February 1993, Mr. Huang worked as the vice manager in Shenzhen Xianke Mechatronics Corporation* (深圳市先科機械電子公司), a company engaged in the processing of various electronic modules and components. Mr. Huang is the director of Shenzhen State Micro Science and Technology Co. Ltd.* (深圳市國微科技有限公司), a company engaged in the research and development of integrated circuit design, since 1993. Mr. Huang was previously a director of Tongfang Guoxin Electronics Co., Ltd.* (同方國芯電子股份有限公司) (SZSE: 2049), a quartz crystal units manufacturer listed on the Shenzhen Stock Exchange, between October 2013 and January 2016. He has served as the deputy director of China Semiconductor Industry Association IC Design Branch* (中國半導體行業協會集成電路設計分會) since November 2005.

Mr. Huang obtained a bachelor's degree in semiconductor from Xidian University (formerly known as North-western Telecommunications Engineering School* (西北電訊工程學院)) in July 1984 and a master's degree in electrical engineering from Southeast University in April 1989.

**Mr. Shuai Hongyu (帥紅宇)**, aged 56, is an executive Director of our Company. Mr. Shuai joined the Group on October 2005, and was appointed as an executive Director with effect from 23 March 2017.

Mr. Shuai is the president and the chief operating officer of our Company. He is primarily responsible for co-leading, with Mr. Huang Xueliang, our business operation and overseeing strategic technologies. Mr. Shuai is also a director of SMIT Hong Kong and SMIT Shenzhen. Mr. Shuai has more than 20 years of industry experience related to image processing and digital television technologies.

From 1987 to 1989, Mr. Shuai has been the engineer in the computer department of the Sichuan Province Remote Sensing Center* (四川省遙感中心計算室). From 1989 to 2000, Mr. Shuai was the vice president of the Southwest Branch of China Council for the Promotion of Applied Technology Exchange with Foreign Counties* (中國對外應用技術交流促進會西南分會). From 2000 to 2001, Mr. Shuai worked as the vice president of Beijing Zhongshilian Digital System Co., Ltd.* (北京中視聯數字系統有限公司). Between March 2001 to March 2004, Mr. Shuai was the general manager of DTVIA Conditional Access System (CHINACRYPT) Co., Ltd.* (北京中視聯條件接收系統有限公司), a conditional access joint-venture between Philips Cryptoworks (China) Limited and China Digital TV Holding Co., Ltd. Between July 2004 and October 2005, Mr. Shuai worked as the general manager of Beijing Pu'aode Digital Technology Co., Ltd.* (北京浦奥得數碼技術有限公司), a company engaged in the design and development of digital television system.

# Directors' Biography

Mr. Shuai obtained a bachelor's degree in wireless communication in July 1982 and a master's degree in engineering in January 1987 from Xindian University (formerly known as North-western Telecommunications Engineering School* (西北電訊工程學院).

**Mr. Loong, Manfred Man-tsun (龍文駿)**, aged 61, is an executive Director of our Company. Mr. Loong joined the Group on July 2013, and was appointed as an executive Director of our Company with effect from 23 March 2017.

Mr. Loong is the executive vice president and chief financial officer of our Company. Mr. Loong is primarily responsible for the management of the overall financial and accounting affairs of our Group.

Mr. Loong has extensive experience in accounting and related financial management. Prior to 2006, Mr. Loong had extensive experience working at Lucent Technologies (China) Co., Ltd.. Between April 2006 and July 2009, he served as the chief financial officer and chief operating officer at UTStarcom Telecom Co., Ltd., the subsidiary of UTStarcom Holdings Corp. (NASDAQ: UTSI), a global telecom infrastructure provider, focused on delivering innovative carrier-class broadband transport and access (both Wi-Fi and fixed line) products and solutions, optimised for mobile backhaul, metro aggregation, broadband access and Wi-Fi data offloading. Between January 2010 to May 2012, Mr. Loong was the chief financial officer of China Ming Yang Wind Power Group Ltd. (NYSE: MY), a wind turbine manufacturer in China, listed on the New York Stock Exchange, focusing on designing, manufacturing, selling and servicing megawatt-class wind turbines.

Mr. Loong graduated from the University of Washington with a bachelor of arts degree in business administration in June 1978 and was qualified as a certified public accountant in New Jersey in the United States in February 1990.

## NON-EXECUTIVE DIRECTORS

**Mr. Gao Songtao (高松濤)**, aged 46, is a non-executive Director of our Company. Mr. Gao joined the Group on 23 March 2017 when he was appointed as a non-executive Director of our Company with effect from 23 March 2017.

Mr. Gao, graduated from the University of Electronic Science and Technology of China with a bachelor degree in July 1991, and he received a master's degree in economics from the Renmin University of China in June 2006 and an IMBA degree jointly from the Fudan University and the University of Hong Kong. Mr. Gao is currently the vice president of Sino-IC Capital Ltd.* (華芯投資管理有限責任公司), the general partner of China Integrated Circuit Industry Investment Fund Co., Ltd.* (國家集成電路產業投資基金股份有限公司) ("**China IC Fund**"). China IC Fund indirectly holds the entire share capital of Xinxin (Hongkong) Capital Co., Limited* (鑫芯(香港)投資有限公司), one of our cornerstone investors during the global offering of the Shares in 2016.

Mr. Gao is currently a director of Beijing BDStar Navigation Co., Ltd.* (北京北斗星通導航技術股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 002151).

**Mr. Zeng Zhijie (曾之傑)**, aged 48, is a non-executive Director of our Company. Mr. Zeng joined our Group in September 2015 and was appointed as a non-executive Director of our Company with effect from 20 September 2015. Mr. Zeng has been a director of SMIT Corporation since February 2008.

Between January 2001 and December 2007, Mr. Zeng served as a managing director of Walden International, whose affiliated investment entities hold shares in our Company, which was mainly responsible for venture investments in China and other Asian countries. Since his resignation as the managing director in 2008, Mr. Zeng has continued to serve as an advisor to Walden International. Mr. Zeng has been the general manager of Kaixin Investment, a venture capital fund jointly founded by China Development Bank Corporation and CITIC Capital Holdings Limited, since December 2008. Mr. Zeng has been the senior managing director of CITIC Capital Holdings Limited since February 2010. Mr. Zeng served as the independent director of Shanghai AJ Group Co., Ltd* (上海愛建股份有限公司) (SHSE: 600643), a property developer in the PRC listed on the Shanghai Stock Exchange, from June 2006 to January 2013; the director of Talkweb Information System Co., Ltd.* (拓維信息系統股份有限公司) (SZSE: 2261), a system integration and software company listed on the Shenzhen Stock Exchange, from June 2010 to May 2013; and the independent non-executive director of Great Wall Technology Company Limited (HKSE: 0074), an IT products manufacturer listed on the Stock Exchange, from June 2011 until the company was withdrawn from listing in July 2014. From July 2009 to June 2015, Mr. Zeng served as an independent director of Vimicro International Corporation (NASDAQ: VIMC), a video technology company formerly listed on the NASDAQ Global Select Market. Since April 2003, Mr. Zeng has served as an independent non-executive director of ChinaSoft International Limited (HKSE: 354), a comprehensive provider of end-to-end software and information services, ranging from consulting to solution, outsourcing and IT talent training. He has also served as an independent director of E-House (China) Holdings Limited (NYSE: EJ), a PRC real estate company listed on the New York Stock Exchange, since August 2008. Mr. Zeng was an independent director of AutoNavi Holdings Limited (NASDAQ: AMAP), a digital map content and navigation company listed on the NASDAQ Global Select Market until the trading was suspended upon completion of a merger in July 2014. He has also served as a non-executive director of AAG Energy Holdings Limited (HKSE: 2686), a coalbed methane producer in the PRC, since January 2015.

Mr. Zeng obtained a bachelor's degree in economics from the University of Nagasaki, Japan in March 1996 and a master of science degree in management from Stanford University in June 2001.

**Mr. Kwan, Allan Chung-yuen (關重遠)**, aged 58, is a non-executive Director of our Company. Mr. Kwan joined our Group in September 2015 and was appointed as a non-executive Director of our Company with effect from 20 September 2015. Mr. Kwan has been a director of SMIT Corporation since February 2008.

He served as the regional vice president and managing director of North Asia from July 2001 to January 2006 and the vice president from January 2006 to April 2007 in Yahoo! International. Mr. Kwan has been a venture partner of Oak Management Corporation, a venture capital firm which is an affiliate of Oak Investment Partners X, L.P., since April 2007. He has served as a director since November 2008 and was a member of the audit committee for NeoPhotonics Corporation (NYSE: NPTN), a designer and manufacturer of photonic integrated circuit based modules listed in the New York Stock Exchange until November 2015.

# Directors' Biography

Mr. Kwan obtained a bachelor's degree in mechanical engineering from the University of British Columbia in May 1982, a master of business administration degree from the Wharton School of University of Pennsylvania in May 1987, and a master of arts degree from the University of Pennsylvania in May 1987.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Zhang Junjie (張俊傑)**, aged 46, is an independent non-executive Director of our Company. Mr. Zhang joined the Group on 6 March 2016, and was appointed as an independent non-executive Director of our Company with effect from 6 March 2016.

Mr. Zhang has over 10 years of experience in the investment banking industry. Mr. Zhang has served as the general manager in the business department of the investment bank, Guosen Securities Company Limited since February 2005.

Mr. Zhang received a bachelor's degree in oil development and drilling engineering from the Jianghan Petroleum University (now known as Yangtze University) in June 1992. He received a master's degree in industrial economics from Wuhan University of Technology in June 1999. Mr. Zheng also received an executive master of business administration degree from Cheung Kong Graduate School of Business in October 2012.

**Mr. Woo Kar Tung, Raymond (胡家棟**), aged 47, is an independent non-executive Director of our Company. Mr. Woo joined the Group on 6 March 2016, and was appointed as an independent non-executive Director of our Company with effect from 6 March 2016.

Mr. Woo has over 9 years of experience in the accounting and financial services industry. From August 2007 to June 2010, Mr. Woo served as a director in the investment banking department of Credit Suisse (Hong Kong) Limited, a leading financial services company. Mr. Woo joined IRC Limited (HKSE: 1029), an industrial commodities producer listed on the Main Board of the Stock Exchange as an executive director between June 2010 to March 2015 and he has since then been re-designated as a non-executive director of IRC Limited. Mr. Woo has served as an independent non-executive director and a member of the audit committee of Yuanda China Holdings Limited (HKSE: 2789), a company principally engaged in the manufacturing and sale of curtain walls listed on the Main Board of the Stock Exchange, since April 2011. Mr. Woo has served as an executive director and chief financial officer of Jinheng Automotive Safety Technology Holdings Limited (HKSE: 872), an automotive safety company listed on the Main Board of the Stock Exchange, since September 2015.

Mr. Woo received a bachelor's degree of commerce in the University of New South Wales, Australia in April 1992. Mr. Woo became a certified practising accountant of the Australian Society of Certified Practising Accountants in November 1996, and a fellow member of the Hong Kong Institute of Certified Public Accountants in April 2005.

**Mr. Jin Yufeng (金玉豐)**, aged 55, is an independent non-executive Director of our Company. Mr. Jin joined the Group on 6 March 2016, and was appointed as an independent non-executive Director of our Company with effect from 6 March 2016.

Mr. Jin has over 20 years of research experience in the electronic engineering industry. From April 1985 to March 1999, Mr. Jin worked as an engineer and senior engineer in the 55th Research Institute of China Electronics Technology Group Corporation* (中國電子科技集團公司第五十五研究所), which is specialised in the research and development on electronic components. From April 1999 to February 2001, Mr. Jin was a post-doctoral research fellow in the Institute of Microelectronics, Peking University (北京大學微電子學研究院). November 2001 to October 2004, Mr. Jin served as a senior research engineer of Singapore Institute of Manufacturing Technology. He has been a professor in the School of Electronics Engineering and Computer Science* (信息科學技術學院) in Peking University since August 2006. Currently, Mr. Jin is the head of the National Key Laboratory of Science and Technology on Micro/nano Fabrication* (國家微米納米加工技術重點實驗室). Mr. Jin was a consultant of the Hong Kong Applied Science and Technology Research Institute Company Limited from August 2007 to November 2007. Mr. Jin has served as an independent director of Shanghai Belling Co., Ltd* (上海貝嶺股份有限公司) (SHSE: 600171), an IC designer and application developer listed on the Shanghai Stock Exchange, since December 2013.

Mr. Jin received his bachelor's degree in electronic engineering and master's degree in electronic engineering from Southeast University (previously known as Nanjing Institute of Technology (南京工學院)) in July 1982 and July 1985 respectively. He received his doctorate degree in physics and electronics from Southeast University in March 1999.

## COMPANY SECRETARY

**Mr. Cheng Kai Pui, Eric (鄭啟培)**, aged 32, is the company secretary of our Company. Mr. Cheng has approximately 9 years of experience in accounting and related financial management. Mr. Cheng worked in the audit department of Kreston CAC CPA Limited (previously named as Chan and Chan) from September 2006 and left the firm as an assistant audit supervisor in May 2011. Between May 2011 and August 2012, he worked as a senior accountant and subsequently as a finance manager in Icicle Production Company Limited. Between October 2012 and March 2013, he served as an audit manager of L & P CPA Limited. From May 2013 to July 2014, Mr. Cheng served as an assistant accounting manager of ASR Logistics Holdings Limited (HKSE: 1803), a company listed on the Main Board of the Stock Exchange. Mr. Cheng obtained a bachelor of commerce degree in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 2006. Mr. Cheng received a master of professional accounting degree from Hong Kong Polytechnic University in October 2012. He has been registered as a certified public accountant of the Hong Kong Institute of Certified Public Accountants since May 2010.

# Report of the Directors

Directors are pleased to present their reports and the audited financial statements for the year ended 31 December 2016.

## PRINCIPAL OPERATIONS

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.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out in the section head "Chairman's Statement" and "Management Discussion and Analysis" on pages 3 to 11 of this Annual Report.

## BUSINESS RESULTS AND APPROPRIATION

For the details of the results of the Group for the year ended 31 December 2016 and the financial condition of the Group at that date, please refer to the financial statement on page 54 to 119.

The Directors recommend the payment of a final dividend of HK$1.5 cents (equivalent to approximately USD0.2 cents) per share, totalling USD583,854.

## DISTRIBUTABLE RESERVES

Details of the Company's distributable reserves as at 31 December 2016 are set out in Note 34 to the financial statements.

## DONATIONS

During the year ended 31 December 2016, the Group donated USD128,535 (2015: USDNil) to charitable organisations.

## SHARES ISSUED IN THE YEAR

Details of the movements in the Company's share capital for the year ended 31 December 2016 are set out in Note 23 to the financial statements.

## 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.

The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined below) have or may have made to the Company. The purpose of the Pre-IPO Share Option Scheme is to offer selected persons an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing Shares of the Company.

The eligible participants (collectively the "**Eligible Participants**") under the Pre-IPO Share Option Scheme include any individual who is (i) an employee of the Company, any of its parent companies or any of its subsidiaries; (ii) a member of the board of directors of the Company who is not an employee of the Company; or (iii) a consultant to the Company, any of its parent companies or any of its subsidiaries.

Each share option agreement shall specify the date on which all or any instalment of the option shall be granted to each grantee under the Pre-IPO Share Option Scheme. The term of options granted to each grantee under the Pre-IPO Share Option Scheme shall be specified in the share option agreement and, in any case, shall not exceed 10 years from the date of grant.

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 as 31 December 2016:

| 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 31 December 2016 | Cancelled since Listing Date up to 31 December 2016 | Lapsed since Listing Date up to 31 December 2016 | Outstanding as of 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Directors | | | | | | | | | |
| Huang Xueliang | 36,904 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 36,904 |
| | 73,807 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 73,807 |
| | 590,454 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 590,454 |
| | 1,476,134 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 1,476,134 |
| | 1,476,134 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 1,476,134 |
| | 4,578,278 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 4,578,278 |
| | 2,372,208 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 2,372,208 |
| | 737,847 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 737,847 |
| | 738,067 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 738,067 |
| Kwan, Allan | 236,182 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 236,182 |
| Chung-yuen[1] | 1,585,138 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 1,585,138 |
| | 285,787 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 285,787 |
| Zeng Zhijie | 36,904 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 36,904 |
| | 36,904 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 36,904 |
| | 236,182 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 236,182 |
| | 442,841 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 442,841 |
| | 73,807 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 73,807 |

| 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 31 December 2016 | Cancelled since Listing Date up to 31 December 2016 | Lapsed since Listing Date up to 31 December 2016 | Outstanding as of 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Senior management** | | | | | | | | | |
| Shuai Hongyu | 147,614 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | 147,614 | – | – | 0 |
| | 309,989 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | 309,989 | – | – | 0 |
| | 661,308 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 661,308 |
| | 442,841 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 442,841 |
| | 1,182,153 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 1,182,153 |
| | 1,800,633 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 1,800,633 |
| | 679,022 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 679,022 |
| | 730,120 | 01/08/2013 | USD0.56 | 01/11/2013 | 31/07/2023 | – | – | – | 730,120 |
| | 590,454 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 590,454 |
| Loong, Manfred Man-tsun | 6,544,129 | 01/08/2013 | USD0.14 | 01/11/2013 | 31/07/2023 | – | – | – | 6,544,129 |
| **Connected persons** | | | | | | | | | |
| Sonny Wu [2] | 36,904 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 36,904 |
| | 36,904 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 36,904 |
| | 236,182 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 236,182 |
| Li Yanrong | 26,571 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 26,571 |
| | 41,332 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 41,332 |
| | 51,665 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 51,665 |
| | 73,807 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 73,807 |
| | 221,421 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 221,421 |
| | 147,614 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 147,614 |
| Bai Yu | 11,810 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 11,810 |
| | 29,523 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 29,523 |
| | 41,332 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 41,332 |
| | 73,807 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 73,807 |
| | 73,807 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 73,807 |
| | 73,807 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 73,807 |
| Cykorp Limited [3] | 36,904 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 36,904 |
| | 442,841 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 442,841 |
| | 442,841 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 442,841 |
| Smart Tiger Holdings Limited [4] | 442,841 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 442,841 |
| | 295,227 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 295,227 |
| **Consultants** | | | | | | | | | |
| Edgar Tu | 274,390 | 01/03/2011 | USD1.06 | 01/03/2011 | 01/03/2021 | | | | 274,390 |
| | 274,390 | 01/03/2011 | USD1.06 | 01/09/2014 | 01/03/2021 | | | | 274,390 |
| | 274,390 | 01/03/2012 | USD1.21 | 01/03/2016 | 01/03/2022 | | | | 274,390 |
| | 274,390 | 01/03/2013 | USD0.62 | 01/03/2017 | 01/03/2023 | | | | 274,390 |
| | 274,390 | 01/03/2014 | USD0.41 | 01/03/2018 | 01/03/2024 | | | | 274,390 |

| 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 31 December 2016 | Cancelled since Listing Date up to 31 December 2016 | Lapsed since Listing Date up to 31 December 2016 | Outstanding as of 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Meisi Amaral | 2,743,903 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 2,743,903 |
| | 285,787 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 285,787 |
| | 295,227 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 295,227 |
| Super Asset Holdings Limited | 36,904 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 36,904 |
| | 184,517 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 184,517 |
| | 442,841 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 442,841 |
| Wesley Wong | 73,807 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 73,807 |
| | 73,807 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 73,807 |
| Alex Pan | 147,614 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 147,614 |
| Guo Ke | 73,807 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 73,807 |
| Robert Yung | 29,523 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 29,523 |
| Asia Alliance Financial Management Ltd. | 147,614 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 147,614 |
| Tian Qing | 295,227 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 295,227 |
| Martin Wu | 147,614 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 147,614 |
| Kian Bin Teo | 17,714 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 17,714 |
| Zhang Li | 29,523 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 29,523 |
| James Zhou | 147,614 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 147,614 |
| Louis Luk | 73,807 | 01/03/2012 | USD1.21 | 01/03/2013 | 01/03/2022 | – | – | – | 73,807 |
| Jack Chang | 147,614 | 01/08/2013 | USD0.56 | 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 | USD0.01 | 09/03/2010 | 08/03/2018 | 73,807 | – | – | 0 |
| | 147,614 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | 147,614 | – | – | 0 |
| | 258,324 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | 258,324 | – | – | 0 |
| | 287,847 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | 287,847 | – | – | 0 |
| | 147,614 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | 147,614 | – | – | 0 |
| | 221,421 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 221,421 |
| | 29,523 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 29,523 |
| | 295,227 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 295,227 |
| | 442,841 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 442,841 |
| | 221,421 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 221,421 |

| 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 31 December 2016 | Cancelled since Listing Date up to 31 December 2016 | Lapsed since Listing Date up to 31 December 2016 | Outstanding as of 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Gong Jun | 73,807 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 73,807 |
| | 295,227 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 295,227 |
| | 258,324 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 258,324 |
| | 287,847 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 287,847 |
| | 147,614 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 147,614 |
| | 221,421 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 221,421 |
| | 103,330 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 103,330 |
| Chen Ying | 22,143 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 22,143 |
| | 147,614 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 147,614 |
| | 154,995 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 154,995 |
| | 214,040 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 214,040 |
| | 147,614 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 147,614 |
| | 154,995 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 154,995 |
| | 177,137 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 177,137 |
| | 221,421 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 221,421 |
| | 221,421 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 221,421 |
| | 177,137 | 01/08/2013 | USD0.56 | 01/11/2013 | 31/07/2023 | – | – | – | 177,137 |
| | 221,421 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 221,421 |
| You Quan | 22,143 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 22,143 |
| | 147,614 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 147,614 |
| | 154,995 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 154,995 |
| | 243,563 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 243,563 |
| | 147,614 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 147,614 |
| | 177,137 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 177,137 |
| | 162,375 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 162,375 |
| | 221,421 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 221,421 |
| | 221,421 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 221,421 |
| | 177,137 | 01/08/2013 | USD0.56 | 01/11/2013 | 31/07/2023 | – | – | – | 177,137 |
| | 221,421 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 221,421 |
| Yuan Peiliang | 22,143 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 22,143 |
| | 147,614 | 09/03/2008 | USD0.01 | 09/03/2010 | 08/03/2018 | – | – | – | 147,614 |
| | 103,330 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 103,330 |
| | 191,898 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 191,898 |
| | 118,091 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 118,091 |
| | 110,711 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 110,711 |
| | 177,137 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 177,137 |
| | 191,898 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 191,898 |
| Zhang Shaohua | 103,330 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 103,330 |
| | 221,421 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 221,421 |
| | 147,614 | 05/03/2010 | USD0.04 | 05/03/2011 | 15/05/2019 | – | – | – | 147,614 |
| | 221,421 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 221,421 |
| | 177,137 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 177,137 |
| | 295,227 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 295,227 |

| 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 31 December 2016 | Cancelled since Listing Date up to 31 December 2016 | Lapsed since Listing Date up to 31 December 2016 | Outstanding as of 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Yu Songliang | 35,428 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 35,428 |
| | 73,807 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 73,807 |
| | 73,807 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 73,807 |
| | 103,330 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 103,330 |
| | 162,375 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 162,375 |
| | 295,227 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 295,227 |
| | 295,227 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 295,227 |
| | 221,421 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 221,421 |
| Mei Wang | 73,807 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 73,807 |
| | 442,841 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 442,841 |
| | 147,614 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 147,614 |
| | 44,285 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 44,285 |
| Hongrong Liu | 7,381 | 09/03/2008 | USD0.01 | 09/03/2012 | 08/03/2018 | – | – | – | 7,381 |
| | 29,523 | 26/07/2009 | USD0.04 | 26/07/2013 | 08/03/2018 | – | – | – | 29,523 |
| | 44,285 | 05/03/2010 | USD0.04 | 05/03/2014 | 15/05/2019 | – | – | – | 44,285 |
| | 73,807 | 01/09/2010 | USD0.54 | 01/09/2014 | 31/08/2020 | – | – | – | 73,807 |
| | 132,853 | 31/12/2010 | USD0.75 | 31/12/2014 | 30/12/2020 | – | – | – | 132,853 |
| | 118,091 | 01/03/2011 | USD1.06 | 01/03/2015 | 01/03/2021 | – | – | – | 118,091 |
| | 147,614 | 30/09/2012 | USD0.62 | 30/09/2016 | 25/04/2022 | – | – | – | 147,614 |
| | 147,614 | 01/08/2013 | USD0.56 | 01/08/2017 | 31/07/2023 | – | – | – | 147,614 |
| **Other employees** | | | | | | | | | |
| 83 employees | 7,513,687 | | | | | 396,474 | – | – | 7,117,213 |
| **Other eligible participants (including former employees)** | | | | | | | | | |
| 21 other eligible participants | 1,082,027 | | | | | 87,096 | 473,594 | 373,720 | 147,617 |
| Total | 58,470,406 | | | | | 1,856,379 | 473,594 | 373,720 | 55,766,713 |

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 Shares, 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.

During the period after the Listing Date and up to 31 December 2016, a total number of 1,856,379 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$2.67.

During the period after the Listing Date and up to 31 December 2016, a total number of 473,594 Pre-IPO Share Options were cancelled.

During the period after the Listing Date and up to 31 December 2016, a total number of 373,720 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 31 December 2016.

The number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme as 31 December 2016 was 55,766,713 Shares, exercisable at the respective exercise price between USD0.01 per Share and USD1.06 per Share, representing approximately 18.47% of the issued share capital of the Company as at 31 December 2016.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year ended 31 December 2016.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and there is no restriction against such rights under the Companies Law of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FOUR-YEAR FINANCIAL SUMMARY

The summary of the business results and financial position of the Group for the past four years is set out in page 120.

## DIRECTORS

During the year and as of the date hereof, Directors are:

### *Executive Directors*

Huang Xueliang *(Chief Executive)*
Shuai Hongyu (appointed on 23 March 2017)
Loong, Manfred Man-tsun (appointed on 23 March 2017)

### *Non-executive Directors*

Zeng Zhijie
Kwan, Allan Chung-yuen
Gao Songtao (appointed on 23 March 2017)

### *Independent non-executive Directors*

Zhang Junjie (appointed on 6 March 2016)
Jin Yufeng (appointed on 6 March 2016)
Woo Kar Tung, Raymond (appointed on 6 March 2016)

## DIRECTORS' SERVICE CONTRACTS

As of the date hereof, each of the non-executive Directors (including independent non-executive Director) has entered into a service agreement with the Company for a term of three years unless and until it is terminated by not less than three months' notice served by the Company to the Director. None of the Directors has entered or proposed to enter any service contract with the Company or any member of the Group.

Pursuant to Articles 84 and 85 of the Articles of Association of the Company, one-third of Directors are subject to retirement by rotation and offer themselves for re-election at annual general meeting of the Company at least once every three years.

Save as disclosed above, none of the Directors has entered into any service contract with the Group which is not determinable within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

Directors' and senior management's biographical details are set out in pages 29 to 33.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained Directors' liability insurance throughout the year, which provides appropriate cover for the Directors of the Group.

## DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save for disclosed in the "Continuing Connected Transaction" section of this Report, there are no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company and its subsidiaries or its holding company was a party, and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

From the Listing Date to 31 December 2016, none of the Directors or substantial shareholders of the Company or their respective associates was involved in any business which competes or may compete with the Group's business or had any other conflict of interests with the Group.

## REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of remuneration paid to members of the Directors and senior management by band for the year ended 31 December 2016 is set out below:

| Remuneration band | No. of Individuals |
|---|---|
| USD100,000 or below | 5 |
| More than USD100,000 to USD200,000 | 2 |
| More than USD200,000 | 1 |

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY

As at 30 December 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 | Capacity | Number of Shares held Note 1 | Approximate percentage of interest (%) |
|---|---|---|---|
| Huang Xueliang Note 2 | Beneficial interest and interest in a controlled corporation | 171,259,899 Shares (L) | 56.74 |
| Zeng Zhijie Note 3 | Beneficial interest | 3,029,693 Shares (L) | 1.00 |
| Kwan, Allan Chung-yuen Note 4 | Beneficial interest | 826,638 Shares (L) | 0.27 |

Notes:

1. The letter "L" denotes a long position.

2. As at 31 December 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 100% interest in Green Flourish Limited, 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 127,652,454 Shares, 13,965,149 Shares and 15,957,463 Shares interested by Green Flourish Limited, Infortune International Limited and Statemicroelectronics International Co., Ltd. respectively as at the Latest Practicable Date.

3. As at 31 December 2016, Mr. Zeng Zhijie was interested in share options to subscribe for 826,638 Shares.

4. As at 31 December 2016, Mr. Kwan, Allan Chung-yuen was interested in share options to subscribe for 3,029,693 Shares.

Save as disclosed above, as at 31 December 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.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 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 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 controlled corporation | 20,528,226 Shares (L) | 6.82% |
| Pacven Walden Ventures V, L.P. | Beneficial owner | 25,779,560 Shares (L) | 8.54% |
| Pacven Walden Management V Co. Ltd.(4) | Interest in a controlled corporation | 27,541,195 Shares (L) | 8.54% |
| Xinxin (Hongkong) Capital Co., Limited | Beneficial owner | 29,999,000 Shares (L) | 9.94% |
| Xunxin (Shanghai) Investment Co., Ltd.(5) | Interest in a controlled corporation | 29,999,000 Shares (L) | 9.94% |
| China Integrated Circuit Industry Investment Fund Co., Ltd.(5) | Interest in a controlled corporation | 29,999,000 Shares (L) | 9.94% |

Notes:

(1) The letter "L" denotes a long position.

(2) Mr. Zhu Changhua held share options to subscribe for 568,314 Shares as at 31 December 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 31 December 2016.

(3) Mr. Gong Jun held share options to subscribe for 1,387,570 Shares as at 31 December 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 31 December 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 31 December 2016.

(5) To the best of our Directors' knowledge, China Integrated Circuit Industry Investment Fund Co., Ltd. held a 100% interest in Xunxin (Shanghai) Investment Co., Ltd. which in turn held a 100% interest in Xinxin (Hongkong) Capital Co., Limited. Each of China Integrated Circuit Industry Investment Fund Co., Ltd. and Xunxin (Shanghai) Investment Co., Ltd. is therefore deemed to be interested in the 29,999,000 Shares held by Xinxin (HongKong) Capital Co., Limited as at 31 December 2016.

Save as disclosed above, as at 31 December 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.

## CONTINUING CONNECTED TRANSACTIONS

Set out below is a related party transaction set out in Note 32 to the financial statements that constitutes a continuing connected transaction under Chapter 14A of the Listing Rules and is required to be disclosed in this report:

A property leasing framework agreement dated 28 August 2015 (the "Property Leasing Framework Agreement") was entered into between State Micro Science and Technology Co. Ltd. ("State Micro Science and Technology") as landlord and our Group company, a wholly-owned subsidiary of the Company Shenzhen State Micro Technology Co., Ltd ("SMIT Shenzhen"), as tenant in respect of the premises located at 1-2F SSMEC Building and Room A, 1F and 2F of the Annex Building of SSMEC Building, 15, Gaoxinnan 1st Avenue, High-tech Park South, Nanshan District, Shenzhen, China (the "State Micro Science and Technology Premises") with an area of approximately 3,722 sq.m. (subject to adjustment as required by the business needs of the Group). The lease is for a term of three years commencing on 1 September 2015 and expiring on 31 August 2018 at a rent with reference to the prevailing market rates for similar properties (e.g. with respect to floor space and age of the building) in the vicinity and the rent guidelines set out in the city housing tenancy management department policy in Shenzhen, the PRC. The State Micro Science and Technology Premises consist of the major operation site of SMIT Shenzhen. Details of the Property Leasing Framework Agreement were disclosed in the Company's prospectus dated 16 March 2016. The annual cap of this transaction for the financial year ended 31 December 2016 is RMB3,782,594. For the financial year ended 31 December 2016, the Group paid rents of RMB3,782,594 for the State Micro Science and Technology Premises. The annual cap of this transaction for the financial year ending 31 December 2017 will be RMB3,782,594.

State Micro Science and Technology is a controlled as to approximately 65.89% by Mr. Huang Xueliang, an executive Director and the controlling shareholder of the Company, and is therefore an associate of a connected person of the Company under the Listing Rules. The applicable percentage ratios under Rule 14.07 of the Listing Rules for the Property Leasing Framework Agreement on an annual basis will be less than 25% and the total consideration is less than HK$10,000,000. Therefore, the continuing connected transaction under the Property Leasing Framework Agreement is exempted from the circular and shareholders' approval requirements but is subject to the annual review, reporting and announcement requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the independent non-executive Directors reviewed the above continuing connected transactions and confirmed such transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed as at 31 December 2016.

## MAJOR CUSTOMERS AND SUPPLIERS

Set out below are the percentages of sales and purchases for the year ended 31 December 2016 attributable to the Group's major customers and suppliers:

### *Purchases*

| | |
|---|---|
| – The largest supplier | 25.8% |
| – Five largest suppliers in aggregate | 49.6% |

### *Sales*

| | |
|---|---|
| – The largest customer | 35% |
| – Five largest customers in aggregate | 65% |

The total sales included the mPOS products sold to iBoxpay, which amounted to approximately USD20,381,062 (representing approximately 35% of the total sales amount), being one of the Group's five largest customer for the year.

Mr. Huang Xueliang, our executive Director who owns 54.72% of our issued share capital as at 31 December 2016, also holds a 1.32% indirect equity interest in iBoxpay International Inc. ("iBoxpay"), our largest customer for the year ended 31 December 2016. In addition, Mr. Huang Xueliang and the Fund Investors, including GSR and Pacven Walden, amongst others, collectively own a 15.89% equity interest in iBoxpay through SMIT Investment Limited ("SMIT International"), an entity separate from the Group. Mr. Huang Xueliang serves as one of the five directors of iBoxpay by virtue of being the director representative of SMIT Investment's interest in iBoxpay and Mr. Huang Xueliang is not an officer or employee of iBoxpay, and is not involved in its daily operations.

Save as disclosed, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the standards set out in the Model Code as a code of conduct for the trading in securities of the Company by all Directors of the Company. Having made specific enquiry to all Directors, the Company confirmed that the Directors have complied with the Model Code throughout the year.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

## SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

The Group had no significant investment, acquisition or disposal during the year ended 31 December 2016.

## NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Details of non-adjusting events after the reporting period of the Group are set out in Note 33 to the financial statements.

## ENVIRONMENTAL POLICY AND PERFORMANCE

The Group has formulated certain policies in accordance with environmental regulations, including: environmental impact assessment on various raw materials or machinery before making any purchasing decisions in the design, research and development phase; improvement of environmental awareness of all employees through environmental protection activities, training courses and promotion; and the appropriate responsibilities, scope, policies and guidelines developed by the Group's top management that played a central role in establishing clearly defined environmental management framework and system.

In day-to-day operations, the Group has been closely monitoring the latest developments in domestic and international environmental legislation to ensure that its environmental policies are consistent with domestic and international standards while ensuring consistency with global peers.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Company's business is principally carried out by the Company's subsidiaries in Hong Kong and China, the shares of the Company are listed on the Stock Exchange. The establishment and operation of the Group are subject to the relevant laws and regulations of Hong Kong, China and respective places of incorporation of the Company and its subsidiaries. In addition, the Company shall comply with the provisions of the Listing Rules and the SFO.

For the year ended 31 December 2016 and up to the date of this report, so far as the Company is aware, the Group is not involved in any material breach of or irregularity against the applicable laws and regulations that have a material effect on the Group's business and operations.

## RELATIONSHIP WITH KEY STAKEHOLDERS

The success of the Group also relies on the support from key stakeholders, including employees, customers, suppliers, regulators and shareholders.

### *Employees*

Employees are regarded as the most important and valuable assets of the Group. The Group's human resource management is designed to reward and recognise excellent employees by providing reasonable compensation and benefits. Details of the Group's remuneration policy are set out in the paragraph headed "Employees and Remuneration Policies" above in this report. In addition, the Group develops appropriate training programmes specific to different posts, duties and titles, and provides certain opportunities and platforms to assist them in developing their career and seek promotion within the Group.

### *Customers*

Our CAM customers consist mainly of CA providers, broadcasting operators, TV manufacturers and distributors. To a lesser extent, we sell to one-off customers including various companies and individuals, as well as direct sales to end users through third-party internet platforms. We currently sell mPOS devices primarily to iBoxpay and to a much lesser extent, to other hardware-based mobile payment service providers in the PRC. The Group aims to provide customers with quality products and services to seek sustained growth in sales revenue and profitability. The Group has established various ways to enhance communication between its customers and the Group, in an effort to provide superior quality products and services to increase market penetration and expand various businesses.

### *Suppliers*

The Group maintains good relationship with its suppliers, a crucial element in the supply chain and when facing business challenges and regulatory requirements, which can be cost-effective and promote business interests in the long run. Major suppliers include raw material suppliers, system and equipment suppliers, external consultants providing professional services, suppliers of office supplies or goods and other business partners providing value-added services to the Group.

### *Regulators*

The Company is listed in Hong Kong and is regulated by the Securities and Futures Commission of Hong Kong, the Stock Exchange, the State Administration of Work Safety, the General Administration of Quality Supervision, Inspection and Quarantine of China and other relevant authorities. The Group expects to keep up-to-date and ensure compliance with the new rules and regulations. To enhance corporate value for shareholders is one of the Group's corporate objectives. The Group promotes business development to achieve sustainable earnings growth while taking capital adequacy into account.

## *Major Risks and Uncertainties*

The Group's business operations are affected by changes in market conditions, the changing industry standards, industry competition and the ever-changing customer demands. It is essential that the Group responds in a timely manner to such changes which may adversely affect the Group's business and financial results. The Group also faces other financial risks in the ordinary course of business, such as liquidity risk, interest rate risk and currency risk. Details of financial risk management are set out in Note 3 to the consolidated financial statements.

## AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for reappointment.

On behalf of the Board
**Huang Xueliang**
*Chairman*

Hong Kong, 23 March 2017

# Independent Auditor's Report

羅兵咸永道

## TO THE SHAREHOLDERS OF SMIT HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

## OPINION

### *What we have audited*

The consolidated financial statements of SMIT Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 119, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Estimated provision for impairment of inventories
- Estimated provision for impairment of trade receivables

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Estimated provision for impairment of inventories**<br><br>Refer to notes 4(b) and 16 to the consolidated financial statements.<br><br>The Group held inventories, net of provision, of USD6.9 million as at 31 December 2016. Provision was made for slow moving and obsolete inventories based on their ageing profile. Full provision was made when the selling of the product series was discontinued. We focused on this area because the estimates of provision involved a high-level of judgement based on historical experience and future sales estimate. These estimates were also subject to uncertainty as a result of the change in technology. | We examined the basis of the methodology with respect to the provision for impairment of inventories and evaluated, amongst others, the outcome of management's estimates in prior years, the analysis and assessment made by management with respect to slow moving and obsolete inventories. We also evaluated the assumptions and estimates applied by management for making such provision based on their ageing profile and identification of inventories related to the discontinued product series.<br><br>We tested the accuracy of the ageing profile of the inventories used in the calculation. We also tested the mathematical accuracy of the provision using the ageing profile of the inventories as at 31 December 2016.<br><br>Based on the procedures performed, we consider the management's judgement and estimates, which are the basis of the provision for impairment of inventories, acceptable. |

**Estimated provision for impairment of trade receivables**

Refer to notes 4(c) and 18 to the consolidated financial statements.

Trade receivables of the Group, net of provision, amounted to USD17.5 million as at 31 December 2016. The Group had certain amount of overdue trade receivables which were exposed to higher risk of collectability. The Group made specific provision on trade receivables based on an assessment of the recoverability of the overdue trade receivables on an individual customer basis. We focus on this area because the identification of doubtful debts required a high degree of judgement and estimates.

We understood and evaluated the controls procedures over management's recoverability assessment on the overdue trade receivables.

We tested management's provision estimate by comparing to supportable evidence about the collectability of the overdue trade receivable balances such as the subsequent settlement after the year end date, historical settlement pattern of the respective customers, length of overdue period and the business performance and financial capability of the customers.

We also tested the subsequent settlement of trade receivables in supporting management's provision estimate.

Based on the procedures performed, we consider management's judgement and estimates on the provision for impairment of trade receivables is supported by available evidence.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Fong Wan Huen.

**PricewaterhouseCoopers**
Certified Public Accountants
Hong Kong, 23 March 2017

# Consolidated Income Statement

*For the year ended 31 December 2016*

| | Note | Year ended 31 December **2016** USD | 2015 USD |
|---|---|---|---|
| Revenue | 6 | **59,053,896** | 65,141,051 |
| Cost of sales | 7 | **(35,596,258)** | (41,016,720) |
| **Gross profit** | | **23,457,638** | 24,124,331 |
| Other gains, net | 6 | **2,159,243** | 661,785 |
| Other income | 6 | **1,286,406** | 1,373,870 |
| Research and development expenses | 7 | **(6,803,953)** | (7,370,615) |
| Selling and distribution expenses | 7 | **(2,851,516)** | (3,340,549) |
| General and administrative expenses | 7 | **(10,243,378)** | (11,514,682) |
| **Operating profit** | | **7,004,440** | 3,934,140 |
| Finance income | 9 | **374,909** | 245,101 |
| Finance cost | 9 | **—** | (38,659) |
| **Finance income – net** | | **374,909** | 206,442 |
| **Profit before income tax** | | **7,379,349** | 4,140,582 |
| Income tax credit/(expense) | 10 | **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 | 11 | **0.027** | 0.015 |
| Diluted earnings per share | 11 | **0.025** | 0.014 |

The notes on pages 61 to 119 are an integral part of these consolidated financial statements.

# 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) |

The notes on pages 61 to 119 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

*As at 31 December 2016*

| | Note | As at 31 December 2016 USD | 2015 USD |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **2,009,722** | 2,365,533 |
| Other intangible assets | 14 | **192,409** | 490,661 |
| Goodwill | 22 | **6,188,584** | 6,611,157 |
| Prepayments and other receivables | 18 | **214,665** | 208,529 |
| Deferred income tax assets | 21 | **2,180,722** | 2,093,095 |
| | | **10,786,102** | 11,768,975 |
| **Current assets** | | | |
| Inventories | 16 | **6,866,835** | 7,471,869 |
| Trade and other receivables | 18 | **22,100,681** | 25,416,236 |
| Income tax recoverable | | **—** | 308,022 |
| Short-term bank deposits | 20 | **13,269,022** | — |
| Cash and cash equivalents | 19 | **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 | 23 | **6,037** | 3,049 |
| Share premium | 23 | **97,421,918** | 63,331,486 |
| Merger reserve | 24 | **(48,810,141)** | (48,810,141) |
| Share-based payment reserve | 24 | **20,483,902** | 20,894,252 |
| Statutory reserve | 24 | **4,099,819** | 3,389,227 |
| Retained earnings | | **26,263,453** | 19,473,459 |
| Capital reserve | 24 | **1,212,543** | 1,212,543 |
| Exchange reserve | | **(1,584,853)** | 2,682,985 |
| **Total equity** | | **99,092,678** | 62,176,860 |

The notes on pages 61 to 119 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

*As at 31 December 2016*

| | Note | As at 31 December 2016 USD | 2015 USD |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 25 | **2,312,533** | 7,881,504 |
| Accruals and other payables | 26 | **5,948,656** | 5,829,539 |
| Deferred revenue | 27 | **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 |

The consolidated financial statements on pages 54 to 119 were approved by the Board of Directors on 23 March 2017 and were signed on its behalf.

**Huang Xueliang**
*Chairman and Chief Executive Officer*

**Woo Kar Tung, Raymond**
*Director*

The notes on pages 61 to 119 are an integral part of these consolidated financial statements.

# 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 reserve | – | – | – | – | – | 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 |

The notes on pages 61 to 119 are an integral part of these consolidated financial statements.

# 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 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 reserve | – | – | – | – | – | 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 |

The notes on pages 61 to 119 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2016*

| | Note | 2016<br>USD | 2015<br>USD |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 29(a) | **3,148,611** | 5,502,972 |
| Income tax paid | | **(563,516)** | (29,715) |
| Interest expense paid | | **—** | (38,659) |
| Net cash generated from operating activities | | **2,585,095** | 5,434,598 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(400,449)** | (399,041) |
| Proceeds from disposal of property, plant and equipment | 29(b) | **2,762** | — |
| Increase in short-term bank deposits | | **(13,269,022)** | — |
| Interest income received | | **374,909** | 245,101 |
| Purchases of other intangible assets | | **—** | (389,644) |
| Purchase of available-for-sale financial assets | | **—** | (68,741,081) |
| Settlement of available-for-sale financial assets | | **—** | 80,918,505 |
| Decrease in deposit in restricted bank deposits | | **—** | 1,144,387 |
| Net cash (used in)/generated from investing activities | | **(13,291,800)** | 12,778,227 |
| **Cash flows from financing activities** | | | |
| Payment for listing fee | | **(1,291,972)** | (1,054,349) |
| Proceeds from issuance of ordinary shares | | **36,346,153** | — |
| Exercise of share options | | **48,180** | — |
| Proceeds from borrowings | | **—** | 5,850,000 |
| Repayments of borrowings | | **—** | (5,850,000) |
| Net changes in balances with related parties and shareholders | | **—** | (25,331,607) |
| Net cash generated from/(used in) financing activities | | **35,102,361** | (26,385,956) |
| **Net increase/(decrease) in cash and cash equivalents** | | **24,395,656** | (8,173,131) |
| Cash and cash equivalents at beginning of year | | **33,972,375** | 43,977,754 |
| Exchange losses on cash and cash equivalents | | **(1,958,960)** | (1,832,248) |
| **Cash and cash equivalents at end of year** | 19 | **56,409,071** | 33,972,375 |

The notes on pages 61 to 119 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION AND REORGANISATION

### *1.1 General information*

The Company was incorporated in the Cayman Islands on 29 June 2015 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company and its subsidiaries (together, the "Group") are principally engaged in the development and sales of conditional access modules ("CAM") and mobile point-of-sales ("mPOS") devices that enable secure distribution and delivery of digital content to television and secure mobile payment transactions respectively (collectively, the "Listing Business").

Prior to the incorporation of the Company and the Reorganisation as described below, the Listing Business was carried out by companies now comprising the Group (collectively the ''Operating Subsidiaries''). State Micro Technology Corporation ("SMIT Corporation") was the ultimate holding company of the Operating Subsidiaries before the completion of the Reorganisation as described in Note 1.2 below.

Before the completion of the reorganisation, other than conducting the Listing Business, the Operating Subsidiaries and their then subsidiary and branch also conducted online video business and internet-based integrated application business (the "Excluded Business") which were dissimilar to the Listing Business and were run by divisions separated from those divisions within the Operating Subsidiaries which operate the Listing Business. The Excluded Business was operated by separate management, maintained separate accounting books and records, and had no more than incidental common facilities and costs sharing with the Listing Business. In 2014, the Excluded Business was disposed of by the Operating Subsidiaries to two companies in which SMIT Corporation retained a minority interest, and the relevant subsidiary and a branch of an Operating Subsidiary which previously operated the Excluded Business were deregistered in 2015.

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.

There consolidated financial statements are presented in United States dollar ("USD"), unless otherwise stated.

### *1.2 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.

## 1 GENERAL INFORMATION AND REORGANISATION *(continued)*

### *1.2 Reorganisation (continued)*

The Reorganisation involved the following steps:

– The Company was incorporated under the laws of the Cayman Islands on 29 June 2015. On that date, one ordinary share of the Company was issued and owned by Mr. Huang Xueliang.

– On 21 September 2015, the Company entered into a share sale and purchase agreement with, among other parties, SMIT Corporation and its shareholders, pursuant to which the Company agreed to acquire from SMIT Corporation its entire interests in each of SMiT (HK) Limited and SMiT Digital GmbH. In return, the Company issued 152,425,254 ordinary shares of the Company to the shareholders of SMIT Corporation. Pursuant to the share sale and purchase agreement, upon the completion of the Reorganisation, the amounts due from related parties of USD25,415,693 as at the completion date were assumed by the Company from those related parties. As at the completion date, the amounts due to shareholders of USD20,672,677, after a net repayment of USD22,995,522 to SMIT Corporation in 2015, were assigned to the Company from SMIT Corporation.

Upon completion of the above steps, the Company became the holding company of the companies now comprising the Group. The shareholders of SMIT Corporation, upon completion of the Reorganisation, retain their respective equity interests in the Company same as their respective equity interests in SMIT Corporation.

Upon completion of the Reorganisation the Company has direct and indirect interests in the following subsidiaries:

| Name | Place of incorporation and kind of legal entity | Date of Incorporation | Issued and fully paid share capital | % of direct or indirect ownership | Principal activities |
|---|---|---|---|---|---|
| **Directly held:** | | | | | |
| SMiT (HK) Limited | Hong Kong, limited liability company | 25 April 2006 | HK$150,010,000 (2015: HK$150,010,000) | 100% | Sales of CAM and other security products and related materials |
| SMiT Digital GmbH | Germany, limited liability company | 11 August 2009 | EUR25,000 (2015: EUR25,000) | 100% | Sales of CAM and mPOS devices and other security products |
| **Indirectly held:** | | | | | |
| Shenzhen State Micro Technology Co., Ltd. ("SMiT Shenzhen") (深圳國微技術有限公司) | The People's Republic of China (the "PRC"), limited liability company | 4 January 2002 | RMB120,000,000 (2015: RMB120,000,000) | 100% | Research and development and sales of CAM, mPOS devices and other security products |

All the companies comprising the Group have adopted 31 December as their financial year-end date.

## 1 GENERAL INFORMATION AND REORGANISATION *(continued)*

### *1.2 Reorganisation* *(continued)*

The English names of certain subsidiaries 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### *2.1 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

#### *(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 *Basis of preparation* *(continued)*

#### *(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.2 Subsidiaries*

#### *2.2.1 Consolidation*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations other than business under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Subsidiaries *(continued)*

#### 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ("CEO") of the Group that makes strategic decisions.

### 2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements is presented in USD, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the consolidated income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Foreign currency translation *(continued)*

(c) Group companies

The results and financial position of all the Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

### 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements | Shorter of lease term or 5 years |
| Furniture, fixtures and equipment | 3-5 years |
| Motor vehicles | 10 years |

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.5 Property, plant and equipment *(continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amounts of the relevant assets, and are recognised within 'General and administrative expenses' in the consolidated income statement.

### 2.6 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.7 Intangible assets

#### (a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 INTANGIBLE ASSETS *(continued)*

#### *(b) Other intangible assets*

Other intangible assets consist of acquired technologies. They are carried at cost less accumulated amortisation and impairment loss, if any. Amortisation is computed using the straight-line method over their estimated useful lives of 3 to 5 years.

#### *(c) Research and development costs*

Costs associated with research activities are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Group are recognised as intangible assets when the following criteria are met:

(i) it is technically feasible to complete the product so that it will be available for use;

(ii) management intends to complete the product and use or sell it;

(iii) there is an ability to use or sell the product;

(iv) it can be demonstrated how the product will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the product are available; and

(vi) the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the product include the product development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.8 Financial assets*

#### *2.8.1 Classification*

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables comprise trade and other receivables, short-term bank deposits and cash and cash equivalents in the statements of financial position (Notes 2.12 and 2.13).

#### *2.8.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date–the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognised in other comprehensive income.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as "gains and losses from available-for-sale financial assets" in other income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.9 Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### *2.10 Impairment of financial assets*

#### *(a) Assets carried at amortised cost*

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.10 Impairment of financial assets *(continued)*

#### (b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.14 Share capital*

Share capital is classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### *2.15 Trade and other payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### *2.16 Current and deferred income tax*

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.16 Current and deferred income tax* *(continued)*

#### *(b) Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

#### *(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.17 Employee benefits*

#### *(a) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(b) Pension obligations*

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the provincial governments.

#### *(c) Bonus plans*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.18 Share-based payments*

#### *(a) Equity-settled share-based payment transactions*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

#### *(b) Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.19 Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### *2.20 Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, net of rebates and discounts. Rebates and discounts granted to customers are classified as a reduction of revenue. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) Sales of goods

Sales of goods are recognised when the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) Interest income

Interest income is recognised as it accrues using the effective interest method.

### *2.21 Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight- line basis over the expected lives of the related assets.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *2.22 Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the period of lease.

### *2.23 Dividend distribution*

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the entity's shareholders or directors, where appropriate.

## 3 FINANCIAL RISK MANAGEMENT

### *3.1 Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge the risk exposures.

Financial risk management is carried out by the finance department under the supervision of the CEO of the Company. The CEO provides principles for overall risk management.

#### *(a) Market risk*

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi ("RMB") and Euro ("EUR"). Foreign exchange risk arises from future commercial transactions or recognised financial assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2016, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax profit and total equity would have been approximately USD1,658,000 (2015: USD1,036,000) higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of USD denominated receivables and cash and cash equivalents in entities whose functional currency is RMB.

As at 31 December 2016, if USD had strengthened/weakened by 5% against EUR with all other variables held constant, the post-tax profit and total equity would have been approximately USD34,000 (2015: USD194,000) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of Euro denominated receivables, cash and cash equivalents and payables.

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### *3.1 Financial risk factors* *(continued)*

#### ***(a) Market risk*** *(continued)*

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities except for the deposits in banks, details of which have been disclosed in Notes 19 and 20. The interest rate risk is considered to be insignificant.

#### ***(b) Credit risk***

Credit risk is managed on a group basis. The credit risk of the Group mainly arises from cash and cash equivalents (excluding cash on hand) and deposits with banks and trade and other receivables. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

As at 31 December 2016, for cash and cash equivalents (excluding cash on hand) and deposits with banks, they are all deposited or traded with listed banks. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

As at 31 December 2016, top 3 customers of the Group accounted for approximately 77 % (2015: 82%), to the trade receivables of the Group. The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers.

Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements.

#### ***(c) Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position. The Group aims to maintain flexibility in funding by keeping sufficient bank balances and committed credit lines available.

As at 31 December 2016, all of the Group's financial liabilities were due for settlement contractually within 12 months or repayable on demand, the impact at discounting is not significant.

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.2 Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

### 3.3 Fair value estimation

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

### 3.4 Offsetting financial assets and financial liabilities

The Group have no financial assets and financial liabilities, which is subject to offsetting, enforceable master netting arrangements and similar agreements.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### (a) Useful lives of property, plant and equipment

Management determines the estimated useful lives for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

### *(b) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each reporting date.

### *(c) Provision for impairment of trade and other receivables*

The Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of trade and other receivables. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and impairment is recognised in the consolidated income statement in the period in which such estimate has been changed.

### *(d) Income taxes*

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### *(e) Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6 and 2.7. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations required the use of estimates.

## 5 SEGMENT INFORMATION

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker that are used to making strategic decisions. The chief operating decision-maker is identified as the CEO of the Company.

The chief operating decision-maker assesses the performance of the Listing Business based on a measure of profit after income tax and considers the Listing Business in a single operating segment. Information reported to the chief operating decision-maker for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment - manufacturing and trading of security products and segment information is not presented.

The Company is domiciled in the Cayman Islands while the Group operates its business in the PRC. The Group's revenue of 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** | — |

## 6 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 mPOS devices and 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 |

## 7 EXPENSES BY NATURE

Expenses included "cost of sales", "research and development expenses", "selling and distribution expenses" and "general and administrative expenses" are analysed as follows:

| | Year ended 31 December | |
|---|---|---|
| | **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) (Note 8) | **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 (Note 13) | **611,958** | 658,199 |
| Amortisation of other intangible assets (Note 14) | **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 |

## 8 EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Wages, salaries and other allowances | **6,737,027** | 7,453,564 |
| Discretionary bonuses | **1,852,561** | 1,644,666 |
| Share-based compensation | **59,009** | 214,637 |
| Modification of share options | **—** | 1,351,476 |
| Retirement benefit - defined contribution plans | **820,615** | 862,680 |
| | **9,469,212** | 11,527,023 |

### *(a) Retirement benefit – defined contribution plans*

The Company's subsidiary in the PRC is a member of the state-managed retirement benefits scheme operated by the PRC government. The Group contributes a certain percentage of the salaries of the subsidiaries' employees, and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-managed retirement plans are responsible for the entire pension obligations payable to the retired employees.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions were subject to a cap of HK$1,500 and thereafter contributions are voluntary.

The Group has no material obligation for post-retirement benefits beyond contributions to the above schemes.

## 8 EMPLOYEE BENEFIT EXPENSES *(continued)*

### (b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include one (2015: one) director whose emolument is reflected in the analysis shown in Note 35. The emoluments payable to the remaining four (2015: four) individual during the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Basic salaries, allowances and benefits in kind | **304,803** | 416,652 |
| Discretionary bonuses | **175,000** | 133,380 |
| Share-based payments | **30,071** | 245,424 |
| Retirement benefit- defined contribution plan | **27,037** | 38,227 |
| | **536,911** | 833,683 |

The emoluments fell within the following bands:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Emolument bands** | | |
| Nil to HK$1,000,000 | **3** | — |
| HK$1,000,001 to HK$1,500,000 | **—** | 2 |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$2,500,001 to HK$3,000,000 | **—** | 1 |
| | **4** | 4 |

## 9 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.

## 10 INCOME TAX (CREDIT)/EXPENSE

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 (Note 21) | | |
| – Current year | **(405,122)** | (412,581) |
| (Over)/under-provision in prior years | | |
| – Current income tax | **(1,059,569)** | (14,794) |
| – Deferred income tax (Note 21) | **249,117** | — |
| Income tax (credit)/expense | **(121,237)** | 817,878 |

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to profits of the Group's subsidiaries as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| **Profit before income tax** | **7,379,349** | 4,140,582 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | **653,799** | 332,209 |
| Income not subject to tax | **(11,556)** | (1,022) |
| Expenses not deductible for tax purposes | **432,460** | 870,211 |
| Income tax benefit – super deduction | **(385,488)** | (368,726) |
| Over-provision in prior years | **(810,452)** | (14,794) |
| | **(121,237)** | 817,878 |

## 10 INCOME TAX (CREDIT)/EXPENSE *(continued)*

The weighted average applicable tax rate was negative 1.6% (2015: positive 19.8%) for the year ended 31 December 2016. The change in weighted average applicable tax rate is caused by change in profitability of the Group's subsidiaries in the respective countries and the over-provision of income tax expense in prior years.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding tax on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

## 11 EARNINGS PER SHARE

### *(a) Basic*

For the purpose of computing basic and diluted earnings per share, ordinary shares were assumed to have been issued and allocated on 1 January 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 (Note 23).

## 11 EARNINGS PER SHARE *(continued)*

### *(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 |

## 12 DIVIDENDS

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Proposed final dividend of HK$0.015 (equivalent to approximately USD0.002) (2015: Nil) per share | **583,854** | — |

A final dividend in respect of the year ended 31 December 2016 of HK$0.015 (equivalent to approximately USD0.002) per share, amounting to a total dividend of USD583,854, 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.

## 13 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements USD | Furniture, fixtures and equipment USD | Motor vehicles USD | Total USD |
|---|---|---|---|---|
| **At 1 January 2015** | | | | |
| Cost | 2,426,905 | 3,186,244 | 191,570 | 5,804,719 |
| Accumulated depreciation | (1,492,127) | (1,466,346) | (68,736) | (3,027,209) |
| **Net book amount** | 934,778 | 1,719,898 | 122,834 | 2,777,510 |
| **Year ended 31 December 2015** | | | | |
| Opening net book amount | 934,778 | 1,719,898 | 122,834 | 2,777,510 |
| Additions | 48,794 | 350,247 | — | 399,041 |
| Disposals | (27,072) | (33,056) | — | (60,128) |
| Depreciation (Note 7) | (238,684) | (404,394) | (15,121) | (658,199) |
| Currency translation differences | (31,222) | (53,258) | (8,211) | (92,691) |
| Closing net book amount | 686,594 | 1,579,437 | 99,502 | 2,365,533 |
| **At 31 December 2015** | | | | |
| Cost | 2,277,629 | 3,192,262 | 180,519 | 5,650,410 |
| Accumulated depreciation | (1,591,035) | (1,612,825) | (81,017) | (3,284,877) |
| **Net book amount** | 686,594 | 1,579,437 | 99,502 | 2,365,533 |
| **Year ended 31 December 2016** | | | | |
| Opening net book amount | 686,594 | 1,579,437 | 99,502 | 2,365,533 |
| Additions | 63,185 | 244,969 | 92,295 | 400,449 |
| Disposals | (1,199) | (26,632) | — | (27,831) |
| Depreciation (Note 7) | (215,789) | (377,957) | (18,212) | (611,958) |
| Currency translation differences | (34,000) | (76,807) | (5,664) | (116,471) |
| Closing net book amount | 498,791 | 1,343,010 | 167,921 | 2,009,722 |
| **At 31 December 2016** | | | | |
| Cost | 2,289,643 | 1,731,145 | 242,388 | 4,263,176 |
| Accumulated depreciation | (1,790,852) | (388,135) | (74,467) | (2,253,454) |
| **Net book amount** | 498,791 | 1,343,010 | 167,921 | 2,009,722 |

## 13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation included in "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 |
| Cost of sales | **45,710** | 57,367 |
| Research and development expenses | **393,174** | 413,819 |
| Selling and distribution expenses | **36,932** | 43,933 |
| General and administrative expenses | **136,142** | 143,080 |
| | **611,958** | 658,199 |

## 14 OTHER INTANGIBLE ASSETS

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| **Acquired technologies** | | |
| Opening net book amount | **490,661** | 417,520 |
| Additions | **—** | 389,644 |
| Amortisation (Note 7) | **(214,546)** | (311,479) |
| Currency translation differences | **(83,706)** | (5,024) |
| Closing net book amount | **192,409** | 490,661 |
| Cost | **3,477,772** | 3,561,478 |
| Accumulated amortisation | **(3,285,363)** | (3,070,817) |
| **Net book amount** | **192,409** | 490,661 |

## 14 OTHER INTANGIBLE ASSETS *(continued)*

Amortisation 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 |
| Cost of sales | **1,144** | 1,088 |
| Research and development expenses | **110,475** | 192,998 |
| Selling and distribution expenses | **20,134** | 20,134 |
| General and administrative expenses | **82,793** | 97,259 |
| | **214,546** | 311,479 |

Research and development expenses are not generally capitalised as they are primary considered as expenditures to upgrade existing technical knowhow, and do not fulfill the strict capitalisation criteria as listed out in Note 2.7(c).

## 15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | USD |
|---|---|
| At 1 January 2015 | 11,655,488 |
| Additions | 68,741,081 |
| Settlement | (80,918,505) |
| Gain on settlement recognised in profit or loss | 716,356 |
| Currency translation differences | (194,420) |
| At 31 December 2015 and 2016 | — |

There were no available-for-sale financial assets as at 31 December 2016 and 2015.

## 16 INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Raw materials | **5,403,258** | 7,623,216 |
| Work in progress | **2,011,014** | 1,400,213 |
| Finished goods | **2,373,408** | 2,059,732 |
| | **9,787,680** | 11,083,161 |
| Less: Provision for impairment of inventories | **(2,920,845)** | (3,611,292) |
| | **6,866,835** | 7,471,869 |

The cost of inventories recognised as expense and included in cost of sales amounted to USD31,518,549 (2015: USD35,732,494) for the year ended 31 December 2016.

## 17 FINANCIAL INSTRUMENTS BY CATEGORY

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| **Assets as per consolidated statement of financial position** | | |
| Loans and receivables | | |
| – Trade receivables | **17,530,550** | 23,798,844 |
| – Notes and other receivables | **1,537,320** | 254,790 |
| – Short-term bank deposits | **13,269,022** | — |
| – Cash and cash equivalents | **56,409,071** | 33,972,375 |
| **Liabilities as per consolidated statement of financial position** | | |
| Other financial liabilities at amortised cost | | |
| – Trade payables | **2,312,533** | 7,881,504 |
| – Accruals and other payables | **3,062,117** | 2,559,418 |

## 18 TRADE, PREPAYMENTS AND OTHER RECEIVABLES

| | | As at 31 December | |
|---|---|---|---|
| | | **2016** | 2015 |
| | | **USD** | USD |
| Trade receivables | (a) | **18,739,298** | 24,760,039 |
| Less: Provision for impairment of trade receivables | (a) | **(1,208,748)** | (961,155) |
| Trade receivables – net | | **17,530,550** | 23,798,884 |
| Prepayments | (b) | **3,247,476** | 1,571,091 |
| Notes receivables | (b) | **79,862** | 53,548 |
| Other receivables | (b) | **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. As at 31 December 2016, trade receivables of approximately USD680,000 (2015: USD5,793,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

## 18 TRADE, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

### (a) *Trade receivables* *(continued)*

The ageing analysis of overdue trade receivables based on due date is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Less than 30 days | **485,319** | 5,455,185 |
| 31 to 60 days | **28,273** | 172,531 |
| 61 to 90 days | **15,875** | 68,458 |
| 91 to 180 days | **68,050** | 17,494 |
| 181 to 365 days | **63,548** | 67,343 |
| Over 365 days | **1,227,225** | 973,554 |
| | **1,888,290** | 6,754,565 |

Movements in the Group's provision for impairment of the trade receivables are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| As at 1 January | **961,155** | 795,698 |
| Provision for impairment | **353,638** | 196,136 |
| Currency translation differences | **(106,045)** | (30,679) |
| As at 31 December | **1,208,748** | 961,155 |

## 18 TRADE, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

### *(a) Trade receivables (continued)*

The impairment loss recognised on trade receivables is mainly for customers who have financial difficulties or long overdue. The individually impaired trade receivables relate to receivables which are expected not to be recoverable. The Group does not hold any collateral or other credit enhancements over these balances. The carrying values of trade receivables approximate their fair values.

The trade receivables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| RMB | **15,633,134** | 22,578,492 |
| USD | **2,258,084** | 1,837,235 |
| Others | **848,080** | 344,312 |
| | **18,739,298** | 24,760,039 |

### *(b) Other receivables*

The carrying amounts of prepayments, notes receivables and other receivables approximate their fair values and are mainly denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| USD | **2,532,523** | 167,703 |
| RMB | **1,916,245** | 1,451,223 |
| Others | **336,028** | 206,955 |
| | **4,784,796** | 1,825,881 |

Other receivables do not contain impaired assets. The Group does not hold any collateral as security.

## 19 CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Cash at banks | **56,389,879** | 33,934,357 |
| Cash on hand | **19,192** | 38,018 |
| | **56,409,071** | 33,972,375 |

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| USD | **44,180,449** | 17,205,444 |
| RMB | **5,368,618** | 13,231,641 |
| EUR | **4,959,674** | 3,113,196 |
| HK$ | **1,899,876** | 421,546 |
| Others | **454** | 548 |
| | **56,409,071** | 33,972,375 |

RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business in the PRC.

## 20 SHORT-TERM BANK DEPOSITS

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Short-term bank deposits with maturities over three months and less than one year | **13,269,022** | — |

The carrying amounts approximate their respective fair values as at 31 December 2016.

## 20 SHORT-TERM BANK DEPOSITS *(continued)*

The carrying amounts of the Group's short-term bank deposits are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| USD | **8,003,250** | — |
| HK$ | **5,265,772** | — |
| | **13,269,022** | — |

As at 31 December 2016, the Group's short-term bank deposits included USD11,517,000 were placed with certain banks in the PRC by the Company and its subsidiary. These balances are subject to exchange controls.

As at 31 December 2016, the effective interest rate on the Group's short-term bank deposits is 1.44% (2015: Nil) per annum and these deposits had an average maturity of 157 days (2015: Nil).

## 21 DEFERRED INCOME TAX

The analysis of deferred tax assets and liabilities is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Deferred income tax assets: | | |
| – to be realised after more than 12 months | **690,085** | 1,178,271 |
| – to be realised within 12 months | **1,511,205** | 936,764 |
| | **2,201,290** | 2,115,035 |
| Deferred income tax liabilities: | | |
| – to be settled after more than 12 months | **20,568** | 21,940 |
| – Deferred tax assets, net | **2,180,722** | 2,093,095 |

## 21 DEFERRED INCOME TAX *(continued)*

The gross movement on the deferred income tax account is as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| At 1 January | **2,093,095** | 1,754,967 |
| Credited to profit or loss (Note 10) | **156,005** | 412,581 |
| Credited to other comprehensive income | **—** | 4,446 |
| Currency translation differences | **(68,378)** | (78,899) |
| At 31 December | **2,180,722** | 2,093,095 |

Movement in deferred tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred income tax assets:

| | **Accelerated depreciation USD** | **Provisions USD** | **Tax losses USD** | **Other USD** | **Total USD** |
|---|---|---|---|---|---|
| At 1 January 2015 | 38,936 | 1,062,645 | 308,436 | 448,237 | 1,858,254 |
| (Charged)/credited to profit or loss | (11,919) | (134,614) | 544,701 | (61,705) | 336,463 |
| Currency translation differences | (1,151) | (55,244) | — | (23,287) | (79,682) |
| At 31 December 2015 | 25,866 | 872,787 | 853,137 | 363,245 | 2,115,035 |
| At 1 January 2016 | 25,866 | 872,787 | 853,137 | 363,245 | 2,115,035 |
| (Charged)/credited to profit or loss | (5,404) | 595,756 | (368,489) | (67,230) | 154,633 |
| Currency translation differences | (784) | (56,255) | — | (11,339) | (68,378) |
| At 31 December 2016 | 19,678 | 1,412,288 | 484,648 | 284,676 | 2,201,290 |

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. The Group did not have material unrecognised deferred income tax assets as at 31 December 2016 and 2015.

## 21 DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities:

| | Accelerated depreciation USD | Available-for-sales financial assets USD | Total USD |
|---|---|---|---|
| At 1 January 2015 | 98,058 | 5,229 | 103,287 |
| Credited to profit or loss | (76,118) | — | (76,118) |
| Credited to other comprehensive income | — | (4,446) | (4,446) |
| Currency translation differences | — | (783) | (783) |
| At 31 December 2015 | 21,940 | — | 21,940 |
| At 1 January 2016 | 21,940 | — | 21,940 |
| Credited to profit or loss | (1,372) | — | (1,372) |
| At 31 December 2016 | 20,568 | — | 20,568 |

As at 31 December 2016, the retained earnings of the Group's PRC subsidiary not yet remitted to holding companies incorporated outside of the PRC, for which no deferred income tax liability had been provided, were approximately RMB277,120,000 (equivalent to USD39,948,000) (2015: RMB227,826,000 (equivalent to USD35,085,000)). Such earnings are expected to be retained by the PRC subsidiary for reinvestment purposes and would not be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

## 22 GOODWILL

| | As at 31 December | |
|---|---|---|
| | **2016 USD** | 2015 USD |
| At 1 January | **6,611,157** | 7,015,886 |
| Currency translation differences | **(422,573)** | (404,729) |
| At 31 December | **6,188,584** | 6,611,157 |

Goodwill of RMB42,930,000 arose from the application of purchase accounting to the acquisition of SMiT Shenzhen by the Company in April 2005 and has indefinite useful lives. The goodwill amount relates to the value of expected future economic benefits of the business operated by SMiT Shenzhen. As at 31 December 2016, management of the Group had conducted a review of the cash-generating unit ("CGU") of SMiT Shenzhen and determined that there is no impairment of the goodwill.

## 22 GOODWILL *(continued)*

The recoverable amount of the CGU is determined based on a value-in-use calculation. That calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 20%. The discount rate used is pre-tax and reflects specific risks related to the relevant operation. The revenue growth CAGR (i.e. compound annual growth rate over the five-year projection period) used is 4% for the year ended 31 December 2016. Cash flows beyond the 5-year period are extrapolated using a growth rate of 2%. The volume of sales in each period is the main driver for revenue and costs. The growth in revenue and the relevant costs are estimated based on past performance and management's expectations for the market development.

If the forecasted revenue growth CAGR for the year ended 31 December 2016 had been lowered by three percentage points, the recoverable amounts would still exceed its carrying amount.

## 23 SHARE CAPITAL AND SHARE PREMIUM

| | No 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 2016 | 2,500,000,000 | 50,000 | — |
| Issued and fully paid: | | | |
| At 29 June 2015 (date of incorporation) | 1 | — | — |
| Issue of ordinary shares of USD0.00002 each (note a) | 152,425,224 | 3,049 | 63,331,486 |
| At 31 December 2015 | 152,425,225 | 3,049 | 63,331,486 |
| Issue of shares under the capitalisation issue (note b) | 72,574,775 | 1,451 | (1,451) |
| Issue of shares under the open offer (note c) | 75,000,000 | 1,500 | 33,548,332 |
| Exercise of share options (note d) | 1,856,379 | 37 | 543,551 |
| At 31 December 2016 | 301,856,379 | 6,037 | 97,421,918 |

## 23 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 152,425,224 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 HK$3.78 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 HK$283,500,000 (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 year ended 31 December 2016, 1,856,379 options were exercised to subscribe for 1,856,379 ordinary shares in the Company at a consideration of USD 48,180 of which USD37 was credited to share capital and the balance of USD48,143 was credited to the share premium account. An amount of USD495,408 was therefore, as a result, transferred from the share-based payment reserve to the share premium account. As at 31 December 2016, there were 55,766,713 options remained outstanding.

## 24 RESERVES

### (a) Statutory reserve

According to the provisions of the articles of association of the Group's subsidiaries located in the PRC ("PRC subsidiaries"), the PRC subsidiaries shall first set aside 10% of the entity's profit attributable to owners after tax as indicated in their statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the entity's registered share capital) in each year. The PRC subsidiaries may also make appropriations from its profit attributable to shareholders to discretionary surplus reserve, provided it is approved by a resolution passed in a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from shareholders in a shareholders' general meeting under specific circumstances.

When the statutory surplus reserve is not sufficient to make good for any losses of the PRC subsidiaries from previous years, the current year profit attributable to owners shall be used to make good the losses before any allocations are set aside for the statutory surplus reserve. The statutory surplus reserve, the discretionary surplus reserve and the share premium of the PRC subsidiaries may be converted into share capital of the PRC subsidiaries provided it is approved by a resolution passed in a shareholders' general meeting and meets other regulatory requirements with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital.

### (b) Share-based payment reserve

In February 2008, the Group adopted a share plan ("2008 Share Plan") and SMIT Corporation reserved 16,936,135 ordinary shares, split adjusted, for issuance under the plan. In September 2010, the Board approved an amendment to the 2008 Share Plan to increase the number of ordinary shares for issuance by 16,523,060 to 33,459,195 ordinary shares. In February 2011, the Board approved an amendment to the 2008 Share Plan to further increase the number of ordinary shares for issuance by 6,160,000 to 39,619,195 ordinary shares.

On 15 September 2015, the Company assumed the 2008 Share Plan of SMIT Corporation as the Pre-IPO Share Option Scheme (the "Pre-IPO Share Plan") as part of the Reorganisation with certain modifications of the terms of such options.

Details of the equity settled share-based transactions are disclosed in Note 28.

### (c) Capital reserve

Capital reserve as at each reporting date represented the additional contributions received from the shareholders.

### (d) Merger reserve

The merger reserve of the Group represents the difference between the carrying amount of investment in subsidiaries of USD68,077,551 acquired as a result of the Reorganisation and the carrying amount of combined capital of the acquired subsidiaries.

## 25 TRADE PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Trade payables | **2,312,533** | 7,881,504 |

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 |

The carrying amounts of trade payables approximate their fair values and are denominated in RMB.

## 26 ACCRUALS AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Accrued employee benefit expenses | **2,401,283** | 1,915,216 |
| Receipt in advance | **397,593** | 1,176,973 |
| Accrued royalty fee | **1,380,071** | 1,103,505 |
| Other taxes payables | **87,663** | 177,932 |
| Others | **1,682,046** | 1,455,913 |
| | **5,948,656** | 5,829,539 |

## 26 ACCRUALS AND OTHER PAYABLES *(continued)*

The carrying amounts of accruals and other payables approximate their fair values and are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| RMB | **2,410,391** | 2,951,723 |
| USD | **1,819,736** | 2,415,984 |
| Others | **1,718,529** | 461,832 |
| | **5,948,656** | 5,829,539 |

## 27 DEFERRED REVENUE

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Deferred government grant | **1,424,420** | 1,552,507 |

The balance represents the deferred government grant and subsidies and is denominated in RMB.

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

In February 2008, the Group adopted the 2008 Share Plan and subsequently amended on September 2010 and February 2011.

On 15 September 2015, the Company assumed the 2008 Share Plan of SMIT Corporation as the Pre-IPO Share Option Scheme as part of the Reorganisation. In connection with the assumption of the 2008 Share Plan of SMIT Corporation by the Company, all options transferred to the Pre-IPO Share Option Scheme shall carry the same terms as the 2008 Share Plan, except that all references therein to SMIT Corporation shall be modified to be references to the Company. The shares issued upon the exercise of options will change from shares of SMIT Corporation to shares of the Company. The incremental fair value of the relevant options of approximately USD1,573,000 which are all fully vested, as a result of the modification were charged to profit or loss on a one-off basis.

On 6 March 2016, the capitalisation issue as disclosed in Note 23 (b) was completed, upon which the number of outstanding share options was adjusted to 58,470,406 pursuant to the anti-dilution arrangement in the Pre-IPO Share Option Scheme. No additional options have been granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2016.

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

The details of the options granted for Pre-IPO Share Option Scheme are as follows:

| Original date of grant | Date of modification | No. of options pertaining to employees and directors at the date of modification | No. of options pertaining to advisors at the date of modification | Exercise price | Remaining contractual life | Remaining vesting period |
|---|---|---|---|---|---|---|
| 9 March 2008 | 15 September 2015 | 3,201,000 | 225,000 | USD0.02 | 2.5 years | Immediate vested |
| 26 July 2009 | 15 September 2015 | 4,183,000 | 1,070,000 | USD0.06 | 2.5 years | Immediate vested |
| 5 March 2010 | 15 September 2015 | 3,051,000 | 600,000 | USD0.06 | 2.9 years | Immediate vested |
| 1 September 2010 | 15 September 2015 | 7,940,065 | 162,000 | USD0.80 | 3.7 years | Immediate vested |
| 31 December 2010 | 15 September 2015 | 1,734,500 | — | USD1.10 | 5 years | Immediate vested |
| 8 January 2011 | 15 September 2015 | 371,769 | — | USD1.10 | 5.3 years | Immediate vested |
| 1 March 2011 | 15 September 2015 | 5,125,850 | 20,000 | USD1.57 | 5.4 years | Immediate vested |
| 1 March 2011 | 15 September 2015 | — | 371,768 | USD0.80 | 5.5 years | Immediate vested |
| 1 March 2012 | 15 September 2015 | — | 221,142 | USD1.79 | 5.5 years | Immediate vested |
| 30 September 2012 | 15 September 2015 | 2,913,750 | — | USD0.91 | 6.5 years | Immediate vested |
| 1 March 2013 | 15 September 2015 | — | 116,188 | USD0.91 | 7.1 years | Immediate vested |
| 1 August 2013 | 15 September 2015 | 1,362,396 | 79,186 | USD0.83 | 7.5 years | Immediate vested |
| 1 August 2013 | 15 September 2015 | 734,616 | — | USD0.83 | 7.9 years | Immediate vested |
| 1 August 2013 | 15 September 2015 | 4,433,290 | — | USD0.20 | 7.9 years | Immediate vested |
| 1 March 2014 | 15 September 2015 | — | 81,340 | USD0.60 | 8.5 years | Immediate vested |
| 1 March 2012 | 15 September 2015 | — | 14,742 | USD1.79 | 5.5 years | 5.5-months |
| 30 September 2012 | 15 September 2015 | 416,250 | — | USD0.91 | 6.5 years | 12.5-months |
| 1 March 2013 | 15 September 2015 | — | 69,696 | USD0.91 | 7.1 years | 17.5-months |
| 1 August 2013 | 15 September 2015 | 892,604 | 120,814 | USD0.83 | 7.5 years | 22.5-months |
| 1 March 2014 | 15 September 2015 | — | 104,544 | USD0.60 | 8.5 years | 29.5-months |

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Number of Share Options** | **Weighted Average Exercise Price USD** | Number of Share Options | Weighted Average Exercise Price USD |
| Balance as at beginning of the year | **39,010,510** | **0.62** | 39,616,510 | 0.63 |
| 2008 Share Plan: | | | | |
| Share options modified | **—** | **—** | (39,616,510) | 0.63 |
| Pre-IPO Share Plan | | | | |
| Share options modified | **—** | **—** | 39,616,510 | 0.63 |
| Increase in share options upon capitalisation issue | **19,459,896** | **0.62** | — | — |
| Share options forfeited/cancelled | **(847,314)** | **0.08** | (6,000) | 1.10 |
| Share options exercised | **(1,856,379)** | **0.02** | — | — |
| Balance as at year end | **55,766,713** | **0.45** | 39,610,510 | 0.62 |

Out of the 55,766,713 outstanding options (2015: 39,610,510), 55,107,446 options (2015: 39,610,510) were exercisable. Options exercised in 2016 resulted in 1,856,379 shares being issued at a weighted average price of USD0.02 each. The related weighted average share price at the time of exercise was USD0.62 per share. No option was exercised in 2015.

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| **Expiry date** | **Exercise price in USD per share option** | **Number of share options** | Exercise price in USD per share option | Number of share options |
| Pre-IPO Share Plan | | | | |
| 8 March 2018 | **0.01** | **4,011,834** | 0.02 | 3,426,000 |
| 3 August 2018 | **0.04** | **7,319,656** | 0.06 | 5,253,000 |
| 15 May 2019 | **0.04** | **4,981,975** | 0.06 | 3,651,000 |
| 30 August 2020 | **0.54** | **11,959,747** | 0.80 | 8,102,065 |
| 29 December 2020 | **0.75** | **2,362,580** | 1.10 | 1,728,500 |
| 6 January 2021 | **0.75** | **548,781** | 1.10 | 371,768 |
| 27 February 2021 | **1.07** | **7,595,972** | 1.57 | 371,769 |
| 27 February 2021 | **0.54** | **548,781** | 0.80 | 5,145,850 |
| 28 February 2022 | **1.22** | **348,197** | 1.79 | 235,884 |
| 29 September 2022 | **0.62** | **4,575,814** | 0.91 | 3,330,000 |
| 28 February 2023 | **0.62** | **274,390** | 0.91 | 185,884 |
| 31 July 2023 | **0.56** | **4,420,467** | 0.83 | 3,189,616 |
| 31 July 2023 | **0.14** | **6,544,129** | 0.20 | 4,433,290 |
| 28 February 2024 | **0.41** | **274,390** | 0.60 | 185,884 |
| | | **55,766,713** | | 39,610,510 |

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

The Company used the Black-Scholes option pricing model to estimate the fair value of the options under Pre-IPO Share Plan using the following assumptions, with exercise price shown above:

| Modification date | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 | 15 September 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| For options granted to employees and directors: | | | | | | | | | | | | |
| Weighted average share price at grant date | 0.54 | 0.54 | 0.54 | 0.54 | 0.54 | 0.54 | 0.54 | – | 0.54 | – | 0.54 | – |
| Expected term | 1.6 – 2.3 years | 2.3 years | 2.9 years | 3.6 years | 3.8 years | 3.8 years | 3.8 years | – | 4.5 years | – | 4 – 5.2 years | – |
| Expected volatility | 50.2% - 52.3% | 50.2% | 50.4% | 51.5% | 51.6% | 51.6% | 51.8% | – | 53% | – | 52.0% - 53.1% | – |
| Expected dividend rate | – | – | – | – | – | – | – | – | – | – | – | – |
| Risk-free interest rate | 1.29% - 1.46% | 1.46% | 1.60% | 1.75% | 1.78% | 1.79% | 1.8% | – | 1.95% | – | 1.84% - 2.10% | – |
| For options granted to advisors: | | | | | | | | | | | | |
| Weighted average share price at grant date | 0.54 | 0.54 | 0.54 | 0.54 | – | – | 0.54 | 0.54 | – | 0.54 | 0.54 | 0.54 |
| Expected term | 2.5 years | 2.5 years | 3.7 years | 5 years | – | – | 5.5 years | 6.5 years | – | 7.5 years | 7.9 years | 7.5 years |
| Expected volatility | 49.9% | 49.9% | 51.5% | 52.3% | – | – | 52.1% | 51.7% | – | 55.1% | 56.9% | 55.1% |
| Expected dividend rate | – | – | – | – | – | – | – | – | – | – | – | – |
| Risk-free interest rate | 1.50% | 1.50% | 1.76% | 2.05% | – | – | 2.17% | 2.39% | – | 2.62% | 2.71% | 2.62% |

The volatility measured at the historical volatility of the Group's comparable companies. The total expense recognised in the consolidated income statement for share options granted to employees and advisors is USD59,009 (2015: USD214,637) and USD26,049 (2015: USD336,212), respectively.

## 29 CASH GENERATED FROM OPERATIONS

### *(a) Reconciliation of profit before income tax to cash generated from operations*

| | Note | Year ended 31 December 2016 USD | 2015 USD |
|---|---|---|---|
| Profit before income tax | | **7,379,349** | 4,140,582 |
| Adjustments for: | | | |
| Interest income | 9 | **(374,909)** | (245,101) |
| Interest expense | 9 | **—** | 38,659 |
| Gain on settlement of available-for-sale financial assets | 6 | **—** | (716,356) |
| Share-based payment | | **85,058** | 1,902,326 |
| Provision for impairment of trade receivables | 7 | **353,638** | 196,136 |
| (Reversal of)/provision for impairment of inventories | 7 | **(439,244)** | 599,582 |
| Loss on disposals of property, plant and equipment | | **25,069** | 60,128 |
| Depreciation of property, plant and equipment | 13 | **611,958** | 658,199 |
| Amortisation of other intangible assets | 14 | **214,546** | 311,479 |
| | | **7,855,465** | 6,945,634 |
| Changes in working capital: | | | |
| – Inventories | | **572,131** | 1,104,464 |
| – Trade and other receivables | | **(480,200)** | (5,901,416) |
| – Trade and other payables | | **(4,768,700)** | 3,473,198 |
| – Deferred revenue | | **(30,085)** | (118,908) |
| **Cash generated from operations** | | **3,148,611** | 5,502,972 |

## 29 CASH GENERATED FROM OPERATIONS *(continued)*

### *(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:*

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Net book amount (Note 13) | **27,831** | 60,128 |
| Loss on disposals of property, plant and equipment | **(25,069)** | (60,128) |
| **Proceeds from disposals of property, plant and equipment** | **2,762** | — |

## 30 CONTINGENCIES

The Group and the Company did not have any material contingent liabilities as at 31 December 2016.

## 31 COMMITMENTS

### *(a) Operating lease commitments*

The Group leases various offices and warehouses under non-cancellable operating lease agreements with lease terms between 2 to 3 years. The future aggregate minimum lease payments under the operating lease agreement are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Not later than 1 year | **847,626** | 483,625 |
| Later than 1 year and no later than 5 years | **892,767** | 78,099 |
| | **1,740,393** | 561,724 |

### *(b) Capital commitments*

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

## 32 RELATED PARTY TRANSACTIONS

(a) The directors are of the view that the following individuals and company were related parties that had transactions with the Group during the years ended 31 December 2016 and 2015:

| Name of the related parties | Principal business activities | Relationship with the Group |
|---|---|---|
| Mr. Zeng Zhijie | N/A | Non-executive director of the Company |
| Mr. Kwan, Allan Chung-yuen | N/A | Non-executive director of the Company |
| Mr. Huang Xueliang | N/A | Executive director and the CEO of the Company |
| Mr. Zhang Junjie | N/A | Independent Director |
| Mr. Woo Kar Tung, Raymond | N/A | Independent Director |
| Mr. Jin Yufeng | N/A | Independent Director |
| Shenzhen State Micro Holdings Co., Ltd | Investment holding | Controlled by a director and the CEO of the Company |

### *(b) Transaction with a related party*

The following transaction was undertaken by the Group with a related party:

| | As at 31 December | |
|---|---|---|
| | **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 | **568,555** | 685,020 |

This transaction is made of terms mutually agreed by the relevant parties.

## 32 RELATED PARTY TRANSACTIONS *(continued)*

### *(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:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **USD** | USD |
| Basic salaries, allowances and benefits in kind | **557,551** | 665,897 |
| Discretionary bonuses | **118,484** | 188,018 |
| Share-based payments | **44,665** | 534,334 |
| Retirement benefit- defined contribution plan | **37,044** | 47,914 |
| | **757,744** | 1,436,163 |

## 33 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.

## 34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

| | Note | As at 31 December 2016 USD | 2015 USD |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current asset** | | | |
| Investment in subsidiaries | | **69,791,517** | 69,706,459 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **18,542,341** | 8,232,138 |
| Cash and cash equivalents | | **21,938,936** | — |
| Short-term bank deposits | | **1,752,395** | — |
| | | **42,233,672** | 8,232,138 |
| **Total assets** | | **112,025,189** | 77,938,597 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **6,037** | 3,049 |
| Share premium | (a) | **97,421,918** | 63,331,486 |
| Share-based payment reserve | (a) | **1,713,966** | 1,628,908 |
| Accumulated loss | (a) | **(1,164,617)** | (4,899) |
| **Total equity** | | **97,977,304** | 64,958,544 |

## 34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

*(continued)*

| | Note | As at 31 December 2016 USD | 2015 USD |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accruals and other payables | | **1,067,832** | — |
| Amount due to a subsidiary | | **12,980,053** | 12,980,053 |
| **Total liabilities** | | **14,047,885** | 12,980,053 |
| **Total equity and liabilities** | | **112,025,189** | 77,938,597 |
| **Net current assets/(liabilities)** | | **28,185,787** | (4,747,915) |
| **Total assets less current liabilities** | | **97,977,304** | 64,958,544 |

The statement of financial position of the Company was approved by the Board of Directors on 23 March 2017 and was signed on its behalf.

| | |
|---|---|
| Huang Xueliang | Woo Kar Tung, Raymond |
| Chairman and Chief Executive Officer | Director |

## 34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

*(continued)*

### (a) Reserve movement of the Company

| | Share premium USD | Share-based payment reserve USD | Accumulated loss USD |
|---|---|---|---|
| **At 29 June 2015 (date of incorporation)** | | | |
| Loss for the period | — | — | **(4,899)** |
| Issue of shares | **63,331,486** | — | — |
| Share-based compensation | — | **1,628,908** | — |
| **At 31 December 2015 and 1 January 2016** | **63,331,486** | **1,628,908** | **(4,899)** |
| Loss for the year | — | — | **(1,159,718)** |
| Issue of shares under the capitalisation issue | **(1,451)** | — | — |
| Issue of shares under the open offer | **33,548,332** | — | — |
| Exercise of share options | **543,551** | — | — |
| Share-based compensation | — | **85,058** | — |
| **At 31 December 2016** | **97,421,918** | **1,713,966** | **(1,164,617)** |
| Representing: | | | |
| Reserves | **96,838,064** | **1,713,966** | **(1,164,617)** |
| 2016 final dividend proposed | **583,854** | — | — |
| | **97,421,918** | **1,713,966** | **(1,164,617)** |

## 35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

### (a) *Directors' emoluments*

The remuneration of the directors of the Company is set out below:

| | Year ended 31 December 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Fees USD | Salaries USD | Discretionary bonuses USD | Housing allowance USD | Estimated money value of other benefits (Note (a)) USD | Remuneration paid or receivable in respect of accepting office as director USD | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking USD | Employer's contribution to a retirement benefit scheme USD | Total USD |
| **Executive director** | | | | | | | | | |
| Mr. Huang Xueliang (Note (b)) | 24,000 | 90,185 | 15,031 | – | 12,496 | – | – | 10,199 | 151,911 |
| **Non-executive directors** | | | | | | | | | |
| Mr. Zeng Zhijie | 24,000 | – | – | – | – | – | – | – | 24,000 |
| Mr. Kwan, Allan Chung-yuan | 24,000 | – | – | – | – | – | – | – | 24,000 |
| **Independent non-executive directors** | | | | | | | | | |
| Mr. Zhang Junjie (Appointed on 6 March 2016) | 24,000 | – | – | – | – | – | – | – | 24,000 |
| Mr. Woo Kar Tung, Raymond (Appointed on 6 March 2016) | 24,000 | – | – | – | – | – | – | – | 24,000 |
| Mr. Jin Yufeng (Appointed on 6 March 2016) | 24,000 | – | – | – | – | – | – | – | 24,000 |
| | 144,000 | 90,185 | 15,031 | – | 12,496 | – | – | 10,199 | 271,911 |

(a) Other benefits include leave pay and share option.

(b) The director is also the CEO of the Company, no separate disclosure in respect of the remuneration of the CEO has been made.

## 35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(continued)*

### *(a) Directors' emoluments* *(continued)*

Year ended 31 December 2015

| Name | Fees USD | Salaries USD | Discretionary bonuses USD | Housing allowance USD | Estimated money value of other benefits (Note (a)) USD | Remuneration paid or receivable in respect of accepting office as director USD | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking USD | Employer's contribution to a retirement benefit scheme USD | Total USD |
|---|---|---|---|---|---|---|---|---|---|
| **Executive director** | | | | | | | | | |
| Mr. Huang Xueliang (Note (b)) (Appointed on 29 June 2015) | 201,517 | – | 54,638 | – | 231,500 | – | – | 9,688 | 497,343 |
| **Non-executive directors** | | | | | | | | | |
| Mr. Zeng Zhijie (Appointed on 20 September 2015) | 24,105 | – | – | – | 28,413 | – | – | – | 52,518 |
| Mr. Kwan, Allan Chung-yuan (Appointed on 20 September 2015) | 24,105 | – | – | – | 28,515 | – | – | – | 52,620 |
| **Independent non-executive directors** | | | | | | | | | |
| Mr. Zhang Junjie (Appointed on 6 March 2016) | – | – | – | – | – | – | – | – | – |
| Mr. Woo Kar Tung, Raymond (Appointed on 6 March 2016) | – | – | – | – | – | – | – | – | – |
| Mr. Jin Yufeng (Appointed on 6 March 2016) | – | – | – | – | – | – | – | – | – |
| | 249,727 | – | 54,638 | – | 288,428 | – | – | 9,688 | 602,481 |

(a) Other benefits include leave pay and share option.

(b) The director is also the CEO of the Company, no separate disclosure in respect of the remuneration of the CEO has been made.

## 35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) AND COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(continued)*

### (b) *Directors' retirement benefits*

The retirement benefits paid to Mr. Huang Xueliang during the year ended 31 December 2016 by a defined contribution pension plan operated by the Group in respect of Mr. Huang Xueliang's services as a director of the Company and its subsidiaries is USD10,199 (2015: USD9,688). No other retirement benefits were paid to Mr. Huang Xueliang in respect of Mr. Huang Xueliang's other services in connection with the management of the affairs of the company or its subsidiary undertaking.

### (c) *Directors' termination benefits*

No directors' termination benefits were paid for the year ended 31 December 2016 (2015: Nil).

### (d) *Consideration provided to third parties for making available directors' services*

The Company did not pay consideration to any third parties for making available directors' services for the year ended 31 December 2016 (2015: Nil).

### (e) *Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors*

No loans, quasi-loans and other dealings were made available in favour of directors, body corporates controlled by and connected entities with such directors subsisted at the end of the year or at any time during the year 31 December 2016 (2015: Nil).

### (f) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year 31 December 2016 (2015: Nil).

# Financial Summary

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 |
| | **USD** | USD | USD | USD |
| Revenue | **59,053,896** | 65,141,051 | 56,006,825 | 47,180,984 |
| Cost of sales | **(35,596,258)** | (41,016,720) | (33,250,459) | (23,733,224) |
| **Gross profit** | **23,457,638** | 24,124,331 | 22,756,366 | 23,447,760 |
| **Profit before income tax** | **7,379,349** | 4,140,582 | 5,730,671 | 3,181,910 |
| Income tax credit/(expense) | **121,237** | (817,878) | (270,847) | (507,136) |
| **Profit for the year attributable to owners of the Company** | **7,500,586** | 3,322,704 | 5,459,824 | 2,674,774 |

| | **2016** | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| | **USD** | USD | USD | USD |
| **Total assets** | **109,431,711** | 78,937,477 | 121,779,110 | 111,713,767 |
| **Total equity** | **99,092,678** | 62,176,860 | 64,886,252 | 59,005,795 |
| **Total liabilities** | **10,339,033** | 16,760,617 | 56,892,858 | 52,707,972 |
| **Total equity and liabilities** | **109,431,711** | 78,937,477 | 121,779,110 | 111,713,767 |