

國微技術控股有限公司 SMIT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2239



2017

Interim Report



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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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.smit.com.cn

Corporate Information

CAYMAN SHARE REGISTRAR AND TRANSFER AGENT

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

COMPLIANCE ADVISER

Haitong International Capital Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKER

Citibank N.A. Hong Kong Branch
21/F, Tower 1, The Gateway, Harbour City
Tsim Sha Tsui
Kowloon
Hong Kong

AUDITOR

PricewaterhouseCoopers

STOCK CODE

2239

Management Discussion and Analysis

The board of directors (the “Board”) of SMIT Holdings Limited (“SMIT” or the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 June 2017 (the “Review Period”).

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 CAMs, products which provide end users with access to pay TV content. The Group also develops and markets mobile points-of-sale systems 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.

During the Review Period, the Group’s total revenue increased by approximately 19.6% as compared to the first half of 2016, mainly driven by its CAMs business which recorded a 22.0% growth in revenue and certain new businesses which had started to generate revenue for the Group. While the mPOS business fell below expectations and dropped down the revenue growth of the Group, the Group’s revenue performance is further enhanced by the entry into the cross-border e-commerce O2O smart terminal business and the integrated blockchain chipset and server business.

CAMs

As the European markets gradually picked up, the Group’s mass-scale sales in emerging markets have also entered a favourable development stage, as the business performance of CAMs has met our expectation. In the first half of 2017, the Group’s sales of CAMs reached approximately USD22.8 million, representing a 22.0% increase as compared to the corresponding period in 2016, and contributed to 70.6% of the Group’s total revenue (six months ended 30 June 2016: 69.2%). As the sales in the European market with comparatively higher gross margin picked up, the gross profit margin of its CAMs products during the period was 1.0% higher than the corresponding period in 2016, and the overall gross profit margin was also higher than the corresponding period in 2016.

The European market remained as the core geographical market of CAMs sales. During the Review Period, the Group had good performance in Europe, mainly due to the continuous procurement by major customers which boosted the Group’s overall sales performance. In the European market, revenue grew by 42.4% as compared to the same period last year and accounted for 56.1% of the Group’s total revenue for the Review Period, mainly attributable to the significant growth from the mass shipment of USB TV-Sticks to Media Broadcast, a large customer newly secured last year. Partly due to our gradual increase in shipment to Indian operator Airtel, the emerging markets including India also grew considerably with revenue by 355.4% as compared to the corresponding Review Period in 2016 and contributed to 2.9% of the Group’s total revenue. Other regions including Russia and China recorded varying levels of decreases as compared to the corresponding period last year. These two countries together accounted for 8.1% of the Group’s total revenue.

Management Discussion and Analysis

mPOS

Last year, the PRC government published a policy regarding regulations on risks associated with non-bank payment institutions, and commercial reforms on the industry. During the Review Period, these measures were still affecting the market to a certain extent and such impact is anticipated to continue in the short term. At the same time, the overall competition intensified across mid-range to low-end device markets and several projects with new customers were still at the initial business or technical synchronisation stages and thus have not begun mass shipment, so the shipment volume of mPOS devices dropped in the first half of the year. In the first six months of 2017, the Group's revenue from mPOS amounted to approximately USD6.0 million, representing a decrease of 27.5% from the same period last year, and accounted for 18.7% of the Group's total revenue (six months ended 30 June 2016: 30.8%). Affected by adjustments in the portfolio of products shipped and market strategy, the average selling price of mPOS products also dropped, and the development of the entire market remained in the stage of adjustment.

Facing the different demands of customers and rapid changes in the market, the Group continued to actively develop a range of smart payment hardware including smart cash registers and smart POS, mainly targeting the third party market and various large stores. Through these experiences, the Group has accumulated relevant technologies and resources to penetrate the banking industry. The Group is currently engaging several new customers and new projects that are on early stages of technology development and market research. At the same time, to meet the demand of the industry for greater standardisation of terminals with UnionPay, the Group has actively sought for authorisation and certification for a variety of new products. A large member of key smart payment products including the smart POS SM40, personal payment terminal SM10 and mPOS SM30 have all received "UnionPay Card Acceptance Terminal Safety Certification" which can ensure additional safety of money transactions of actual users of payment terminal and enhance the competitiveness of the Company's products in the smart payment terminal market.

New Businesses

During the Review Period, the Group took a non-controlling stake in a Shenzhen one-stop cross-border e-commerce company to enter the O2O smart terminal business. The e-commerce company plans to install O2O smart terminals across small and medium cities in China. Leveraging its competitive advantage in the smart safety POS sector and as the e-commerce company's strategic investor, the Group would become the exclusive O2O smart terminal supplier of the e-commerce company, enabling the quick commencement of the new O2O smart terminal business. During the Review Period, this product segment generated USD0.9 million revenue to the Group, accounting for 2.9% of the Group's total revenue, at a gross profit margin of 27.5%.

In addition, the Group considers that the blockchain technology will be one of the key directions for future technological development. During the Review Period, the Group and a Shenzhen technology company entered into a strategic cooperation relationship to co-develop an integrated blockchain chipset and server business ("Blockchain Business"). Both parties have also begun to cooperate on a business level by providing the blockchain server to the Shenzhen technology company, based on the Group's strong ability to integrate upstream and downstream resources vertically and its production management experience. This initiative serve as a starting point for the Group to integrate the upstream and downstream resources of blockchain technology in parallel across the finance end and achieve synergies for the development of the Blockchain Business and mobile payment business. During the Review Period, this segment recorded a revenue of USD2.5 million, accounting for around 7.8% of the Group's total revenue, at a gross profit margin of 23.3%.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2017, the revenue of the Group was USD32.2 million (six months ended 30 June 2016: USD26.9 million). The following table shows revenue breakdown by business segments:

	Six Months Ended 30 June				
	2017		2016		Change in %
	USD'000,000	%	USD'000,000	%	
CAMs	22.8	70.6%	18.6	69.2%	22.0%
mPOS devices	6.0	18.7%	8.3	30.8%	-27.5%
Blockchain servers	2.5	7.8%	—	—	NA
O2O smart terminals	0.9	2.9%	—	—	NA
	32.2	100%	26.9	100%	19.6%

During the Review Period, revenue of the Group increased by 19.6% as compared with the corresponding period in 2016, mainly due to the growth in the CAM business and sales in the new O2O smart terminals and blockchain server businesses, offset by the decrease in sales of mPOS devices.

Gross Profit and Gross Profit Margin

Gross profit amounted to USD12.9 million for the six months ended 30 June 2017, representing an increase of USD1.5 million when compared with the corresponding period in 2016. The gross profit margin was 40.1% (the corresponding period in 2016: 42.2%), mainly due to the sales of mPOS and blockchain servers product models with lower gross profit margins at an initial stage. Meanwhile, this decrease was offset by the increase in average selling price of CAMs and reduction in hardware cost.

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 Review Period, research and development expenses slightly increased by 8.3% from USD3.3 million to USD3.5 million, mainly due to the continuous allocation of resources to upgrade existing products and develop new products, as well as an increase in testing certification fees.

Management Discussion and Analysis

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 Review Period, selling and distribution expenses were USD1.5 million, representing a slight decrease when compared with the corresponding period in 2016. During the Review Period, the Group continued to optimise and adjust its selling structure and also reduce controllable selling expenses, which enabled it to increase marketing efforts and at the same time achieve a selling and distribution expense level slightly lower than last year.

General and Administrative Expenses

General and administrative expenses mainly include salaries and benefits of management, administrative and finance staff, share-based compensation for general and administrative staff, professional service fees, rental and office expenses, provision for doubtful debts, and travel and entertainment. During the Review Period, general and administrative expenses were approximately USD3.4 million, representing a decrease of 35.0% as compared to the corresponding period in 2016, mainly attributable to the one-off listing expenses incurred in the corresponding period in 2016 of USD1.9 million and no such expenses recorded in the Review Period.

Income Tax 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. During the Review Period, income tax expense increased from USD0.6 million to USD0.8 million, mainly due to the assessable profit of the Group has increased and the applicable tax rate of the PRC subsidiary has changed to 25% from 15% in the corresponding period of last year because the PRC subsidiary is still in the process to renew the High/New Technology Enterprise status.

Profit for the Period

Profit for the period amounted to USD3.5 million, with an increase of 77.9% when compared to USD2.0 million recorded in the corresponding period in 2016. It was partly attributable to the increase in revenue and gross profit due to the contributions from CAMs business and new businesses, and partly attributable to no listing expenses being incurred during the Review Period (six months ended 30 June 2016: USD1.9 million). However, these factors are partially off-set by a net exchange loss resulting from the appreciation of RMB against the USD.

Management Discussion and Analysis

Liquidity, Financial Resources and Debt Structure

During the Review Period, the Group continued to maintain a healthy and solid liquidity position. As at 30 June 2017, total cash and cash equivalents of the Group amounted to USD51.9 million (as at 31 December 2016: USD56.4 million). The Group's cash and cash equivalents were mainly denominated in RMB and USD as at 30 June 2017. The Group recorded net current assets amounted to USD89.3 million (as at 31 December 2016: USD88.3 million) and its current ratio, calculated by dividing total current assets by total current liabilities, was 768.6% (as at 31 December 2016: 954.1%).

As at 30 June 2017, the Group did not have any other outstanding indebtedness, banking facilities or any outstanding or authorised but unissued debt securities, term loans, other borrowings or indebtedness in the nature of borrowing, acceptance credits, hire purchase commitments, mortgages and charges, contingent liabilities or guarantees outstanding. Therefore, a gearing ratio is not applicable.

Capital Commitments

As at 30 June 2017, the Group did not have any contracted but not provided for capital commitments (as at 31 December 2016: nil) or authorised but not contracted for capital commitments (as at 31 December 2016: nil).

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

Except for the investment in the e-commerce company mentioned above, the Group did not hold any other significant investment nor make any material acquisition or disposal of subsidiaries during the Review Period.

Contingent Liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities.

Currency Risk and Management

The Group 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, blockchain servers and O2O smart terminals were denominated in RMB. The Group's costs of production are predominantly denominated in RMB.

During the Review Period, 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 the foreign currency rates and may consider hedging significant foreign currency exposure should the need arise.

Management Discussion and Analysis

Employees and Remuneration Policy

As at 30 June 2017, the Group employed 246 employees (as at 31 December 2016: 248), of whom 238 were based in Shenzhen, five in Hong Kong and three in Munich, Germany. Staff costs (including salaries, bonuses, social insurance, provident funds and share incentive plan) amounted to USD5.2 million in aggregate, representing 16.1% of total revenue of the Group during the Review Period.

The Group has entered into employment agreements with all of its full-time employees. Certain senior management and key research and development personnel have signed confidentiality agreements and non-competition agreements with the Group. Each senior 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 senior executive officer has agreed to be bound by non-competition restrictions for a period of two years following the term of his or her employment.

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

On 30 June 2017, the Group granted a total of 1,005,000 awarded shares and were issued to selected employees on 5 July 2017 according to the general mandate to recognise and reward the contribution of these employees.



Management Discussion and Analysis

OUTLOOK

Looking at the second half of this year, the gradual trend towards stability in the global economy will give the Group's businesses a greater boost. The Group will continue to endeavour to secure a larger market share and actively expand its business scope. The Group will also further optimise internal controls and improve cost-efficiency.

As stated in the 2016 annual report, the Group is optimistic and remains positive about the business prospects for the second half of the year 2017. Leveraging its leading position in the global CAM market, the comprehensive technical capabilities and solid business relationships with industry players in the industry chain, the Group will further develop the European market and markets in other regions with stronger momentum and continue to promote the USB CAM project with reference to the characteristics of the PRC market.

Moreover, the Group will continue to upgrade its security systems and develop new product models to support more diverse payment methods and other value-added features. The Group will also identify opportunities to cooperate with third party payment operators, commercial banks and other types of potential mPOS customers.

As for the expansion of new businesses, the new O2O smart terminals and blockchain servers businesses have begun to generate revenue for the Group. The Group continues to facilitate the development of these new businesses aiming to realise rapid growth while diversifying its business development and making these businesses to be one of the Group's growth driver.

In addition, the Group will continue to proactively cooperate with industry partners to develop more new projects and business opportunities. In order to further promote business development, the Group will actively seek suitable merger and acquisition opportunities so as to enhance its development capabilities for security devices and expand its business to new products and service areas in order to bring greater returns to its shareholders.

Other Information

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: USD Nil).

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

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

CHANGES IN DIRECTORS' INFORMATION

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

INTERESTS OF DIRECTORS' AND CHIEF EXECUTIVE

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in our Company
Huang Xueliang ⁽²⁾	Beneficial interest and interest in a controlled corporation	172,263,899 Shares (L)	56.99%
Kwan, Allan Chung-yuen ⁽³⁾	Beneficial interest	3,029,693 Shares (L)	1.00%
Zeng Zhijie ⁽⁴⁾	Beneficial interest	826,638 Shares (L)	0.27%
Shuai Hongyu ⁽⁵⁾	Beneficial interest	6,463,653 Shares (L)	2.14%
Loong, Manfred Man-tsun ⁽⁶⁾	Beneficial interest	6,544,129 Shares (L)	2.16%

Notes:

(1) The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.

Other Information

- (2) As at 30 June 2017, 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 128,656,454 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 30 June 2017.
- (3) As at 30 June 2017, Mr. Kwan, Allan Chung-yuen was interested in share options to subscribe for 3,029,693 Shares.
- (4) As at 30 June 2017, Mr. Zeng Zhijie was interested in share options to subscribe for 826,638 Shares.
- (5) As at 30 June 2017, Mr. Shuai Hongyu was interested in 377,122 Shares and was interested in share options to subscribe for 6,086,531 Shares.
- (6) As at 30 June 2017, Mr. Loong, Manfred Man-tsun was interested in share options to subscribe for 6,544,129 Shares.

Save as disclosed above, as at 30 June 2017, none of the Directors and/or the chief executive of the Company had any other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, 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)	5.28%
Mr. Zhu Changhua ⁽²⁾	Interest in a controlled corporation	22,507,521 Shares (L)	7.45%
Junjie International Co., Ltd.	Beneficial owner	19,140,656 Shares (L)	6.33%
Mr. Gong Jun ⁽³⁾	Interest in a controlled corporation	20,528,226 Shares (L)	6.79%
Pacven Walden Ventures V, L.P.	Beneficial owner	25,779,560 Shares (L)	8.53%
Pacven Walden Management V Co. Ltd ⁽⁴⁾	Interest in a controlled corporation	27,541,195 Shares (L)	9.11%
Xinxin (Hongkong) Capital Co., Limited	Beneficial owner	29,999,000 Shares (L)	9.92%
Xunxin (Shanghai) Investment Co., Ltd. ⁽⁵⁾	Interest in a controlled corporation	29,999,000 Shares (L)	9.92%
China Integrated Circuit Industry Investment Fund Co., Ltd. ⁽⁵⁾	Interest in a controlled corporation	29,999,000 Shares (L)	9.92%
CMBC International Holdings Limited	Person having a security interest in shares	177,719,722	58.79%
China Minsheng Banking Corp., Ltd. 中國民生銀行股份有限公司 ⁽⁶⁾	Person having a security interest in shares	177,719,722	58.79%

Other Information

Notes:

- (1) All interests stated are long positions.
- (2) Mr. Zhu Changhua held share options to subscribe for 568,314 Shares as at 30 June 2017. Mr. Zhu Changhua also held a 100% interest in Capital Tower Profits Limited and a 50% interest in Statemicroelectronics International Co., Ltd. Mr. Zhu Changhua was therefore deemed to be interested in the 5,981,744 Shares and 15,957,463 Shares held by Capital Tower Profits Limited and Statemicroelectronics International Co., Ltd. respectively as at 30 June 2017.
- (3) Mr. Gong Jun held share options to subscribe for 1,387,570 Shares as at 30 June 2017. Mr. Gong Jun also held a 100% interest in Junjie International Limited. Mr. Gong Jun was therefore deemed to be interested in the 19,140,656 Shares held by Junjie International Limited as at 30 June 2017.
- (4) To the best of our Directors' knowledge, Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. are limited partnerships each controlled by a general partner, Pacven Walden Management V Co. Ltd.. Pacven Walden Management V Co. Ltd. was deemed to be interested in the 25,779,560 Shares, 89,454 Shares, 485,855 Shares, 593,163 Shares and 593,163 Shares held by Pacven Walden Ventures V, L.P., Pacven Walden Ventures V Associates Fund, L.P., Pacven Walden Ventures V-QP Associates Fund, L.P., Pacven Walden Ventures Parallel V-A C.V. and Pacven Walden Ventures Parallel V-B C.V. respectively as at 30 June 2017.
- (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 30 June 2017.
- (6) CMBC International Holdings Limited held an aggregate of 177,719,722 Shares as security interests. China Minsheng Bank Corp., Ltd. held a 100% interest in CMBC International Holdings Limited and was therefore deemed as a person having a security interest in the 177,719,722 Shares.

Save as disclosed above, as at 30 June 2017, no other parties were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company.

SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

To recognise and acknowledge the contributions made by certain of its employees, directors and consultants to the growth of SMIT Corporation, SMIT Corporation adopted a share incentive plan on 21 February 2008 (the "2008 Share Plan"). As part of the reorganisation in preparation for the listing of the Company, the Company assumed the 2008 Share Plan as the Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme") by resolutions in writing of the sole shareholder passed on 15 September 2015, and assumed all the rights and obligations under options granted by SMIT Corporation under the 2008 Share Plan, and all share option agreements entered into between SMIT Corporation and the holders of such options, to the intent and effect that all such share options granted under, and such share option agreements entered, under the 2008 Share Plan will be valid, binding and enforceable against the Company in accordance with their terms, as if such options had been granted by the Company under the Pre-IPO Share Option Scheme.

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

Other Information

Set out below are details of the outstanding options under the Pre-IPO Share Option Scheme as at 30 June 2017:

Category/ Name of Grantee	Outstanding as at 1 January 2017	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised during the Review Period	Weighted average closing price before the exercise dates	Cancelled during the Review Period	Lapsed during the Review Period	Outstanding as of 30 June 2017
Directors										
Huang Xueliang	36,904	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	36,904
	73,807	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	73,807
	590,454	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	590,454
	1,476,134	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	1,476,134
	1,476,134	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	1,476,134
	4,578,278	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	4,578,278
	2,372,208	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	2,372,208
	737,847	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	737,847
738,067	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	738,067	
Kwan, Allan Chung-yuen ⁽¹⁾	236,182	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	236,182
	1,585,138	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	1,585,138
	285,787	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	285,787
Zeng Zhijie	36,904	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	36,904
	36,904	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	36,904
	236,182	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	236,182
	442,841	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	442,841
	73,807	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	73,807
Senior management										
Shuai Hongyu	661,308	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	661,308
	442,841	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	442,841
	1,182,153	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	1,182,153
	1,800,633	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	1,800,633
	679,022	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	679,022
	730,120	01/08/2013	US\$0.56	01/11/2013	31/07/2023	—	—	—	—	730,120
590,454	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	590,454	
Loong, Manfred Man-tsun	6,544,129	01/08/2013	US\$0.14	01/11/2013	31/07/2023	—	—	—	—	6,544,129

Other Information

Category/ Name of Grantee	Outstanding as at 1 January 2017	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised during the Review Period	Weighted average closing price before the exercise dates	Cancelled during the Review Period	Lapsed during the Review Period	Outstanding as of 30 June 2017
Connected persons										
Sonny Wu ⁽²⁾	36,904	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	36,904
	36,904	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	36,904
	236,182	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	236,182
Li Yanrong	26,571	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	26,571
	41,332	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	41,332
	51,665	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	51,665
	73,807	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	73,807
	221,421	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	221,421
147,614	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	147,614	
Bai Yu	11,810	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	11,810
	29,523	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	29,523
	41,332	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	41,332
	73,807	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	73,807
	73,807	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	73,807
73,807	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	73,807	
Cykorp Limited ⁽³⁾	36,904	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	36,904
	442,841	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	442,841
	442,841	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	442,841
Smart Tiger Holdings Limited ⁽⁴⁾	442,841	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	442,841
	295,227	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	295,227
Consultants										
Edgar Tu	274,390	01/03/2011	US\$1.06	01/03/2011	01/03/2021	—	—	—	—	274,390
	274,390	01/03/2011	US\$1.06	01/09/2014	01/03/2021	—	—	—	—	274,390
	274,390	01/03/2012	US\$1.21	01/03/2016	01/03/2022	—	—	—	—	274,390
	274,390	01/03/2013	US\$0.62	01/03/2017	01/03/2023	—	—	—	—	274,390
	274,390	01/03/2014	US\$0.41	01/03/2018	01/03/2024	—	—	—	—	274,390
Meisi Amaral	2,743,903	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	2,743,903
	285,787	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	285,787
	295,227	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	295,227

Other Information

Category/ Name of Grantee	Outstanding as at 1 January 2017	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised during the Review Period	Weighted average closing price before the exercise dates	Cancelled during the Review Period	Lapsed during the Review Period	Outstanding as of 30 June 2017
Super Asset	36,904	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	36,904
Holdings Limited	184,517	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	184,517
	442,841	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	442,841
Wesley Wong	73,807	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	73,807
	73,807	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	73,807
Alex Pan	147,614	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	147,614
Guo Ke	73,807	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	73,807
Robert Yung	29,523	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	29,523
Asia Alliance Financial Management Ltd.	147,614	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	147,614
Tian Qing	295,227	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	295,227
Martin Wu	147,614	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	147,614
Kian Bin Teo	17,714	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	17,714
Zhang Li	29,523	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	29,523
James Zhou	147,614	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	147,614
Louis Luk	73,807	01/03/2012	US\$1.21	01/03/2013	01/03/2022	—	—	—	—	73,807
Jack Chang	147,614	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	147,614
Remaining grantees who have been granted the Pre-IPO Share Options to subscribe for 700,000 or more Shares as at Listing Date										
Lei Jie	221,421	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	221,421
	29,523	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	29,523
	295,227	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	295,227
	442,841	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	442,841
	221,421	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	221,421

Other Information

Category/ Name of Grantee	Outstanding as at 1 January 2017	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised during the Review Period	Weighted average closing price before the exercise dates	Cancelled during the Review Period	Lapsed during the Review Period	Outstanding as of 30 June 2017
Gong Jun	73,807	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	73,807
	295,227	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	295,227
	258,324	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	258,324
	287,847	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	287,847
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	147,614
	221,421	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	221,421
	103,330	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	103,330
Chen Ying	22,143	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	22,143
	147,614	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	147,614
	154,995	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	154,995
	214,040	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	214,040
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	147,614
	154,995	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	154,995
	177,137	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	177,137
	221,421	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	221,421
	221,421	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	221,421
	177,137	01/08/2013	US\$0.56	01/11/2013	31/07/2023	—	—	—	—	177,137
	221,421	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	221,421
You Quan	22,143	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	22,143
	147,614	09/03/2008	US\$0.01	09/03/2010	08/03/2018	—	—	—	—	147,614
	154,995	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	154,995
	243,563	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	243,563
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	147,614
	177,137	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	177,137
	162,375	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	162,375
	221,421	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	221,421
	221,421	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	221,421
	177,137	01/08/2013	US\$0.56	01/11/2013	31/07/2023	—	—	—	—	177,137
	221,421	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	221,421

Other Information

Category/ Name of Grantee	Outstanding as at 1 January 2017	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised during the Review Period	Weighted average closing price before the exercise dates	Cancelled during the Review Period	Lapsed during the Review Period	Outstanding as of 30 June 2017
Yuan Peiliang	22,143	09/03/2008	US\$0.01	09/03/2010	08/03/2018	22,143	HK\$2.53	—	—	0
	147,614	09/03/2008	US\$0.01	09/03/2010	08/03/2018	147,614	HK\$2.36	—	—	0
	103,330	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	103,330
	191,898	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	191,898
	118,091	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	118,091
	110,711	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	110,711
	177,137	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	177,137
	191,898	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	191,898
Zhang Shaohua	103,330	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	103,330
	221,421	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	221,421
	147,614	05/03/2010	US\$0.04	05/03/2011	15/05/2019	—	—	—	—	147,614
	221,421	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	221,421
	177,137	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	177,137
	295,227	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	295,227
Yu Songliang	35,428	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	35,428
	73,807	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	73,807
	73,807	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	73,807
	103,330	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	103,330
	162,375	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	162,375
	295,227	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	295,227
	295,227	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	295,227
	221,421	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	221,421
Mei Wang	73,807	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	73,807
	442,841	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	442,841
	147,614	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	147,614
	44,285	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	44,285
Hongrong Liu	7,381	09/03/2008	US\$0.01	09/03/2012	08/03/2018	—	—	—	—	7,381
	29,523	26/07/2009	US\$0.04	26/07/2013	08/03/2018	—	—	—	—	29,523
	44,285	05/03/2010	US\$0.04	05/03/2014	15/05/2019	—	—	—	—	44,285
	73,807	01/09/2010	US\$0.54	01/09/2014	31/08/2020	—	—	—	—	73,807
	132,853	31/12/2010	US\$0.75	31/12/2014	30/12/2020	—	—	—	—	132,853
	118,091	01/03/2011	US\$1.06	01/03/2015	01/03/2021	—	—	—	—	118,091
	147,614	30/09/2012	US\$0.62	30/09/2016	25/04/2022	—	—	—	—	147,614
	147,614	01/08/2013	US\$0.56	01/08/2017	31/07/2023	—	—	—	—	147,614

Other Information

Category/ Name of Grantee	Outstanding as at 1 January 2017	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Exercised during the Review Period	Weighted average closing price before the exercise dates	Cancelled during the Review Period	Lapsed during the Review Period	Outstanding as of 30 June 2017
Other employees										
83 employees	7,117,213					199,282	HK\$2.52	—	—	6,917,931
Other eligible participants (including former employees)										
21 other eligible participants	147,617					66,428	HK\$2.60	—	81,189	0
Total	55,766,713					435,467	HK\$2.48	—	81,189	55,250,057

Notes:

- (1) Mr. Kwan, Allan Chung-yuen is interested in share options granted under the Pre-IPO Share Option Scheme to subscribe for a total of 3,029,693 Shares which are held as follows: (i) options held in Mr. Kwan's personal capacity to subscribe for 2,107,107 Share, and (ii) options held by Cykorp Limited, a company wholly owned by Mr. Kwan, to subscribe for 922,586 Shares.
- (2) Mr. Sonny Wu is interested in share options granted under the Pre-IPO Share Option Scheme to subscribe for a total of 1,048,058 Shares which are held as follows: (i) options held in Mr. Wu's personal capacity to subscribe for 309,990 Shares, and (ii) options held by Smart Tiger Holdings Limited, a company wholly owned by Mr. Wu, to subscribe for 738,068 Shares.
- (3) Cykorp Limited is wholly owned by Mr. Kwan, Allan Chung-yuen.
- (4) Smart Tiger Holdings Limited is wholly owned by Mr. Sonny Wu.

During the Review Period, a total number of 435,467 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\$2.48.

During the Review Period, none of the Pre-IPO Share Options were cancelled.

During the Review Period,, a total number of 81,189 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 Review Period.

The number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme as 30 June 2017 was 55,250,057 Shares, exercisable at the respective exercise price between US\$0.01 per Share and US\$1.06 per Share, representing approximately 18.28% of the issued share capital of the Company as at 30 June 2017.

Other Information

SALES TO CUSTOMERS LOCATED IN JURISDICTIONS SUBJECT TO INTERNATIONAL SANCTIONS

During the six months ended 30 June 2017, the Group had CAM sales to customers located in Russia, which accounted for 3.35% of the Group's total revenue for the six months ended 30 June 2017, as well as an insignificant amount of sales to customers located in the Balkans and Belarus, which in aggregate accounted for 6.28% of the Group's total revenue for the six months ended 30 June 2017. During the six months ended 30 June 2017, the Group had no sales to Ukraine, Egypt and Lebanon. The percentage of revenue contribution from relevant customers located in the countries or territories which are targeted with certain economic sanctions under the laws of the United States, the European Union, the United Nations and Australia (the "Sanctioned Countries") in the six months ended 30 June 2017 was relatively stable as compared to those in the corresponding period in 2016.

In the second half of 2017, the Group is expected to continue its sales to customers located in Russia and does not expect any significant increase or decrease in the Group's sales to customers located in Russia. The Group also expects its sales to customers located in Ukraine, the Balkans, Egypt, Lebanon and Belarus to remain immaterial. During the six months ended 30 June 2017, the Group did not, and has no present or future intention to, enter into any transactions in the Sanctioned Countries or with certain person(s) and entity(ies) listed on OFAC's sanctions lists including the Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, the European Union, the United Nations or Australia (the "Sanctioned Persons") that the Group believes would put the Group or its investors at risk of violating or becoming the target of sanction-related laws and regulations in the United States, the European Union, the United Nations and Australia (the "International Sanctions").

To continuously monitor and evaluate the Group's business and take measures to comply with the Group's continuing undertakings to the Stock Exchange as disclosed in the Prospectus, and to protect the interests of the Group and the Shareholders, the Group undertook the following measures and efforts to monitor and evaluate its business activities in connection with possible International Sanctions risks for the six months ended 30 June 2017:

- (i) the Group has set up a risk management committee, comprising the Group's senior management, whose responsibilities include, among others, monitoring the Group's exposure to sanctions risks and export controls and the Group's implementation of the related internal control procedures;
- (ii) the Group evaluated evaluate sanctions risks prior to determining whether it should embark on any business opportunities in the Sanctioned Countries and with Sanctioned Persons. The Group's senior management had conducted relevant customer due diligence without limitation, identity and background of customers and their principal business activities and check such information against the relevant lists of Sanctioned Countries and Sanctioned Persons to identify any possible exposure to sanctions risks; and
- (iii) the risk management committee continuously monitored the Group's exposure to sanctions risks and the Group would, as and when the risk management committee considers it necessary, retain an external International Sanctions legal adviser with necessary expertise and experience in International Sanctions matters for recommendations and advice. During the six months ended 30 June 2017, the risk management committee did not discover any exposure to sanctions risks by the Group which it considered necessary for the Group to retain an external International Sanctions legal adviser.

The Directors are of the view that such risk management measures and efforts provided a reasonably adequate and effective framework to assist the Group in identifying and monitoring any material International Sanctions risk so as to protect the interests of the Company and its Shareholders as a whole.

Other Information

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance since the listing of the Company’s shares on 30 March 2016. The Company has complied with the code provisions of the CG Code set out therein except for the code provision A.2.1 of the CG Code throughout the six months ended 30 June 2017.

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

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the Directors. Having made specific enquiries with all the Directors, the Company confirms that all the Directors have complied with the required standard as set out in the Model Code during the six months ended 30 June 2017.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the Group’s unaudited interim financial information for the six months ended 30 June 2017. At the request of the Board, the Company’s external auditor, PricewaterhouseCoopers, has carried out a review of the unaudited interim financial information in accordance with Hong Kong Standard on Review Engagement 2410 issued by the Hong Kong Institute of Certified Public Accountants.

By order of the Board
SMIT Holdings Limited
Huang Xueliang
Chairman

Hong Kong, 31 July 2017

Independent Auditor's Report



羅兵咸永道

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF SMIT HOLDINGS LIMITED**
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 23 to 48, which comprises the condensed consolidated statement of financial position of SMIT Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion of this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 July 2017

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Condensed Consolidated Statement of Financial Position

As at 30 June 2017 and 31 December 2016

	Note	Unaudited 30 June 2017 USD	Audited 31 December 2016 USD
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,863,311	2,009,722
Other intangible assets	8	109,504	192,409
Goodwill	8	6,337,123	6,188,584
Trade and other receivables and prepayments	9	1,176,517	214,665
Financial assets at fair value through profit or loss	10	3,529,802	—
Deferred income tax assets		1,645,772	2,180,722
		14,662,029	10,786,102
Current assets			
Inventories		12,269,586	6,866,835
Trade and other receivables and prepayments	9	18,380,502	22,100,681
Short-term bank deposits		20,089,414	13,269,022
Cash and cash equivalents		51,888,763	56,409,071
		102,628,266	98,645,609
Total assets		117,290,295	109,431,711
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	11	6,066	6,037
Share premium	11	97,275,245	97,421,918
Merger reserve		(48,810,141)	(48,810,141)
Share-based payment reserve		20,367,295	20,483,902
Statutory reserve		4,099,819	4,099,819
Retained earnings		29,739,204	26,263,453
Capital reserve		1,212,543	1,212,543
Exchange reserve		46,915	(1,584,853)
Total equity		103,936,946	99,092,678

Condensed Consolidated Statement of Financial Position

As at 30 June 2017 and 31 December 2016

	Note	Unaudited 30 June 2017 USD	Audited 31 December 2016 USD
LIABILITIES			
Current liabilities			
Trade payables	12	5,029,857	2,312,533
Accruals and other payables		6,806,458	5,948,656
Deferred revenue		1,150,497	1,424,420
Income tax payable		366,537	653,424
Total liabilities		13,353,349	10,339,033
Total equity and liabilities		117,290,295	109,431,711
Net current assets		89,274,917	88,306,576
Total assets less current liabilities		103,936,946	99,092,678

The notes on pages 29 to 48 form an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	Note	Unaudited	
		Six months ended	
		30 June	30 June
		2017	2016
		USD	USD
Revenue	6	32,212,804	26,943,672
Cost of sales	13	(19,308,329)	(15,585,891)
Gross profit		12,904,475	11,357,781
Other (losses)/gains, net	7	(773,665)	743,602
Other income	7	336,596	460,302
Research and development expenses	13	(3,541,458)	(3,269,581)
Selling and distribution expenses	13	(1,470,193)	(1,629,887)
General and administrative expenses	13	(3,372,163)	(5,188,295)
Operating profit		4,083,592	2,473,922
Finance income		236,550	83,312
Profit before income tax		4,320,142	2,557,234
Income tax expense	14	(844,391)	(603,909)
Profit for the period attributable to owners of the Company		3,475,751	1,953,325
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Translation differences		1,631,768	(1,376,691)
Total comprehensive income for the period attributable to owners of the Company		5,107,519	576,634
Earnings per share attributable to owners of the Company for the period (expressed in USD per share)			
Basic earnings per share	16	0.012	0.007
Diluted earnings per share	16	0.011	0.007

The notes on pages 29 to 48 form an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Unaudited Attributable to owners of the Company								
	Share capital USD	Share premium USD	Merger reserve USD	Share-based payment reserve USD	Statutory reserve USD	Capital reserve USD	Exchange reserve USD	Retained earnings USD	Total equity USD
For the six months ended 30 June 2017									
Balance at 1 January 2017	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
Comprehensive income									
Profit for the period	—	—	—	—	—	—	—	3,475,751	3,475,751
Translation differences	—	—	—	—	—	—	1,631,768	—	1,631,768
Total comprehensive income for the period									
	—	—	—	—	—	—	1,631,768	3,475,751	5,107,519
Transaction with owners									
Share-based compensation	—	—	—	7,136	—	—	—	—	7,136
Issues of shares under employee share award scheme	20	302,563	—	—	—	—	—	—	302,583
Exercise of share options	9	131,610	—	(123,743)	—	—	—	—	7,876
Dividends relating to 2016 paid in May 2017	—	(580,846)	—	—	—	—	—	—	(580,846)
Transaction with owners, recognised directly in equity									
	29	(146,673)	—	(116,607)	—	—	—	—	(263,251)
Balance at 30 June 2017	6,066	97,275,245	(48,810,141)	20,367,295	4,099,819	1,212,543	46,915	29,739,204	103,936,946

The notes on pages 29 to 48 form an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Unaudited Attributable to owners of the Company								
	Share capital USD	Share premium USD	Merger reserve USD	Share-based payment reserve USD	Statutory reserve USD	Capital reserve USD	Exchange reserve USD	Retained earnings USD	Total equity USD
For the six months ended 30 June 2016									
Balance at 1 January 2016	3,049	63,331,486	(48,810,141)	20,894,252	3,389,227	1,212,543	2,682,985	19,473,459	62,176,860
Comprehensive income									
Profit for the period	—	—	—	—	—	—	—	1,953,325	1,953,325
Translation differences	—	—	—	—	—	—	(1,376,691)	—	(1,376,691)
Total comprehensive income for the period									
	—	—	—	—	—	—	(1,376,691)	1,953,325	576,634
Transaction with owners									
Share-based compensation	—	—	—	49,764	—	—	—	—	49,764
Issues of shares under the capitalisation issue	1,451	(1,451)	—	—	—	—	—	—	—
Issues of shares under the open offer	1,500	33,548,332	—	—	—	—	—	—	33,549,832
Exercise of share options	23	448,436	—	(419,137)	—	—	—	—	29,322
Transaction with owners, recognised directly in equity									
	2,974	33,995,317	—	(369,373)	—	—	—	—	33,628,918
Balance at 30 June 2016	6,023	97,326,803	(48,810,141)	20,524,879	3,389,227	1,212,543	1,306,294	21,426,784	96,382,412

The notes on pages 29 to 48 form an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Note	Unaudited	
		30 June 2017 USD	30 June 2016 USD
Cash flows from operating activities			
Cash generated from operations		6,119,331	7,948,842
Income tax paid		(584,201)	(620,322)
Net cash generated from operating activities		5,535,130	7,328,520
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(141,411)	(82,536)
Increase in short-term bank deposits		(6,820,392)	—
Purchase of financial assets at fair value through profit or loss		(3,467,702)	—
Interest income received		236,550	83,312
Net cash (used in)/generated from investing activities		(10,192,955)	776
Cash flows from financing activities			
Payment for listing expenses		—	(1,741,972)
Payment for dividend		(580,846)	—
Issue of shares under open offer		—	36,346,153
Exercise of share options		7,876	29,322
Net cash (used in)/generated from financing activities		(572,970)	34,633,503
Net (decrease)/increase in cash and cash equivalents		(5,230,795)	41,962,800
Cash and cash equivalents at 1 January		56,409,071	33,972,375
Effect of foreign exchange rate changes		710,487	(605,997)
Cash and cash equivalents at 30 June		51,888,763	75,329,178

The notes on pages 29 to 48 form an integral part of this interim condensed consolidated financial information.

Notes to the Condensed Interim Financial Information

1 GENERAL INFORMATION

SMIT Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) principally engage in the development and sales of conditional access modules (“CAM”) and mobile point-of-sales (“mPOS”) that enable secure distribution and delivery of digital content to television and secure mobile payment transactions respectively. The Group also engages in the supply of O2O smart terminals and blockchain servers.

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

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

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

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRS effective for the financial year ending 31 December 2017 as described below.

Notes to the Condensed Interim Financial Information

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

2.1 *Accounting policies not described in the annual financial statements for the year ended 31 December 2016 (continued)*

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets designated at fair value through profit or loss at inception and are not classified as held for trading, but are managed, and their performance is evaluated on a fair value basis. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

Financial assets at fair value through profit or loss are initially recognized at fair value and subsequently measured at fair value. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the condensed consolidated statement of comprehensive income within 'other (losses)/gains, net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the condensed consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

(b) *Share-based payments (share award)*

The Group granted shares (award shares) of the Company to employees. The award shares issued were recognised in equity. The fair value of the employee services received in exchange for the grant of the shares was recognised as an expense.

2.2 *Amended standards adopted by the Group*

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements Project (Amendment)	Annual Improvements 2014-2016 Cycle

These amended standards have not had a significant impact on the Group's condensed consolidated interim financial information for the six months ended 30 June 2017.

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

Notes to the Condensed Interim Financial Information

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

2.3 *Impact of standards issued but not yet applied by the Group*

(a) HKFRS 9, "Financial instruments"

HKFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reason:

- Equity investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Management is still assessing the financial impact. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(b) HKFRS 15, "Revenue from contracts with customers"

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Notes to the Condensed Interim Financial Information

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

2.3 *Impact of standards issued but not yet applied by the Group (continued)*

(b) HKFRS 15, "Revenue from contracts with customers" *(continued)*

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.

Management has identified the following areas that are likely to be affected:

- accounting for costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and
- rights of return – HKFRS 15 requires separate presentation on the consolidated statement of financial position of the right to recover the goods from the customer and the refund obligation.

Management is still assessing the financial impact. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(c) HKFRS 16, "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of US\$1,206,817 (Note 17). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

Management is still assessing the financial impact. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the Condensed Interim Financial Information

3 FINANCIAL RISK MANAGEMENT

3.1 *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk, and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

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

3.2 *Liquidity risk*

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

3.3 *Fair value estimation*

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the six months ended 30 June 2017.

The carrying values of the Group's current financial assets, including trade and other receivables, short-term bank deposits and cash and cash equivalents, and current financial liabilities, including trade and other payables, approximate their fair values due to their short maturities. The carrying amount of non-current trade and other receivables approximate its fair value which are estimated based on the discounted cash flows.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Condensed Interim Financial Information

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2017.

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
As at 30 June 2017 (unaudited)				
Financial assets at fair value through profit or loss	—	—	3,529,802	3,529,802

There are no financial assets and liabilities that are measured at fair value at 31 December 2016.

There were no transfers between Levels 1, 2 and 3 during the period.

There were no other changes in valuation techniques during the period.

3.4 Fair value measurements using significant unobservable inputs (Level 3)

	Unaudited Financial assets at fair value through profit or loss USD
Opening balance at 1 January 2017	—
Additions for the period	3,467,702
Gains recognised in profit or loss	62,100
Closing balance at 30 June 2017	3,529,802
Total unrealised gains for the period included in profit or loss for assets held at the end of the reporting period	62,100

Of the total gains recognised in profit or loss during the six months ended 30 June 2017, all amounts are attributable to the change in unrealised gains relating to those assets held at the end of the reporting period.

Specific valuation techniques used to value financial instruments carried at fair value include:

- The Group has determined that the reported net asset value of the unlisted fund represents its value at the end of reporting period.
- The fair value of unlisted equity security is determined using comparable recent arm's length transactions.

Notes to the Condensed Interim Financial Information

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, with the exception of the estimates that are required in determining the fair value of financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss of the Group that are not quoted or actively traded in the market involves significant amounts of accounting estimates, assumptions and judgements. Actual results could differ from those estimates and assumptions; and could affect the carrying amount of these assets within the next financial year. For the investment in an unlisted investee company and the investment in an unlisted fund where there are no active trade markets, the Group estimates the fair value of these investments with reference to the fair values of the underlying investments held by the investee companies, such as those provided by the financial and market information. It also employs valuation techniques commonly used by market participants including those based on share of net asset value of the investees. The determination of fair value of the investments involves significant estimates and assumption.

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 ("CODM") is identified as the Chief Executive Officer of the Company. The Group is organised into three operating divisions: CAM and mPOS, Blockchain servers and online to offline ("O2O") smart terminals.

CAM and mPOS – development and sales of security products (CAM and mPOS devices) that enable secure distribution and delivery of digital content to television and secure mobile payment transactions respectively.

Blockchain servers – development and sales of integrated blockchain chipsets and servers.

O2O smart terminals – development and sales of O2O smart terminals for cross-border e-commerce business.

Notes to the Condensed Interim Financial Information

5 SEGMENT INFORMATION *(continued)*

The CODM reviews the performance of the Group on a regular basis and reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM assesses the performance of the operating segments based on a measure of segment results. This measurement basis includes gross profit of the operating segments. Other information provided to the CODM is measured in a manner consistent with that in this interim condensed consolidated financial information.

	CAM and mPOS USD	Blockchain servers USD	Unaudited O2O smart terminals USD	Total USD
For the six months ended 30 June 2017				
Segment revenue				
External revenue	28,754,352	2,525,159	933,293	32,212,804
Segment results	12,057,753	589,618	257,104	12,904,475
For the six months ended 30 June 2016				
Segment revenue				
External revenue	26,943,672	—	—	26,943,672
Segment results	11,357,781	—	—	11,357,781
	CAM and mPOS USD	Blockchain servers USD	O2O smart terminals USD	Total USD
At 30 June 2017 (unaudited)				
Segment assets	23,121,542	11,968,982	2,967,146	38,057,670
At 31 December 2016 (audited)				
Segment assets	31,501,695	—	—	31,501,695

Segment assets consist primarily of goodwill, other intangible assets, inventories trade and other receivables and prepayments and financial assets at fair value through profit or loss but exclude deferred income tax assets, property, plant and equipment, cash and cash equivalents, short-term bank deposits and corporate and unallocated assets.

Notes to the Condensed Interim Financial Information

5 SEGMENT INFORMATION *(continued)*

A reconciliation of reportable segment results to profit before income tax is provided as follows:

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	USD	USD
Reporting segment results	12,904,475	11,357,781
Other income	336,596	460,302
Other (losses)/gains, net	(773,665)	743,602
Finance income	236,550	83,312
Corporate and unallocated expenses	(8,383,814)	(10,087,763)
Profit before income tax	4,320,142	2,557,234

Reportable segments assets are reconciled to total assets as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	USD	USD
Reportable segment assets	38,057,670	31,501,695
Deferred income tax assets	1,645,772	2,180,722
Property, plant and equipment	1,863,311	2,009,722
Cash and cash equivalents	51,888,763	56,409,071
Short-term deposits	20,089,414	13,269,022
Corporate and unallocated assets	3,745,365	4,061,479
Total assets per condensed consolidated statement of financial position	117,290,295	109,431,711

Notes to the Condensed Interim Financial Information

6 REVENUE

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	USD	USD
Revenue		
– CAM	22,739,535	18,642,045
– mPOS devices	6,014,817	8,301,627
– Blockchain servers	2,525,159	—
– O2O smart terminals	933,293	—
Total sales of goods	32,212,804	26,943,672

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

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	USD	USD
Other (losses)/gains, net		
– Exchange (losses)/gains, net	(835,765)	743,602
– Fair value gains on financial assets at fair value through profit or loss	62,100	—
	(773,665)	743,602
Other income		
– Government grants	307,142	409,108
– Others	29,454	51,194
	336,596	460,302

Notes to the Condensed Interim Financial Information

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

	Goodwill USD	Unaudited Property, plant and equipment USD	Other intangible assets USD
Six months ended 30 June 2016			
Opening net book amount	6,611,157	2,365,533	490,661
Additions	—	82,536	—
Disposals	—	(6,763)	—
Depreciation and amortisation (Note 13)	—	(308,532)	(109,224)
Currency translation differences	(137,184)	(41,640)	(80,964)
Closing net book amount	6,473,973	2,091,134	300,473
Six months ended 30 June 2017			
Opening net book amount	6,188,584	2,009,722	192,409
Additions	—	141,411	—
Disposals	—	(1,689)	—
Depreciation and amortisation (Note 13)	—	(326,465)	(82,999)
Currency translation differences	148,539	40,332	94
Closing net book amount	6,337,123	1,863,311	109,504

Notes to the Condensed Interim Financial Information

9 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	USD	USD
Trade receivables	7,485,493	18,739,298
Less: Provision for impairment of trade receivables	(1,365,898)	(1,208,748)
Trade receivables – net	6,119,595	17,530,550
Other receivables and prepayments	13,437,425	4,784,796
	19,557,020	22,315,346
Less: Non-current portion	(1,176,517)	(214,665)
	18,380,503	22,100,681

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	USD	USD
Less than 30 days	1,516,851	6,086,764
31 to 60 days	1,602,982	3,920,039
61 to 90 days	1,007,056	2,944,571
91 to 180 days	1,866,775	4,500,721
181 to 365 days	120,680	78,455
Over 365 days	5,251	—
	6,119,595	17,530,550

Notes to the Condensed Interim Financial Information

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	USD	USD
Designated at fair value through profit or loss at inception:		
Unlisted equity security (Note (a))	1,967,702	—
Unlisted fund (Note (b))	1,562,100	—
	3,529,802	—

Note:

- (a) The unlisted equity security represents 8.89% interest in Mainsweb Technology (Shenzhen) Company Limited, a company incorporated in the PRC being principally engaged in the operation of a one-stop cross-border e-commerce platform in the PRC. The fair value is within level 3 of the fair value hierarchy (see Note 3.3).
- (b) On 6 April 2017, the Group made an investment of USD1,500,000 in an unlisted fund, by way of a subscription for 15,000 non-voting participating redeemable shares, which are registered in the Cayman Islands. The fair value is within level 3 of the fair value hierarchy (Note 3.3). During the six months ended 30 June 2017, a total gain of USD62,100 is recognised in the condensed statement of comprehensive income.

Notes to the Condensed Interim Financial Information

11 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Normal value of ordinary shares USD	Share premium USD
Authorised:			
Ordinary share of US\$0.00002 each at 1 January 2016, 31 December 2016 and 30 June 2017	2,500,000,000	50,000	—
Issued and fully paid			
As at 1 January 2016	152,425,225	3,049	63,331,486
Issues of shares under the capitalisation issue (note a)	72,574,775	1,451	(1,451)
Issues of shares under the open offer (note b)	75,000,000	1,500	33,548,332
Exercise of share options (note c)	1,856,379	37	543,551
As at 31 December 2016	301,856,379	6,037	97,421,918
Issues of shares under the employee share award scheme (note d)	1,005,000	20	302,563
Exercise of share options (note c)	435,467	9	131,610
Dividends relating to 2016 paid in May 2017	—	—	(580,846)
As at 30 June 2017	303,296,846	6,066	97,275,245

Note:

(a) 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.

(b) Issuance of ordinary shares for initial public offering

On 29 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 Hong Kong Stock Exchange. The gross proceeds received by the Company from the initial public offering amounted to HK\$283,500,000 (equivalent to US\$36,346,153). Transaction cost attributable to issue of shares of US\$2,796,321 has been offset against the share premium. Dealings in these shares on the Hong Kong Stock Exchange commenced on 29 March 2016.

Notes to the Condensed Interim Financial Information

11 SHARE CAPITAL AND SHARE PREMIUM *(continued)*

(c) Exercise of share options

During the six months ended 30 June 2017, 435,467 options were exercised (30 June 2016: 1,148,169 options) to subscribe for 435,467 ordinary shares (30 June 2016: 1,148,169 shares) in the Company at a consideration of US\$7,876 (30 June 2016: US\$29,332) of which US\$9 (30 June 2016: US\$23) was credited to share capital and the balance of US\$7,867 (30 June 2016: US\$29,299) was credited to the share premium account. US\$123,743 (30 June 2016: US\$419,137) has been transferred from the share-based compensation reserve to the share premium account. As at 30 June 2017, there were in total 55,250,057 options (at 30 June 2016: 56,576,124) remain outstanding.

(d) Issuance of shares under employee share award

On 30 June 2017, a total of 1,005,000 share award on the Company's ordinary share were granted to certain employees in recognition of, and as award for, the contribution of such employees. The grant date fair value of these share award was HK\$2.35 per share. Employee benefit expenses of US\$302,583 were recognised in the condensed consolidated statement of comprehensive income during the period.

12 TRADE PAYABLES

Trade payables are aged as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	USD	USD
Less than 30 days	3,914,116	2,081,113
31 to 90 days	1,067,019	180,609
91 to 180 days	6,018	—
181 to 365 days	—	8,183
Over 365 days	42,704	42,628
	5,029,857	2,312,533

Notes to the Condensed Interim Financial Information

13 EXPENSES BY NATURE

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	USD	USD
Auditors' remuneration – audit services	186,776	161,948
Advertising costs	357,758	563,584
Cost of inventories	16,691,564	12,747,699
Employee benefit expenses (including directors' emoluments)	5,182,148	4,510,209
Royalty expenses	1,837,055	1,809,612
Amortisation of intangible assets (Note 8)	82,999	109,224
Depreciation of property, plant and equipment (Note 8)	326,465	308,532
Legal and professional fees	189,396	389,174
Operating lease payments	684,864	561,038
Provision for impairment of trade receivables	126,036	25,130
(Reversal of)/provision for impairment of inventories	(46,923)	355,139
Travelling and entertainment expenses	602,502	649,105
Listing expenses	—	1,908,416
Other expenses	1,471,503	1,574,844
	27,692,143	25,673,654
Representing:		
Cost of sales	19,308,329	15,585,891
Research and development expenses	3,541,458	3,269,581
Selling and distribution expenses	1,470,193	1,629,887
General and administrative expenses	3,372,163	5,188,295
	27,692,143	25,673,654

Notes to the Condensed Interim Financial Information

14 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the period.

Taxation on profits generated in the PRC has been calculated on the estimated assessable profit for the period at the rate of 25% (2016: 15%). Taxation on overseas profit has been calculated on the estimated assessable profits for the period at the applicable rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	USD	USD
Current income tax		
– PRC corporate income tax	290,015	506,922
Overseas tax	19,426	—
Deferred income tax	534,950	96,987
Total income tax expense	844,391	603,909

15 DIVIDEND

A dividend of US\$580,846 that relates to the period of 31 December 2016 was paid in May 2017 (2016: Nil).

The board of directors does not recommend any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

Notes to the Condensed Interim Financial Information

16 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares deemed to be in issue during the six months ended 30 June 2017 and 2016:

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	USD	USD
Profit attributable to owners of the Company	3,475,751	1,953,325
Weighted average number of ordinary shares in issue	301,965,831	263,821,525
Basic earnings per share	0.012	0.007

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the respective year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	USD	USD
Profit attributable to owners of the Company	3,475,751	1,953,325
Weighted average number of ordinary shares in issue	301,965,831	263,821,525
Adjustments for share options	18,153,255	13,083,765
Weighted average number of ordinary shares for diluted earnings per share	320,119,086	276,905,290
Diluted earnings per share	0.011	0.007

Notes to the Condensed Interim Financial Information

17 COMMITMENTS

(a) Capital commitments

The Group did not have any material capital commitments as at 30 June 2017 and 31 December 2016.

(b) Operating lease commitments

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	USD	USD
No later than 1 year	784,539	847,626
Later than 1 year and no later than 5 years	422,278	892,767
	1,206,817	1,740,393

18 RELATED PARTY BALANCES AND TRANSACTIONS

- (a) The directors are of the view that the following individuals and company were related parties that had transactions or balances with the Group during the six months ended 30 June 2017 and year ended 31 December 2016:

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

Notes to the Condensed Interim Financial Information

18 RELATED PARTY BALANCES AND TRANSACTIONS *(continued)*

(b) Transactions with related parties

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

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	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	403,117	370,061

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

(c) Key management compensation

Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below

	Unaudited	
	Six months ended	
	30 June	30 June
	2017	2016
	USD	USD
Basic salaries, allowances and benefits in kind	483,318	373,197
Discretionary bonuses	136,191	52,028
Share-based payments	2,302	25,510
Retirement benefit-defined contribution plan	19,397	21,250
	641,208	471,985