國微技術控股有限公司
SMIT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2239

ANNUAL REPORT 2017

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

Mr. Zhang Junjie
Mr. Woo Kar Tung, Raymond
Mr. Jin Yufeng

SENIOR MANAGEMENT

Mr. Shuai Hongyu
Mr. Loong, Manfred Man-tsun

COMPANY SECRETARY

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

AUDIT COMMITTEE

Mr. Woo Kar Tung, Raymond *(Chairman)*
Mr. Zeng Zhijie
Mr. Zhang Junjie

REMUNERATION COMMITTEE

Mr. Zhang Junjie *(Chairman)*
Mr. Jin Yufeng
Mr. Zeng Zhijie

NOMINATION COMMITTEE

Mr. Huang Xueliang *(Chairman)*
Mr. Jin Yufeng
Mr. Woo Kar Tung, Raymond

REGISTERED OFFICE IN THE CAYMAN ISLANDS

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Shenzhen, PRC

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

COMPANY'S WEBSITE

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CAYMAN SHARE REGISTRAR AND TRANSFER AGENT

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Cayman Islands

HONG KONG SHARE REGISTRAR

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Shops 1712-1716, 17th Floor
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183 Queen's Road East
Wanchai
Hong Kong

COMPLIANCE ADVISER

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

PRINCIPAL BANKER

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

AUDITOR

PricewaterhouseCoopers

STOCK CODE

2239

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of SMIT Holdings Limited ("SMIT" or the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to announce the annual results of the Group for the year ended 31 December 2017.

In 2017, SMIT implemented diversification strategy and achieved promising results. Apart from continuously driving the existing mobile points-of-sales ("mPOS") and conditional access modules ("CAMs") businesses, it actively developed two new businesses, namely the development and sale of the O2O smart terminals and blockchain servers, and made investments in related businesses of the Group to create synergies, thereby further expanding its scope of business to different spheres.

BUSINESS REVIEW

Owing to the successfully deployed strategy of growth and diversification, the Group reported remarkable business results during the year. Benefiting from considerable revenue contributions from the new businesses, the Group's net profit in 2017 increased by 48% to US$11.1 million when compared with 2016. The Group's revenues amounted to US$91.8 million in 2017 versus US$59.1 million in 2016, representing a year-on-year increase of 55.3%. Net profit margin was 12.1%, which was stable when compared with last year. Basic earnings per share for the year were US3.7 cents (2016: US2.7 cents).

In 2017, the Group leveraged its extensive experience in the security and chipset industries to achieve its goals of technology realization and business expansion. It expanded the existing CAMs and mPOS businesses to different markets and also devoted resources to developing the new O2O smart terminal and blockchain server businesses.

During the year, the CAMs business performed in a stable manner as a whole. It recorded significant increase in orders from the European market, benefiting from the region's economic regions. However, the CAMs business in emerging markets remained in development and reported lesser sales, which partially offset the business results in Europe. We expect the overall CAMs business to achieve steady growth in the coming year. One reason for this is its ability to benefit from long-term bulk orders from some of our major customers. Secondly, the new products jointly developed by the Group and different strategic partners can meet the varied demands of emerging markets. For example, the USB CAM products are able to complement TV manufacturers and hotels in emerging markets; hence can spur demand and broaden source of income. Although the performance of the mPOS devices business was adversely affected by intense competition, the Group will continue to improve the competitiveness of our products, with greater focus on large-order customers and more technology certification from payment authorities, which we believe will improve revenue generation. In the meantime, the Group has started to apply for safety certifications for overseas markets. Some products have been submitted for testing and are expected to pass certification within 2018. All of these efforts will thereby lay a solid foundation for the Group in exploring overseas markets.

Regarding the Group's new businesses, the O2O smart terminal business marks the Group's first step in entering the overseas online shopping market. This new business began contributing revenue to the Group despite being in its initial development stage. We expect to use the related technologies in more types of products as our experience and the technologies accumulate. As for the blockchain server business, it made considerable revenue contribution to the Group this year. Sales revenue from the business reached US$39.0 million as at the year ended 31 December 2017, accounting for approximately 42.5% of the Group's total revenue. The Group will therefore continue to maintain an interest in the developments in blockchain technology.

Last year, the Group was extremely delighted to win the "Best Innovations" award from Bloomberg BusinessWeek (Chinese Edition), taking particular pride in being listed among "Listed Enterprises of the Year 2017"receiving the highest score among all contenders. Earning such honor not only speaks volumes about SMIT's ability to maintain strong business performance, but also demonstrates the widespread recognition that the Group receives from different sectors for its high level of corporate governance, good investor relations, continuously innovative strategies and contributions to society. Moreover, the Group is also the winner of the 2017 Global CAM Market Leadership Award from Frost & Sullivan, an internationally renowned business consulting firm.

PROSPECTS

Entering 2018, the Group has made progress through the completion of investments in two industry-related companies at the forefront of innovation, so as to enhance its own R&D level and jointly explore lucrative business ventures. The Group invested in a Shenzhen-based company that specializes in main control chips for flash memory, as well as a US company that specialises in advanced touch solutions. Through such investments, the Group hopes to integrate the technological strengths of both companies, which will consequently bolster the Group's foundation in advanced technologies as well as enable it to expand its business scope to new products and service segments.

Going forward, by leveraging its advanced technologies in the payment and security segments, SMIT will continue to look for companies with development potential and cutting-edge technologies to invest in and cooperate with, in a bid to bring new business opportunities to the Group and consolidate its position as a technology leader in the industry.

The listing has provided us with a very good platform to facilitate our cooperation with different technology companies, enabling us to explore new businesses with good prospects while focusing on growth opportunities in our existing business. In the future, the Group will continue its endeavors to expand its business presence and to extend its leading position.

Chairman's Statement

ACKNOWLEDGEMENT

The Group's continued successes are attributable to the cooperation and support of all parties, including its dedicated Board members, management team and all employees. Their endeavors and contributions gave us the vital momentum to drive our business forward. Also, the ongoing support and trust of all shareholders, business partners and customers provided the shield for the Group, affording it to maintain stability while at the same time to seek change and direct attention towards business expansion. In 2018, we will continue to persevere while leveraging our vision to continue pushing forward; balancing prudence with pragmatism to develop the Group's businesses with the aim of creating greater value for our shareholders.

Chairman
Huang Xueliang
Hong Kong, 26 March 2018

Management Discussion and Analysis

BUSINESS REVIEW

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

The Group has entered into the cross-border e-commerce O2O smart terminal business in cooperation with a Shenzhen-based one-stop cross-border e-commerce company in the first half of 2017. Moreover, the Group has entered into a strategic partnership with a Shenzhen-based technology company in relation to the development of blockchain server business. According to this agreement, the two companies will combine their technologies to develop and produce blockchain chipsets and servers to be incorporated within servers with strong computing capability for players who wish to get advanced blockchain solutions.

CAMs

Overall, the Group's CAMs business recorded stable performance during the year. The orders from the European markets increased significantly, attributable to the improvement of the economy across the region. Most of the emerging markets, including India, also reported year-on-year growth in sales volume. Other regions, including Russia and China, were still at an early stage of development. For the year ended 31 December 2017, sales revenue of the Group's CAMs amounted to approximately US$36.8 million, representing a slight decline of 3.2% when compared with US$38.0 million in 2016, and accounted for 40.1% of the Group's total revenue.

In fact, the European market remained as the core geographical market of the CAMs business and reported a growth of approximately 12.2% in sales revenue when compared with the same period last year. The contribution from overseas markets remained stable compared with 2016 and accounted for 37.8% of the Group's total revenue during the year under review. The positive performance of the European market was mainly attributable to the gradual recovery of the relevant European countries fueled by economic growth, new growth drivers generated from existing customers and the continued procurement by major customers, which boosted the Group's overall sales performance. In particular, significant revenue growth resulted from the continuous mass shipment of USB TV-sticks to a major customer newly secured in 2016. The DVB-T2 technology, which is new in the industry, and incorporated in USB TV-sticks also presented new development potential.

Management Discussion and Analysis

At the International Broadcasting Convention (IBC) held in September 2017, the Group launched the world's first fully functional USB CAM prototype which was compatible with the DVB CI Plus 2.0 standard. It was designed by collaboration with the world's leading digital platform security provider Irdeto, supplier of all-in-one digital TV System-on-Chip MStar, and manufacturer of all-in-one digital TV TP Vision and Rabbit Labs. This initiative can not only attract more customers from different countries, but also makes it easier for the Group to partner with TV manufacturers in emerging markets on product development and operation for market expansion. The prototype adopts Irdeto's chip platform that incorporates the strongest security features, which enables operators to receive 4K ultra HQ TV programmes reliably on the USB CAM platform at lower costs.

During the year, the Group has also launched a USB memory stick that enables personal computers to receive terrestrial television signals, further broadening the applications of the USB TV-stick product line. Furthermore, the Group has commenced cooperation with Beijing Gehua CATV Network Co., Ltd ("BGCTV") to replace set-top boxes in hotels served by BGCTV in Beijing with the Group's self-developed USB CAM product, marking its foray into the hotel market in Mainland China and its success in expanding income sources and generating sales revenue from the first orders. The Group is optimistic about the prospects for future sales of USB CAM products in specific markets in Mainland China, and the Group will continue to allocate resources for research and development as well as promotion, and expects growth in sales of USB CAM products in 2018.

mPOS

Sales revenue of mPOS devices amounted to approximately US$14.8 million, representing a decrease of approximately 29.9% when compared with US$21.1 million in 2016, and accounted for approximately 16.1% of the Group's total revenue. The decrease is mainly due to intensified market competition which has affected the purchase decision of buyers who are price sensitive.

Having advanced its technological capabilities in the first half of 2017, the Group's products have become more competitive in the market during the second half of the year, and secured prominent customers such as Calliance Payment and CNEPay.com, which substantially enhanced the market recognition of the Group's mPOS solution. During the year, the Group has speeded up the certification process for its UnionPay acceptance terminal. Its smart POS SM40 has earned the "UnionPay Card Acceptance Terminal Safety Certification".

Since the second half of the year, the mPOS business gradually reduced heavy reliance on a single large customer. The Group hopes to support more diversified payment methods or add more value-added functions through continuous upgrade of a safety system and the development of new product models. Meanwhile, it has proactively explored opportunities to cooperate with payment operators, commercial banks and other types of potential mPOS customers. In 2018, mPOS business revenue could turn around as the Group's technology solutions mature with greater functionality, thereby increasing product competitiveness and expanding its clientele.

O2O Smart Terminals

Although it was still at the initial development stage, the O2O smart terminals business started contributing to the revenue of the Group. For the year ended 31 December 2017, sales revenue of the business amounted to US$1.2 million, accounting for 1.3% of the Group's total revenue.

The Group provided smart terminals for a Shenzhen-based one-stop cross-border e-commerce company by leveraging its extensive experience and technology in the POS field. The Group believes that as the operation model matures, its accumulated industry experience and advanced products will help to further expand its customer base, especially among similar cross-border e-commerce companies. Although the O2O smart terminal business contributed only a small portion of the Group's total revenue, it has a huge development potential, as its relevant technology can be applied to different categories. The Group plans to further develop new products and explore new customers by building on the foundation of existing technology.

Blockchain Server Business

Despite a rather short development history, the blockchain server business has made a considerable revenue contribution of US$39.0 million for the year ended 31 December 2017, accounting for 42.5% of the Group's total revenue.

The blockchain server business is the result of collaboration between the Group and a Shenzhen technology company combining their expertise in their respective fields. The Group is continuing to focus on the development of blockchain technology.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, revenue of the Group was US$91.8 million, up by about 55.3% compared with 2016. The growth was mainly due to the rapid growth of the blockchain server business in the second half of the year. The following table shows revenue breakdown by business segments:

	Year ended 31 December				
	2017		2016		
	US$ million	**%**	US$ million	%	Change in %
Blockchain server	**39.0**	**42.5**	—	—	—
CAMs	**36.8**	**40.1**	38.0	64.4	-3.2%
mPOS	**14.8**	**16.1**	21.1	35.6	-29.9%
O2O smart terminals	**1.2**	**1.3**	—	—	—
	91.8	**100**	59.1	100	+55.3%

Gross Profit and Gross Profit Margin

Gross profit amounted to US$32.5 million for the year ended 31 December 2017, representing an increase of US$9.0 million or 38.6% when compared with the corresponding period in 2016 mainly due to the surge in gross profit of US$12.6 million in the blockchain servers segment. Gross profit margin decreased by 4.3% year-on-year to 35.4%, which was mainly attributable to the increased contribtuion from block chain servers segement as well as the flat sales of the CAM business with higher margins leading to a lower proportion of that product in total sales revenue.

Research and Development Expenses

Research and development expenses mainly include salaries and benefits of the Group's research and development staff, rental and office expenses, CA certification fees, professional service fees and transportation and lodging. During the year ended 31 December 2017, research and development expenses grew from US$6.8 million to US$7.8 million, mainly due to the year-on-year increase of US$0.5 million in staff slaries and benefits and the increase of US$0.5 million in research and development.

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. For the year ended 31 December 2017, sales and distribution expenses were US$3.0 million, up by 4.6% compared with 2016, which was mainly due to the year-on-year increase of US$0.2 million in staff wages and bonuses and the drop in market promotion and advertising fees of US$0.2 million.

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. For the year ended 31 December 2017, general and administrative expenses decreased by 29.2% when compared with the last corresponding period to US$7.2 million. The decrease was mainly attributable to the year-on-year drop of US$2.4 million in professional service fees, of which listing expenses comprised the largest proportion.

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. Income tax increased from a US$0.1 million tax credit for the year ended 31 December 2016 to a US$2.9 million tax expense for the year ended 31 December 2017, mainly due to the year-on-year growth of US$1.0 million in the operating profit of the PRC subsidiary and remeasurement of certain deferred tax balances at a preferential tax rate of 15% upon approval received by the Group's subsidiary in the PRC as a High/New Technology Enterprise which increased the income tax charge and amount paid in the period.

Profit for the Year

Profit for the year ended 31 December 2017 amounted to US$11.1 million, an increase of 48.0% when compared with 2016. It was mainly attributable to the increase in gross profit of US$12.6 million from the blockchain server business.

Management Discussion and Analysis

Liquidity, Financial Resources and Debt Structure

The Group continued to maintain a healthy and solid liquidity position. As at 31 December 2017, total cash and cash equivalents of the Group amounted to US$84.1 million (as at 31 December 2016: US$56.4 million) and were mainly denominated in RMB and US dollars. The Group recorded net current assets amounting to US$100.3 million (as at 31 December 2016: US$88.3 million) and its current ratio, calculated by dividing total current assets by total current liabilities, was 678.0% (as at 31 December 2016: 954.1%).

As at 31 December 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 was not applicable.

Use of Net Proceeds from Listing

The aggregate net proceeds raised by the Company from the Listing through the issue of an aggregate of 75,000,000 new shares (the "Offer Shares") at the final offer price of HK$3.78 per Offer Share pursuant to the Global Offering referred to in the prospectus issued by the Company on 16 March 2016 (the "Prospectus"), after deduction of underwriting commissions and expenses directly attributable to the Global Offering, were approximately HK$251.6 million. Based on the net proceeds derived from the Global Offering, proposed application of net proceeds as stated in the Prospectus had been adjusted according to the principles as specified in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

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

Business objectives as stated in the Prospectus	Percentage of proceeds as stated in the Prospectus	Use of proceeds adjusted according to actual gross proceeds less estimated listing expense	Actual use of proceeds from the Listing Date to the date of this report
		HK$ million	HK$ million
Product planning and research and development	40%	100.64	23.4
Sales and marketing expenditures	30%	75.48	6.93
Possible mergers and acquisitions	20%	50.32	15.6
Working capital and general corporate purposes	10%	25.16	—
	100%	251.60	45.93

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

Capital Commitments

For the year ended 31 December 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).

Management Discussion and Analysis

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies and future plan for material investments or acquisition of capital assets

Save as the Group's subscription 8.89% equity interest in Mainsweb Technology (Shenzhen) Company Limited on 10 May 2017 at a consideration of RMB13.3 million (equivalent to approximately USD2.0 million), the Group did not have any material acquisition or disposals of subsidiaries and associated companies or significant investments during the year ended 31 December 2017. Mainsweb operates a one-stop cross-border e-commerce platform in China. It has helped over 200 foreign suppliers to enter the China market, covering over 500 different brands. Mainsweb plans to continue to place these O2O smart terminals especially in small and medium cities in China. As a strategic investor, the Company has become the sole supplier for Mainsweb's O2O smart terminals. The Board considers that the investment complements the Company's long term goal in developing smart devices, increases the sales of the Group, and allows the Group to diversify its product lines.

On 8 February 2018, Shenzhen State Micro Technology Co., Ltd. ("SMiT Shenzhen"), a subsidiary of the Company, completed a RMB20 million (equivalent to approximately USD3,061,000) investment in StorArt Technology (Shenzhen) Co., Ltd ("StorArt") pursuant to an investment agreement entered into between, among others, SMiT Shenzhen and StorArt. StorArt is an advanced integrated circuit design company based in Shenzhen and specialised in the development of flash memory main controller integrated circuit, which are mainly supplied to the communications, consumer electronics and data processing industries. Upon completion of the transaction, SMiT Shenzhen held an approximately 3.4% stake in StorArt's share capital.

On 8 February 2018, SMIT Holdings (HK) Limited ("SMIT HK"), a subsidiary of the Company, completed a USD2 million investment in Sensel, Inc. ("Sensel") pursuant to a note purchase agreement entered into between, among others, SMIT HK and Sensel (the "Note Purchase Agreement"). Sensel is an advanced technology company based in the United States, which owns the pressure grid technology that combines industry-leading performance and the extra dimension of control in the form of force sensitivity. Upon completion of the transaction, SMIT HK subscribed for a USD2 million promissory note which may be converted into common or preferred shares of Sensel pursuant to the terms of the Note Purchase Agreement.

The Group will continue to search for prospective targets for investment, cooperation opportunities and new business.

Contingent Liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

Currency Risk and Management

The Group's sales are primarily made in Europe, in US dollar-denominated transactions and the PRC, in RMB-denominated transactions. Sales of CAMs of the Group were predominantly denominated in US dollars while sales of mPOS devices, O2O smart terminals and blockchain servers were denominated in RMB. The Group's costs of production are predominantly denominated in RMB.

For the year ended 31 December 2017, the Group did not enter into any foreign currency forward contracts or use any derivative contracts to hedge against the risk incurred from its currency exposure. The Group manages its currency risk by closely monitoring the movement of foreign currency rates and may consider hedging significant foreign currency exposure should the need arise.

Employees and Remuneration Policy

For the year ended 31 December 2017, the Group employed about 247 employees (as at 31 December 2016: 248 employees), of whom 240 were based in Shenzhen, 5 in Hong Kong and 2 in Munich, Germany. For the year ended 31 December 2017, staff costs (including salaries, social insurance, provident funds and share incentive plan) amounted to USD10.1 million in aggregate, representing 11.0% of the total revenue of the Group.

The Group has entered into employment agreements with all of its full-time employees. In addition, certain senior management and key research and development personnel have signed confidentiality agreements and non-competition agreements. Each executive officer has agreed to hold, both during and after the time of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her employment duties, any confidential information, trade secrets or know-how of the company or the confidential information of any third party received by the Group. Additionally, each executive officer has agreed to be bound by non-competition restrictions for a period of two years following the expiry of his or her term of employment.

The Group's success depends on its ability to attract, retain and motivate qualified personnel. The Group's remuneration policy and packages for its employees were periodically reviewed. The Group is also 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 client relationships, 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 competencies.

OUTLOOK

The global economy started to recover on a broad basis across many regions since last year. The uncertainty of new policies and regulations brought by China's Government on the mobile payment service industry was gradually assimilated by the market. By virtue of its leading position in the global CAM market and as a chipset pioneer, and through its comprehensive technical capabilities and solid business relationships with industry players, the Group has been working closely with industry partners and broadcast operators to initiate and develop more new projects.

The CAM market has gradually matured in Europe, so the demand for the quality of CAM performance and security has been increasing, creating the strongest demand for CAM in the world. In light of rapid development of pay TV in emerging countries in Asia, a CAM market with huge potential has formed. Therefore, the Group aims to capture the opportunities available around the world. By actively promoting existing products, it will work closely with industrial participants to design and develop more CAM products, so as to meet customer demand in different markets.

Management Discussion and Analysis

As for mPOS business, the implementation of more regulations and policies, and the reform and rectification led by the government have facilitated a more regulated and mature market, which is favourable to the development of reputable and established companies such as the Group and creates valuable opportunities for it in the market. Therefore, the Group will continue to develop new products to satisfy different market demand, support diversified payment methods and strive to secure new customers in China and overseas. The Group believes that the mPOS business is set to gradually improve in the future.

Regarding the new business of O2O smart terminals and blockchain servers, the Group will utilise its existing technologies to develop more new products for different sectors. Blockchain technology is a new technology with a wide range of applications, but the Group has identified and concerned with its uncertainties. Firstly, the increasing number of new entrants and difficulty to control the supply chain and procure raw materials; secondly, the substantial investment required to support advanced chipset technology; and, thirdly the rising accumulated risk in the market. As such, the Group will adjust relevant business strategy in 2018 to further consolidate its own business resources and blockchain technology with the aim to achieve synergies in operations and explore more application possibilities, including video security, user management, membership management, discount and reward schemes, etc.

While further developing its existing businesses, the Group also actively invests in companies with specific strategic significance. Recently, it invested in an advanced IC design company that specialises in main control chips for flash memory and a US company with expertise in advanced touch solutions. The Group will capitalise its rich experience in the payment and security industry to extend to the IC-based security core business and build an extensive global industrial network. The Group believes that investing in companies with state-of-the-art technologies will create business opportunities and consolidate its presence as a technological leader within the industry.

The Group has stepped into a new development stage. While actively exploring growth opportunities in its existing businesses, it also closely observes the industry, market and technology trends and develops new business with a high technology barrier and bright prospects. Through implementing other measures, such as initiatives to create income streams, reduce costs and further optimise internal control to improve operational efficiency, the Group's business can advance to the next level. The Group continues to focus on the security device industry, and also evaluates investments in companies at the forefront of innovation. With shareholders' interest as a top priority, the Group will search for prospective targets for investment, cooperation opportunities and new business to follow its strategic roadmap and expansion of businesses in more emerging industries and, ultimately, bring greater returns to its shareholders.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is committed to achieving a high level of corporate governance. The Company has been in compliance with the principles and code provisions set out in the Code on Corporate Governance Practices ("CG Code") under Appendix 14 to the Listing Rules during the year ended 31 December 2017 up to the date of this report, except the following deviation therefrom:

Code Provision A.2.1

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (CEO) should be separated and performed by different individuals. During the period from the Listing Date to the date of this report, the duties of the Company's Chairman and CEO were not separated from each other. Mr. Huang Xueliang has been serving as the Company's Chairman and CEO during the year ended 31 December 2017 and up to the date of this report.

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

BOARD OF DIRECTORS

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. As at the date of this report, the Board consists of nine directors ("Directors") of the Company, including three executive Directors, three non-executive Directors and three independent non-executive Directors. Their biographical details and relationships amongst them (if any) are set out on pages 36 to 40 of this annual report.

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

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

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

The Directors actively participated in the meetings of the Company. The members of the Board as at the date of this report and their participation in the meetings of the Company during the year ended 31 December 2017 are as follows:

Name of Director	Nomination Committee meeting	Remuneration Committee meeting	Audit Committee meeting	Regular Board meeting
Huang Xueliang	1/1	N/A	N/A	4/4
Zeng Zhijie	N/A	2/2	2/2	4/4
Kwan, Allan Chung-yuen	N/A	N/A	N/A	4/4
Zhang Junjie	N/A	2/2	2/2	4/4
Woo Kar Tung, Raymond	1/1	N/A	2/2	4/4
Jin Yufeng	1/1	2/2	N/A	4/4
Shuai Hongyu	N/A	N/A	N/A	4/4
Loong, Manfred Man-Tsun	N/A	N/A	N/A	4/4
Gao Songtao	N/A	N/A	N/A	4/4

The Board held four meetings during the year ended 31 December 2017. The Company is obliged to comply with the CG Code and will take appropriate arrangements for holding at least 4 regular Board meetings in the forthcoming year. General meeting has been held once during the year ended 31 December 2017.

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

Committees of the Board

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

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

DELEGATION BY THE BOARD

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

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

Nomination Committee

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

During the year ended 31 December 2017, the Nominating Committee held a meeting to conduct annual review of the structure, number of members and composition of the Board, assess the independence of the independent non-executive Directors and discuss the Board diversity policy.

Remuneration Committee

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

During the year ended 31 December 2017, the Remuneration Committee held two meetings to review the remuneration policy and structure and determine the annual remunerations of the Directors and senior management members as well as other related matters.

Audit Committee

The primary duties of the Audit Committee are as follows:

1. to make recommendations to the Board regarding the appointment, reappointment and removal of external auditor;
2. to review and monitor the external auditor's independence and objectivity under applicable standards, and to assess the efficacy of their audit procedures;
3. to review the integrity of the Company's financial statements, annual reports, accounts and interim reports, and to review the significant opinions in relation to the financial reporting contained therein;
4. to supervise the Company's risk management and internal control systems, assist the Board in reviewing the effectiveness of the Company's risk management and internal control systems, and advise the Board on matters relating to corporate governance; and
5. to review and monitor the Company's compliance with the Company's whistleblowing policy.

During the year ended 31 December 2017, the Audit Committee held two meetings to fulfill the above duties.

Director Training

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

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

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

CHAIRMAN AND CEO

During the year ended 31 December 2017 and as at the date of this report, Mr. Huang Xueliang served as the Chairman and CEO to take charge of the Group's overall strategic planning and supervise the overall management of the Group.

NON-EXECUTIVE DIRECTORS

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELATED INDIVIDUALS

The Company has adopted a code of conduct for securities transactions by Directors ("Code of Conduct") on terms no less exacting than the required standards under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. After specific inquiries, it is confirmed that all the Directors fully complied with the Model Code during the year ended 31 December 2017.

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

AUDITOR'S REMUNERATION

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

Nature of service	2017 USD'000	2016 USD'000
Audit and review services	**360**	301
Non-audit services (including risk assessment and internal control consulting services, professional service on general offer and financial and tax due diligence services)	**200**	93
	560	394

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements for each financial year to give a true and fair view of the conditions of the Group. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

ACCOUNTING POLICIES

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

ACCOUNTING RECORDS

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

RISK MANAGEMENT AND INTERNAL CONTROL

Responsibilities of the Board and Management

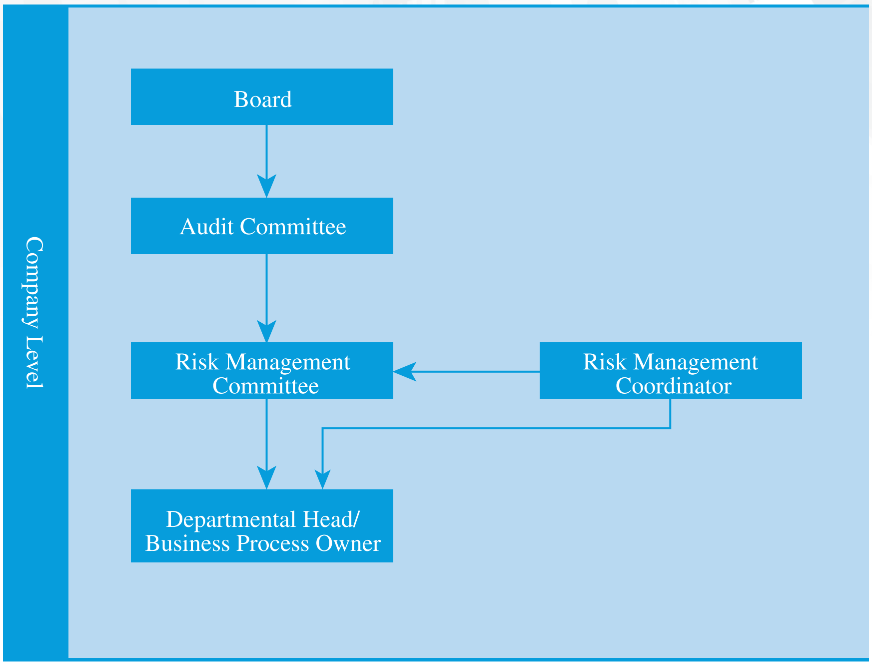
The Board believes that a comprehensive set of risk management and internal control systems plays an essential role in achieving the Company's strategic goals and has therefore acknowledged its responsibilities to maintain such systems, as well as review their effectiveness to protect the investment of shareholders and safeguard the assets of Company.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems, while the management is accountable for setting up and maintaining those systems as well as providing a confirmation on their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk Management and Internal Control Systems

With an aim to improve the Company's risk management system while enhancing its controls of risks and the ability to mitigate risks, the Board established its own organizational structure, and is continuously improving risk management system and maintains risk management structure. The risk management organizational structure is a 3-tier framework, comprising of the Board and its Audit Committee, Risk Management Committee, as well as Risk Management Executives. The Company has also defined the direct management responsibility of each tier and the reporting line between them.

Risk Management Structure



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

Board

√	Approve plans and reports on risk management
√	Conduct risk management of material decisions, including approving related risk management reports and determining effective controls to the risks; and
√	Strengthen the cultivation of risk management culture

Audit Committee

√	Review the setups of the Risk Management Committee and its job description, as well as the fundamental management policies; and
√	Review assessment reports on material risks and various risk management reports

Risk Management Committee

√	Promote the formulation of risk management system and define the structure and responsibilities of risk management organisation
√	Regularly review the risk management policies and procedures and whether or not they have been carried out accordingly
√	Provide risk management suggestions on material decisions by reviewing and submitting risk management reports and risk response; and
√	Oversees the cultivation of the Company's general risk management culture

Risk Management Coordinator

√	Promote risk identification and evaluation on department level, formulate risk management reports and submit them to the Risk Management Committee
√	Coordinate the Risk Management Committee and senior management to conduct risk identification and evaluation on the Company level, propose countermeasures to material risks
√	Assist and monitor the risk management executives to perform risk management work and review relevant results
√	Organise trainings and share knowledge and best practices about risk management
√	Summarise the risk management results of both the Company level and business level and submit them to the Risk Management Committee and the Audit Committee

Department Head/Business Process Owner

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

Risk Management Process

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

Internal Control System

The Company's internal control system was constructed based on the internal control framework issued by the Committee of Sponsoring Organizsation of the Treadway Commission, and considered the five components of internal control: control environment, risk assessment, control activities, information and communication and monitoring activities. The Company designs control activities to address the risk of each key business process, e.g. sales and receivables, purchase and payables, inventory and research & development (R&D) etc., and monitors the operating effectiveness to achieve the control objectives of internal control system activities are conducted properly.

The Audit Committee reviews the effectiveness and adequacy of the system on an annual basis. If any deficiency of internal control is identified, the Company addresses it by communicating with the management internally and ordering remediation to be taken. Any material deficiency identified in the control or procedures will be reported to the Board directly for communication and discussion.

The Company's internal audit work is carried out by internal audit team. Their responsibilities have been defined in the Internal Audit Charter. In the year of 2017, our internal audit personnel, together with members of an external consulting firm appointed by the Company working as a team to independently conduct the internal control reviews on effectiveness of the key processes and reported directly to the Audit Committee. The Audit Committee then oversees the effectiveness of the internal controls system by reviewing and approving the internal audit assessment plan and reports.

Inside Information

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

Review on the Risk Management and Internal Control Systems in 2017

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. For the year ended 31 December 2017, the Board has finished reviewing the Company's risk management and internal control systems along with the Audit Committee and considered them to be effective and adequate. The review has covered the financial year of 2017 and all material aspects of control, including financial, operational and compliance controls and considered the changes in the nature and extent of significant risks as well as the Company's ability to respond to changes in its business and the external environment, the Board and Audit Committee are satisfied with the results.

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

COMPANY SECRETARY

Mr. Cheng Kai Pui, Eric has served as the company secretary of the Company (the "Company Secretary") during the year ended 31 December 2017. The Company Secretary reports to the Chairman of the Board, and the appointment and removal of the Company Secretary are determined by all the members of the Board.

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

Mr. Cheng Kai Pui, Eric had received more than 15 hours of professional training during the year in accordance with Rule 3.29 of the Listing Rules. His biographical details are set out in page 40 of this annual report.

SHAREHOLDERS' EQUITY AND INVESTOR RELATIONS

Communication with Shareholders and Investors

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

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

Procedure for Making Proposals at Annual General Meetings

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

Procedures for Requisitioning an Extraordinary General Meeting

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, there were no changes to the Company's constitutional documents.

By order of the Board
Huang Xueliang
Chairman

Hong Kong, 26 March 2018

Environmental, Social and Governance Report

We are a leading security devices provider for pay TV broadcasting access worldwide and for mobile point-of-sale, or mPOS, payment systems in China. We have also entered into the cross-border e-commerce O2O smart terminal business and the blackchain bussiness. Pursuant to the relevant requirements of the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group will continue to disclose an Environmental, Social and Governance Report ("ESG Report") on an annual basis. Set out below are the important contents of such report closely related to the Group's business:

ENVIRONMENT

Emissions

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

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

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

Sewage Discharge

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

Noise Emissions

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

Exhaust Emissions

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

Hazardous Waste Management

Our operation does not produce any significant hazardous waste. After self-inspections of all departments, it is confirmed that the hazardous waste of each department, including waste batteries, toner cartridges and ink cartridges, has been classified and put into separate dustbins in a timely manner, and all waste fluorescent lamps have to be returned in exchange for new ones. All hazardous waste is collected centrally for disposal. The production and domestic waste of the Company has been timely disposed of as required, which is in compliance with applicable laws and regulations such as the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Waste.

Procurement, Transport, Storage and Preservation of Hazardous Chemicals

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

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

Resource Utilisation

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

During the year ended 31 December 2017, the Group consumed 436,026.42 kWh Electricity, 4,032.84 m3 Water and 56.5 tonnes Packaging materials (cartons).

Environment and Natural Resources

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

SOCIETY

Employment and Labor Practices

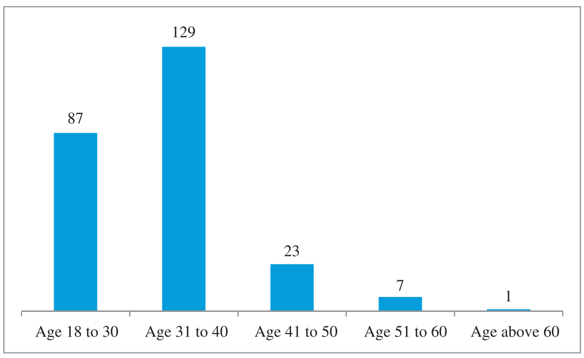
The Group's success relies on its ability to attract, retain and motivate qualified personnel. The Group generally is able to attract and retain qualified personnel and maintain a stable core management team. The Group is committed to the training and development of its employees. The Group engages its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

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

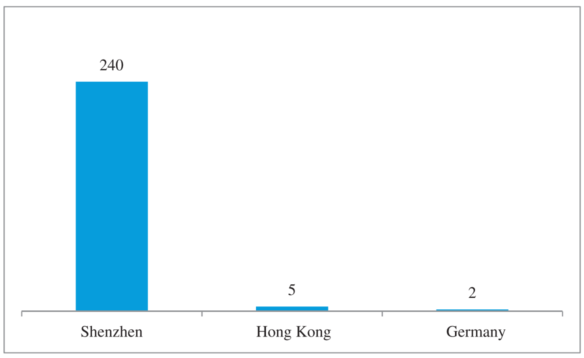
As at 31 December 2017, the Group's breakdown of employees by gender, employment type, age group and region is as follows:

Total number of employees	Employment type	By gender	
		Male	Female
247	Full time with a labor contract signed	174	73

Numbers of Employee (By age group)



Numbers of Employee (By region)



During the year ended 31 December 2017, the Group's employee turnover rates by gender, age group and region are as follows:

Total turnover rate	By gender		By age group					By region		
	Male	Female	Aged 18 - 30	Aged 31 - 40	Aged 41 - 50	Aged 51 - 60	Aged 61 and above	Shenzhen	Hong Kong	Germany
16.84%	14.48%	2.36%	6.4%	8.08%	1.01%	0.34%	0.67%	16.5%	—	0.34%

Health and Safety

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

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

In 2017, there was no work-related accident or injury occurred thanks to the foregoing procedures and measures taken by the Group. In addition, each new employee is required to provide a qualified medical certificate, and the Company arranges health examination for the employees each year.

Development and Training

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

In 2017, all employees of the Group received two hours of training on average, and the numbers of training sessions by type of training are set out below.

	Training for senior and middle management	Technical training	Financial training	Production training	Orientation training
Number of training sessions	1	7	1	5	2

Labor Standards

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

OPERATIONAL MANAGEMENT

Supply Chain Management

The Group's suppliers include (a) manufacturers from which the Group purchases components for its products and (b) subcontractors undertaking certain production processes for the Group's products. In 2017, the Company's qualified suppliers were mainly based in Guangdong, Jiangsu, Xi'an, Zhejiang, and Germany.

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

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

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

3. Evaluation management: establish an evaluation system to conduct comprehensive evaluation of suppliers on a regular basis; evaluate the product quality, delivery capacity, technical level and product qualification rate of each supplier, and weed out or request improvements from the unsatisfactory suppliers.
4. On-site review: conduct regular on-site reviews of key raw material suppliers in terms of production capacity, production process, quality control, etc.

Product Responsibility

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

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

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

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

In 2017, none of the products sold were returned to the Group due to safety or health problems.

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

Anti-corruption

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

In 2017, neither the Group nor its employees were involved in any legal proceedings relating to corruption.

COMMUNITY

Community Investment

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

Directors' Biography

EXECUTIVE DIRECTORS

Mr. Huang Xueliang (黃學良), aged 55, is the chairman, an executive Director and the chief executive officer of our Company and the Founder of our Group. He was appointed as the chairman, executive Director and the chief executive officer of our Company with effect from 20 September 2015. He is also a director of SMIT Hong Kong. Mr. Huang is primarily responsible for the overall strategic planning and overseeing the general management of our Group. He has over 16 years of management experience in the IC design industry.

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

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

Mr. Shuai Hongyu (帥紅宇), aged 57, is an executive Director of our Company. Mr. Shuai joined the Group on October 2005, and was appointed as an executive Director with effect from 23 March 2017.

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

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

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

Mr. Loong, Manfred Man-tsun (龍文駿), aged 63, is an executive Director of our Company. Mr. Loong joined the Group on July 2013, and was appointed as an executive Director of our Company with effect from 23 March 2017.

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

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

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

NON-EXECUTIVE DIRECTORS

Mr. Gao Songtao (高松濤), aged 48, is a non-executive Director of our Company. Mr. Gao joined the Group on 23 March 2017 when he was appointed as a non-executive Director of our Company with effect from 23 March 2017.

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

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

Directors' Biography

Mr. Zeng Zhijie (曾之傑), aged 50, is a non-executive Director of our Company. Mr. Zeng joined our Group in September 2015 and was appointed as a non-executive Director of our Company with effect from 20 September 2015. Mr. Zeng has been a director of SMIT Corporation since February 2008.

Currently Mr. Zeng has been chairman, founder and partner of Hongtai Fund, also founder and partner of Yuan He Hou Wang Growth Fund. Mr. Zeng once served in CITIC Limited at Hong Kong and Mitsubishi Corporation in Japan. Between January 2001 and December 2007, Mr. Zeng served as a managing director of Walden International and mainly responsible for venture investments in China and other Asian countries. Between 2008 and 2017, Mr. Zeng was appointed as the senior managing director of CITIC Capital Holdings Limited and general manager of Kaixin Investment, responsible for venture capital investment and business growth of CITIC capital. Besides SMIT Holdings Limited, Mr. Zeng also served as director or independent director of two other listing companies: ChinaSoft International Limited(HKSE: 354) and CTS International Logistics Corporation Limited Centre (SHSE:603128), also independent director of United Overseas Bank Limited.

Mr. Zeng obtained a bachelor's degree in economics from the University of Nagasaki, Japan in March 1996, a master of science degree in management from Stanford University in June 2001 and a doctor degree in economics from Chinese Academy of Social Sciences in 2017.

Mr. Kwan, Allan Chung-yuen (關重遠), aged 60, is a non-executive Director of our Company. Mr. Kwan joined our Group in September 2015 and was appointed as a non-executive Director of our Company with effect from 20 September 2015. Mr. Kwan has been a director of SMIT Corporation since February 2008.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Junjie (張俊傑), aged 48, is an independent non-executive Director of our Company. Mr. Zhang joined the Group on 6 March 2016, and was appointed as an independent non-executive Director of our Company with effect from 6 March 2016.

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

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

Mr. Woo Kar Tung, Raymond (胡家棟), aged 49, is an independent non-executive Director of our Company. Mr. Woo joined the Group on 6 March 2016, and was appointed as an independent non-executive Director of our Company with effect from 6 March 2016.

Mr. Woo has over 20 years of experience in the accounting and financial services industry. He began his career at Arthur Anderson & Co where he qualified. From November 1997 to March 2004, Mr. Woo served as a vice president of capital markets advisory M&A execution, investment banking division of ING Bank H.V.. From June 2006 to August 2006, Mr. Woo served as managing director and head of finance corporate at CITIC Securities (HK) Company Limited. From August 2007 to June 2010, Mr. Woo served as a director in the investment banking department of Credit Suisse (Hong Kong) Limited, a leading financial services company. Mr. Woo joined IRC Limited (HKSE: 1029), an industrial commodities producer listed on the Main Board of the Stock Exchange as an executive director between June 2010 to March 2015 and he has since then been re-designated as a non-executive director of IRC Limited. Mr. Woo has served as an independent non-executive director of Yuanda China Holdings Limited (HKSE: 2789), a company principally engaged in the manufacturing and sale of curtain walls listed on the Main Board of the Stock Exchange, since April 2011. Mr. Woo has served as an executive director and chief financial officer of TUS International Limited (formerly known as Jinheng Automotive Safety Technology Holdings Limited) (HKSE: 872), an automotive safety company listed on the Main Board of the Stock Exchange, since September 2015.

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

Directors' Biography

Mr. Jin Yufeng (金玉豐), aged 57, is an independent non-executive Director of our Company. Mr. Jin joined the Group on 6 March 2016, and was appointed as an independent non-executive Director of our Company with effect from 6 March 2016.

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

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

COMPANY SECRETARY

Mr. Cheng Kai Pui, Eric (鄭啟培), aged 34, is the company secretary of our Company. Mr. Cheng has approximately 12 years of experience in accounting and related financial management. Mr. Cheng worked in the audit department of Kreston CAC CPA Limited (previously named as Chan and Chan) from September 2006 and left the firm as an assistant audit supervisor in May 2011. Between May 2011 and August 2012, he worked as a senior accountant and subsequently as a finance manager in Icicle Production Company Limited. Between October 2012 and March 2013, he served as an audit manager of L & P CPA Limited. From May 2013 to July 2014, Mr. Cheng served as an assistant accounting manager of ASR Logistics Holdings Limited (HKSE: 1803), a company listed on the Main Board of the Stock Exchange. Mr. Cheng obtained a bachelor of commerce degree in accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 2006. Mr. Cheng received a master of professional accounting degree from Hong Kong Polytechnic University in October 2012. He has been registered as a certified public accountant of the Hong Kong Institute of Certified Public Accountants since May 2010.

Report of the Directors

Directors are pleased to present their reports and the audited financial statements for the year ended 31 December 2017.

PRINCIPAL OPERATIONS

The Group is a leading security devices provider globally for pay TV broadcasting access and for mobile point-of-sales, or mPOS, payment systems in China. The Group designs, develops and markets security devices primarily for the pay TV industry worldwide through sales of conditional access module, or CAM, products which provide end users with access to pay TV content. The Group also develops and markets mobile point-of-sale, or mPOS devices for the hardware-based mobile payment industry in China, which enable users to make credit and debit card transactions with mobility using their smartphones or tablets rather than a traditional stationary POS terminal. During the year the Group expands business into two new sectors: O2O smart terminal and blockchain server business.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the section head "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 16 of this Annual Report.

BUSINESS RESULTS AND APPROPRIATION

For the details of the results of the Group for the year ended 31 December 2017 and the financial condition of the Group at that date, please refer to the financial statement on page 63 to 139.

The Directors recommend the payment of a final dividend of HK$2 cents (equivalent to approximately USD0.3 cents) per share, totaling USD782,393.

DISTRIBUTABLE RESERVES

Details of the Company's distributable reserves as at 31 December 2017 are set out in Note 35 to the financial statements.

DONATIONS

During the year ended 31 December 2017, the Group had no donation (2016: USD128,535) to charitable organisations.

Report of the Directors

SHARES ISSUED IN THE YEAR

Details of the movements in the Company's share capital for the year ended 31 December 2017 are set out in Note 24 to the financial statements.

Issue of Shares to Selected Employees

As disclosed in the Company's announcement issued on 27 June 2017, the Board had on 27 June 2017 resolved to issue and allot, pursuant to the general mandate to allot, issue and deal with the ordinary shares of US$0.00002 each in the share capital of the Company (the "Shares") granted to the Directors by resolution of the Shareholders passed at the Company's annual general meeting held on 25 May 2017 (the "General Mandate"), a total of 1,005,000 Shares (the "Awarded Shares") to such employees of the Group as selected by the Board, primarily the Group's middle management and technical staff, and key members from functional areas, including research and development and market and sales (the "Selected Employees") in recognition of, and as award for, the contributions of such Selected Employees. The total nominal value of the Awarded Shares is US$20.10. The allotment money for the Awarded Shares were paid from the Company's own resources. As such, no funds were raised from the issue and allotment of the Awarded Shares. The closing price of the Shares as at 27 June 2017, being the date on which the terms of the allotment of the Awarded Shares were fixed, was HK$2.45.

Please refer to the section headed "Pre-IPO Share Option Scheme" in this report for details on the Shares issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme (as defined below).

SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

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

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

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

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

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

Set out below are details of the outstanding options under the Pre-IPO Share Option Scheme as 31 December 2017:

Category/ Name of Grantee	Number of Shares underlying the options granted as at 1 January 2017	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Weighted average closing price before the exercise dates	Exercised during the financial year 2017	Cancelled during the financial year 2017	Lapsed during the financial year 2017	Outstanding as of 31 December 2017
Directors										
Huang Xueliang	36,904	09/03/2008	USD0.01	09/03/2010	08/03/2018	–	–	–	–	36,904
	73,807	09/03/2008	USD0.01	09/03/2010	08/03/2018	–	–	–	–	73,807
	590,454	09/03/2008	USD0.01	09/03/2010	08/03/2018	–	–	–	–	590,454
	1,476,134	26/07/2009	USD0.04	26/07/2013	08/03/2018	–	–	–	–	1,476,134
	1,476,134	05/03/2010	USD0.04	05/03/2014	15/05/2019	–	–	–	–	1,476,134
	4,578,278	01/09/2010	USD0.54	01/09/2014	31/08/2020	–	–	–	–	4,578,278
	2,372,208	01/03/2011	USD1.06	01/03/2015	01/03/2021	–	–	–	–	2,372,208
	737,847	30/09/2012	USD0.62	30/09/2016	25/04/2022	–	–	–	–	737,847
	738,067	01/08/2013	USD0.56	01/08/2017	31/07/2023	–	–	–	–	738,067
Kwan,Allan Chung-yuen[1]	236,182	26/07/2009	USD0.04	26/07/2013	08/03/2018	–	–	–	–	236,182
	1,585,138	01/09/2010	USD0.54	01/09/2014	31/08/2020	–	–	–	–	1,585,138
	285,787	01/03/2011	USD1.06	01/03/2015	01/03/2021	–	–	–	–	285,787
Zeng Zhijie	36,904	09/03/2008	USD0.01	09/03/2010	08/03/2018	–	–	–	–	36,904
	36,904	09/03/2008	USD0.01	09/03/2012	08/03/2018	–	–	–	–	36,904
	236,182	26/07/2009	USD0.04	26/07/2013	08/03/2018	–	–	–	–	236,182
	442,841	05/03/2010	USD0.04	05/03/2014	15/05/2019	–	–	–	–	442,841
	73,807	01/03/2011	USD1.06	01/03/2015	01/03/2021	–	–	–	–	73,807
Shuai Hongyu	661,308	26/07/2009	USD0.04	26/07/2013	08/03/2018	HK$2.76	661,308	–	–	0
	442,841	05/03/2010	USD0.04	05/03/2014	15/05/2019	HK$3.51	242,841	–	–	200,000
	1,182,153	01/09/2010	USD0.54	01/09/2014	31/08/2020	–	–	–	–	1,182,153
	1,800,633	01/03/2011	USD1.06	01/03/2015	01/03/2021	–	–	–	–	1,800,633
	679,022	30/09/2012	USD0.62	30/09/2016	25/04/2022	–	–	–	–	679,022
	730,120	01/08/2013	USD0.56	01/11/2013	31/07/2023	–	–	–	–	730,120
	590,454	01/08/2013	USD0.56	01/08/2017	31/07/2023	–	–	–	–	590,454
Loong, Manfred Man-tsun	6,544,129	01/08/2013	USD0.14	01/11/2013	31/07/2023	–	–	–	–	6,544,129
Li Yanrong	26,571	09/03/2008	USD0.01	09/03/2012	08/03/2018	HK$2.81	26,571	–	–	0
	41,332	26/07/2009	USD0.04	26/07/2013	08/03/2018	–	–	–	–	41,332
	51,665	05/03/2010	USD0.04	05/03/2014	15/05/2019	–	–	–	–	51,665
	73,807	31/12/2010	USD0.75	31/12/2014	30/12/2020	–	–	–	–	73,807
	221,421	30/09/2012	USD0.62	30/09/2016	25/04/2022	–	–	–	–	221,421
	147,614	01/08/2013	USD0.56	01/08/2017	31/07/2023	–	–	–	–	147,614

Category/ Name of Grantee	Number of Shares underlying the options granted as at 1 January 2017	Date of Grant	Exercise Price	Vesting Date	Expiration Date	Weighted average closing price before the exercise dates	Exercised during the financial year 2017	Cancelled during the financial year 2017	Lapsed during the financial year 2017	Outstanding as of 31 December 2017
Connected persons										
Bai Yu	11,810	09/03/2008	USD0.01	09/03/2012	08/03/2018	–	–	–	–	11,810
	29,523	26/07/2009	USD0.04	26/07/2013	08/03/2018	–	–	–	–	29,523
	41,332	05/03/2010	USD0.04	05/03/2014	15/05/2019	–	–	–	–	41,332
	73,807	31/12/2010	USD0.75	31/12/2014	30/12/2020	–	–	–	–	73,807
	73,807	30/09/2012	USD0.62	30/09/2016	25/04/2022	–	–	–	–	73,807
	73,807	01/08/2013	USD0.56	01/08/2017	31/07/2023	–	–	–	–	73,807
Cykorp Limited[2]	36,904	09/03/2008	USD0.01	09/03/2012	08/03/2018	–	–	–	–	36,904
	442,841	26/07/2009	USD0.04	26/07/2013	08/03/2018	–	–	–	–	442,841
	442,841	05/03/2010	USD0.04	05/03/2014	15/05/2019	–	–	–	–	442,841
Fan Yinglong	5,905	26/07/2009	USD0.04	26/07/2013	08/03/2018	HK$2.68	5,905	–	–	0
	20,666	05/03/2010	USD0.04	05/03/2014	15/05/2019	HK$2.68	20,666	–	–	0
	36,904	31/12/2010	USD0.75	31/12/2014	30/12/2020	–	–	–	–	36,904
	73,807	30/09/2012	USD0.62	30/09/2016	25/04/2022	–	–	–	–	73,807
	147,614	01/08/2013	USD0.56	01/08/2017	31/07/2023	–	–	–	–	147,614
Employees	1,490,904	09/03/2008	USD0.01	09/03/2010	08/03/2018	HK$2.92	937,351	–	–	553,553
	1,357,730	09/03/2008	USD0.01	09/03/2010	08/03/2018	HK$2.91	777,457	–	–	580,273
	2,954,721	26/07/2009	USD0.04	26/07/2013	08/03/2018	HK$2.79	807,309	–	–	2,147,412
	2,040,036	05/03/2010	USD0.04	05/03/2014	15/05/2019	HK$2.82	578,650	–	–	1,461,386
	1,527,810	01/09/2010	USD0.54	01/09/2014	31/08/2020	–	–	–	–	1,527,810
	2,141,158	31/12/2010	USD0.75	31/12/2014	30/12/2020	–	–	–	4,429	2,136,729
	548,781	08/01/2011	USD0.75	08/01/2015	08/01/2021	–	–	–	–	548,781
	548,781	01/03/2011	USD0.54	01/03/2015	01/03/2021	–	–	–	–	548,781
	2,228,970	01/03/2011	USD1.06	01/03/2015	01/03/2021	–	–	–	–	2,228,970
	2,450,398	30/09/2012	USD0.62	30/09/2016	25/04/2022	–	–	–	29,523	2,420,875
	1,845,177	01/08/2013	USD0.56	01/08/2017	31/07/2023	–	–	–	–	1,837,796
Other eligible participants (including former employees and consultants)	36,904	09/03/2008	USD0.01	09/03/2010	08/03/2018	–	–	–	–	36,904
	276,038	09/03/2008	USD0.01	09/03/2010	08/03/2018	HK$2.57	0	–	–	258,324
	1,235,528	26/07/2009	USD0.04	26/07/2013	08/03/2018	HK$3.26	54,618	–	–	1,180,910
	23,619	05/03/2010	USD0.04	05/03/2014	15/05/2019	HK$2.57	23,619	–	–	0
	3,086,368	01/09/2010	USD0.54	01/09/2014	31/08/2020	–	–	–	–	3,086,368
	36,904	31/12/2010	USD0.75	31/12/2014	30/12/2020	–	–	–	36,904	0
	834,567	01/03/2011	USD1.06	01/03/2015	01/03/2021	–	–	–	–	834,567
	348,197	01/03/2012	USD1.21	01/03/2016	01/03/2022	–	–	–	–	348,197
	339,512	30/09/2012	USD0.62	30/09/2016	25/04/2022	–	–	–	44,285	295,227
	274,390	01/03/2013	USD0.62	01/03/2017	01/03/2023	–	–	–	–	274,390
	147,614	01/08/2013	USD0.56	01/08/2017	31/07/2023	–	–	–	–	154,995
	274,390	01/03/2014	USD0.41	01/03/2018	01/03/2024	–	–	–	–	274,390
Total	55,766,713					HK$2.88	4,154,009	–	115,141	51,497,463

Notes:

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

(2) Cykorp Limited is wholly owned by Mr. Kwan, Allan Chung-yuen.

Save as disclosed above, no other Pre-IPO Share Options were exercised, cancelled or lapsed during the year ended 31 December 2017.

The number of outstanding Shares subject to the options granted under the Pre-IPO Share Option Scheme as at the date of this report was 42,070,557 Shares, exercisable at the respective exercise price between USD0.04 per Share and USD1.21 per Share, representing approximately 13.37% of the issued share capital of the Company as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

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

FIVE-YEAR FINANCIAL SUMMARY

The summary of the business results and financial position of the Group for the past five years is set out in page 140.

Report of the Directors

DIRECTORS

During the year ended 31 December 2017 and as of the date of this Report, Directors are:

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

Zhang Junjie
Jin Yufeng
Woo Kar Tung, Raymond

DIRECTORS' SERVICE CONTRACTS

As of the date hereof, each of the non-executive Directors (including independent non-executive Directors) has entered into a service agreement with the Company for a term of three years unless and until it is terminated by not less than three months' notice served by the Company to the Director.

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

None of the Directors has entered into any service contract with the Group or any member of the Group which is not determinable within one year without payment of compensation (other than statutory compensation).

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

Directors' and senior management's biographical details are set out in pages 36 to 40.

PERMITTED INDEMNITY PROVISION

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

TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the sections headed "Continuing Connected Transaction" in this report, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted as at 31 December 2017 or at any time during the year ended 31 December 2017, and no contract of significance between the Company or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries subsisted as at 31 December 2017 or at any time during the year ended 31 December 2017.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year ended 31 December 2017, none of the Directors was interested in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of remuneration paid to members of the Directors and senior management by band for the year ended 31 December 2017 is set out below:

Remuneration band	No. of Individuals
USD100,000 or below	6
USD100,001 to USD200,000	0
More than USD200,000	3

Directors' emoluments are determined with reference to Directors' duties, responsibilities and performance and the results of the Group. In addition, the Directors' remuneration is reviewed by the remuneration committee of the Company annually. Details of the Directors' remuneration are set out in note 36 of the financial statements.

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

As at 31 December 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	Capacity	Number of Shares held[Note 1]	Approximate percentage of interest (%)
Huang Xueliang[Note 2]	Beneficial owner/ interest in controlled corporation	172,263,899 Shares(L)	56.11
Zeng Zhijie[Note 3]	Beneficial owner	826,638 Shares(L)	0.27
Kwan, Allan Chung-yuen[Note 4]	Beneficial owner	3,029,693 Shares(L)	0.99
Shuai Hongyu[Note 5]	Beneficial owner	6,356,853 Shares(L)	2.07
Loong, Manfred Man-tsun[Note 6]	Beneficial owner	6,544,129 Shares(L)	2.13

Notes:

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

2. As at 31 December 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 the Latest Practicable Date.

3. As at 31 December 2017, Mr. Zeng Zhijie was interested in share options to subscribe for 826,638 Shares.

4. As at 31 December 2017, Mr. Kwan, Allan Chung-yuen was interested in share options to subscribe for 3,029,693 Shares which are held as follows: (i) share options held in Mr. Kwan's personal capacity to subscribe for 2,107,107 Shares, and (ii) options held by Cykorp Limited, a company wholly owned by Mr. Kwan to subscribe for 922,586 Shares.

5. As at 31 December 2017, Mr. Shuai Hongyu was interested in 1,174,471 Shares and was interested in share options to subscribe for 5,182,382 Shares.

6. As at 31 December 2017, Mr. Loong, Manfred Man-tsun was interested in share options to subscribe for 6,544,129 Shares.

Save as disclosed above, as at 31 December 2017, none of the Directors and/or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

As at 31 December 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)	5.20%
Mr. Zhu Changhua[(2)]	Interest in controlled corporation	22,507,521 Shares(L)	7.33%
Junjie International Co., Ltd.	Beneficial owner	19,140,656 Shares(L)	6.23%
Mr. Gong Jun[(3)]	Interest in controlled corporation	19,465,407 Shares(L)	6.34%
Pacven Walden Ventures V, L.P.	Beneficial owner	25,779,560 Shares(L)	8.40%
Pacven Walden Management V Co. Ltd.[(4)]	Interest in a controlled corporation	27,541,195 Shares(L)	8.97%
Xinxin (Hongkong) Capital Co., Limited	Beneficial owner	29,999,000 Shares(L)	9.77%
Xunxin (Shanghai) Investment Co., Ltd.[(5)]	Interest in a controlled corporation	29,999,000 Shares(L)	9.77%
China Integrated Circuit Industry Investment Fund Co., Ltd.[(5)]	Interest in a controlled corporation	29,999,000 Shares(L)	9.77%
CMBC International Holdings Limited	Person having a security interest in shares	177,719,722 Shares(L)	57.89%
China Minsheng Banking Corp., Ltd. 中國民生銀行股份有限公司	Interest in controlled corporation	177,719,722 Shares(L)	57.89%

Notes:

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

(2) Mr. Zhu Changhua held share options to subscribe for 568,314 Shares as at 31 December 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 31 December 2017.

(3) Mr. Gong Jun held share options to subscribe for 324,751 Shares as at 31 December 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 31 December 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 31 December 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 31 December 2017.

Save as disclosed above, as at 31 December 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.

CONTINUING CONNECTED TRANSACTION

Set out below is a related party transaction set out in Note 33 to the consolidated financial statements that constitutes a continuing connected transaction under Chapter 14A of the Listing Rules and is required to be disclosed in this report:

A property leasing framework agreement dated 28 August 2015 (the "Property Leasing Framework Agreement") was entered into between State Micro Science and Technology Co. Ltd. ("State Micro Science and Technology") as landlord and our Group company, a wholly-owned subsidiary of the Company Shenzhen State Micro Technology Co., Ltd ("SMIT Shenzhen"), as tenant in respect of the premises located at 1-2F SSMEC Building and Room A, 1F and 2F of the Annex Building of SSMEC Building, 15, Gaoxinnan 1st Avenue, High-tech Park South, Nanshan District, Shenzhen, China (the "Premises") with an area of approximately 3,722 sq.m. (subject to adjustment as required by the business needs of the Group). The lease is for a term of three years commencing on 1 September 2015 and expiring on 31 August 2018 at a rent with reference to the prevailing market rates for similar properties (e.g. with respect to floor space and age of the building) in the vicinity and the rent guidelines set out in the city housing tenancy management department policy in Shenzhen, the PRC. The Premises consist of the major operation site of SMIT Shenzhen. Details of the Property Leasing Framework Agreement were disclosed in the Company's prospectus dated 16 March 2016. The annual cap of this transaction for the financial year ended 31 December 2017 is RMB3,782,594. For the financial year ended 31 December 2017, the Group paid rents of RMB3,782,594 for the State Micro Science and Technology Premises. The annual cap of this transaction for the financial year ending 31 December 2018 will be RMB4,828,775.

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

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

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

(ii) on normal commercial terms or better; and

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

PricewaterhouseCoopers, the auditor of the Company, has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transaction for the year ended 31 December 2017 as disclosed above in accordance with Rule 14A.56 of the Listing Rules.

On 26 March 2018, State Micro Science and Technology Co. Ltd. and SMIT Shenzhen signed a new tenancy agreement (the "New Tenancy Agreement") for a term of three years starting from 1 April 2018 to 31 March 2021 (both days included). The New Tenancy Agreement replaced the Property Leasing Framework Agreement. Details of the New Tenancy Agreement were disclosed in the Company's announcement dated 26 March 2018. The annual caps of annual rents and costs and fees relating to air-conditioning and public utilities are RMB3,883,126.5 for the period from 1 April 2018 to 31 December 2018, RMB5,177,502 for the financial year ending 31 December 2019, RMB5,177,502 for the financial year ending 31 December 2020, and RMB1,294,375.5 for the period from 1 January 2021 to 31 March 2021. The terms of the New Tenancy Agreement were determined after arm's length negotiation between the parties with reference to (i) the historical amounts paid by the Group to State Micro Science and Technology for rent and the costs and fees relating to air-conditioning and public utilities, (ii) prevailing market rates for similar properties (e.g. with respect to floor space and age of the building) in the vicinity, (iii) the rent guidelines set out in the city housing tenancy management department policy of Shenzhen, the PRC, and (iv) the estimated area of the Premises.

As all the applicable percentage ratios in respect of the annual caps for the New Tenancy Agreement are more than 0.1% but less than 5%, the transaction contemplated under the New Tenancy Agreement is subject to the reporting, announcement and annual review requirements, but is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Details of the related party transactions of the Group are set out in note 33 to the financial statements. None of these related party transactions constitute a connected transaction as defined and required to be disclosed under the Listing Rules, except for those described in the section headed "Continuing Connected Transaction" in this annual report, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed as at 31 December 2017.

MAJOR CUSTOMERS AND SUPPLIERS

Set out below are the percentages of sales and purchases for the year ended 31 December 2017 attributable to the Group's major customers and suppliers:

Purchases

– The largest supplier	42.8%
– Five largest suppliers in aggregate	58.5%

Sales

– The largest customer	42.5%
– Five largest customers in aggregate	70.6%

Total sales of blockchain servers to one Shenzhen-based technology company (the "Technology Company"), being the Group's largest customer for the year ended 31 December 2017, which amounted to approximately USD 39 million, accounted for 42.5% of Group's total sales.

Mr. Huang Xueliang, an executive Director who directly and indirectly owns 56.11% of our issued share capital as at 31 December 2017, holds a 5.57% equity interest in the Technology Company. Furthermore, our excutive Director Mr. Shuai Hongyu, also holds a 1.71% equity interest in the Technology Company and acts as one of the technology company's nine directors. However, Mr. Huang Xueliang and Mr. Shuai Hongyu are not its employees, and are not involved in the Technology Company's daily operation.

The total sales included the mPOS products sold to iBoxpay International Inc. ("iBoxpay"), which amounted to approximately USD0.8 million (representing approximately 8.6% of the total sales amount), being one of the Group's five largest customer for the year.

Mr. Huang Xueliang, our executive Director who owns 56.11% of the Company's issued share capital as at 31 December 2017, holds a 1.32% indirect equity interest in iBoxpay, one of the five largest customers of the Group for the year ended 31 December 2017. In addition, Mr. Huang Xueliang and Pacven Walden, amongst others, collectively own a 15.89% equity interest in iBoxpay through SMIT Investment Limited ("SMIT International"), an entity separate from the Group. Mr. Huang Xueliang serves as one of the five directors of iBoxpay by virtue of being the director representative of SMIT International interest in iBoxpay. However, Mr. Huang Xueliang is not an employee of iBoxpay, and is not involved in its daily operations.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the standards set out in the Model Code as a code of conduct for the trading in securities of the Company by all Directors of the Company. Having made specific enquiry to all Directors, the Company confirmed that the Directors have complied with the Model Code throughout the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

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

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

There are no important events after 31 December 2017 up to the date of this report.

ENVIRONMENTAL POLICY AND PERFORMANCE

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

For the year ended 31 December 2017 and up to the date of this report, so far as the Company is aware, the Group is not involved in any material breach of or irregularity against the applicable laws and regulations that have a material effect on the Group's business and operations.

Due to the different understanding of bitcoin transactions among different countries, there are different regulatory attitudes and policies. In the future, if there is any adverse regulatory policy for bitcoin transactions, it may adversely affect the Blockchain Server business of the Group.

RELATIONSHIP WITH KEY STAKEHOLDERS

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

Employees

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

Customers

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

Suppliers

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

Regulators

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

Major Risks and Uncertainties

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

INTERNATIONAL SANCTIONS

During the year ended 31 December 2017, the Group had CAM sales to customers located in Russia, which accounted for 2.33% of the Group's total revenue for the year ended 31 December 2017, as well as sales to customers located in the Balkans and Belarus, which in aggregate accounted for 3.51% of the Group's total revenue for the year ended 31 December 2017. During the year ended 31 December 2017, the Group had no sales to Ukraine, Egypt and Lebanon. The percentage of revenue contribution from relevant customers located in jurisdictions which are targeted with international sanctions in the year ended 31 December 2017 decreased from 15.09% in the corresponding period in 2016 to 5.84% during the year ended 31 December 2017.

In the coming year, the Group is expected to continue its sales to customers located in Russia, the Balkans and Belarus and does not expect any significant increase or decrease in the Group's sales to customers located in those jurisdictions. The Group also expects no sales or immaterial sales to customers located in Ukraine, Egypt and Lebanon. During the year ended 31 December 2017, the Group did not, and has no present or future intention to, enter into any transactions in the jurisdictions which are targeted with international sanctions or with persons and entities which are listed on any international sanctions list that the Group believes would put the Group or its investors at risk of violating or becoming the target of international sanctions.

AUDITOR

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

On behalf of the Board
Huang Xueliang
Chairman

Hong Kong, 26 March 2018

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF SMIT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of SMIT Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 139, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

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Independence

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

KEY AUDIT MATTERS

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Estimated provision for impairment of inventories Refer to notes 4.2 and 16 to the consolidated financial statements. The Group held inventories, net of provision, of USD16.7 million as at 31 December 2017. Provision was made for slow moving and obsolete inventories based on their ageing profile. Full provision was made when the selling of the product series was discontinued. We focused on this area because the estimates of provision involved a high-level of judgement based on historical experience and future sales estimate. These estimates were also subject to uncertainty as a result of the change in technology.	We examined the basis of the methodology with respect to the provision for impairment of inventories and evaluated, amongst others, the outcome of management's estimates in prior years, the analysis and assessment made by management with respect to slow moving and obsolete inventories. We also evaluated the assumptions and estimates applied by management for making such provision based on their ageing profile and identification of inventories related to the discontinued product series. We tested the accuracy of the ageing profile of the inventories used in the calculation. We also tested the mathematical accuracy of the provision using the ageing profile of the inventories as at 31 December 2017. Based on the procedures performed, we consider the management's judgement and estimates, which are the basis of the provision for impairment of inventories, acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Estimated provision for impairment of trade receivables Refer to notes 4.3 and 18 to the consolidated financial statements. Trade receivables of the Group, net of provision, amounted to USD10.7 million as at 31 December 2017. The Group had certain amount of overdue trade receivables which were exposed to higher risk of collectability. The Group made specific provision on trade receivables based on an assessment of the recoverability of the overdue trade receivables on an individual customer basis. We focus on this area because the identification of doubtful debts required a high degree of judgement and estimates.	We understood and evaluated the controls procedures over management's recoverability assessment on the overdue trade receivables. We tested management's provision estimate by comparing to supportable evidence about the collectability of the overdue trade receivable balances such as the subsequent settlement after the year end date, historical settlement pattern of the respective customers, length of overdue period and the business performance and financial capability of the customers. We also tested the subsequent settlement of trade receivables in supporting management's provision estimate. Based on the procedures performed, we consider management's judgement and estimates on the provision for impairment of trade receivables is supported by available evidence.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Note	Year ended 31 December **2017** USD	2016 USD
Revenue	6	**91,780,923**	59,053,896
Cost of sales	7	**(59,277,526)**	(35,596,258)
Gross profit		**32,503,397**	23,457,638
Other (losses)/gains, net	6	**(1,982,646)**	2,159,243
Other income	6	**1,045,476**	1,286,406
Research and development expenses	7	**(7,765,265)**	(6,803,953)
Selling and distribution expenses	7	**(2,982,378)**	(2,851,516)
General and administrative expenses	7	**(7,248,639)**	(10,243,378)
Operating profit		**13,569,945**	7,004,440
Finance income	9	**461,282**	374,909
Profit before income tax		**14,031,227**	7,379,349
Income tax (expense)/credit	11	**(2,932,359)**	121,237
Profit for the year attributable to owners of the Company		**11,098,868**	7,500,586
Earnings per share attributable to owners of the Company for the year (expressed in USD per share)			
Basic earnings per share	12	**0.037**	0.027
Diluted earnings per share	12	**0.035**	0.025

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	USD	USD
Profit for the year	**11,098,868**	7,500,586
Other comprehensive income:		
Item that may be reclassified subsequently to profit or loss		
Translation differences	**4,282,023**	(4,267,838)
Other comprehensive income/(loss) for the year, net of tax	**4,282,023**	(4,267,838)
Total comprehensive income for the year attributable to owners of the Company	**15,380,891**	3,232,748

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	As at 31 December 2017 USD	2016 USD
ASSETS			
Non-current assets			
Property, plant and equipment	14	**2,006,053**	2,009,722
Other intangible assets	15	**86,311**	192,409
Goodwill	23	**6,570,079**	6,188,584
Trade and other receivables and prepayments	18	**545,554**	214,665
Financial assets at fair value through profit or loss	19	**3,808,986**	—
Deferred income tax assets	22	**1,022,564**	2,180,722
		14,039,547	10,786,102
Current assets			
Inventories	16	**16,727,865**	6,866,835
Trade and other receivables and prepayments	18	**13,291,275**	22,100,681
Short-term bank deposits	21	**3,523,375**	13,269,022
Cash and cash equivalents	20	**84,100,969**	56,409,071
		117,643,484	98,645,609
Total assets		**131,683,031**	109,431,711

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	As at 31 December 2017 USD	2016 USD
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	24	**6,140**	6,037
Share premium	24	**98,362,681**	97,421,918
Merger reserve	25	**(48,810,141)**	(48,810,141)
Share-based payment reserve	25	**19,401,056**	20,483,902
Statutory reserve	25	**4,913,464**	4,099,819
Retained earnings		**36,548,676**	26,263,453
Capital reserve	25	**1,212,543**	1,212,543
Exchange reserve		**2,697,170**	(1,584,853)
Total equity		**114,331,589**	99,092,678
LIABILITIES			
Current liabilities			
Trade payables	26	**7,552,913**	2,312,533
Accruals and other payables	27	**7,670,160**	5,948,656
Deferred revenue	28	**969,746**	1,424,420
Income tax payable		**1,158,623**	653,424
Total liabilities		**17,351,442**	10,339,033
Total equity and liabilities		**131,683,031**	109,431,711
Net current assets		**100,292,042**	88,306,576
Total assets less current liabilities		**114,331,589**	99,092,678

The consolidated financial statements on pages 63 to 139 were approved by the Board of Directors on 26 March 2018 and were signed on its behalf.

Huang Xueliang
Chairman

Loong, Manfred Man-tsun
Director

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	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 year ended 31 December 2016									
Balance at 1 January 2016	3,049	63,331,486	(48,810,141)	20,894,252	3,389,227	1,212,543	2,682,985	19,473,459	62,176,860
Comprehensive income									
Profit for the year	—	—	—	—	—	—	—	7,500,586	7,500,586
Translation differences	—	—	—	—	—	—	(4,267,838)	—	(4,267,838)
Total comprehensive income for the year	—	—	—	—	—	—	(4,267,838)	7,500,586	3,232,748
Transaction with owners									
Share-based compensation	—	—	—	85,058	—	—	—	—	85,058
Appropriation to statutory reserves	—	—	—	—	710,592	—	—	(710,592)	—
Issuance of shares under the capitalisation issue	1,451	(1,451)	—	—	—	—	—	—	—
Issuance of shares under open offer	1,500	33,548,332	—	—	—	—	—	—	33,549,832
Exercise of share options	37	543,551	—	(495,408)	—	—	—	—	48,180
Transaction with owners, recognised directly in equity	2,988	34,090,432	—	(410,350)	710,592	—	—	(710,592)	33,683,070
Balance at 31 December 2016	6,037	97,421,918	(48,810,141)	20,483,902	4,099,819	1,212,543	(1,584,853)	26,263,453	99,092,678
Representing:									
Capital	6,037	—	—	—	—	—	—	—	6,037
Reserves	—	96,841,072	(48,810,141)	20,483,902	4,099,819	1,212,543	(1,584,853)	26,263,453	98,505,795
2016 final dividend proposed	—	580,846	—	—	—	—	—	—	580,846
	6,037	97,421,918	(48,810,141)	20,483,902	4,099,819	1,212,543	(1,584,853)	26,263,453	99,092,678

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	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 year ended 31 December 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 year	—	—	—	—	—	—	—	11,098,868	11,098,868
Translation differences	—	—	—	—	—	—	4,282,023	—	4,282,023
Total comprehensive income for the year	—	—	—	—	—	—	4,282,023	11,098,868	15,380,891
Transaction with owners									
Share-based compensation	—	—	—	14,272	—	—	—	—	14,272
Appropriation to statutory reserves	—	—	—	—	813,645	—	—	(813,645)	—
Issuance of shares under employee share award scheme	20	302,563	—	—	—	—	—	—	302,583
Exercise of share options	83	1,219,046	—	(1,097,118)	—	—	—	—	122,011
Dividend relating to 2016 paid in May 2017	—	(580,846)	—	—	—	—	—	—	(580,846)
Transaction with owners, recognised directly in equity	103	940,763	—	(1,082,846)	813,645	—	—	(813,645)	(141,980)
Balance at 31 December 2017	6,140	98,362,681	(48,810,141)	19,401,056	4,913,464	1,212,543	2,697,170	36,548,676	114,331,589
Representing:									
Capital	6,140	—	—	—	—	—	—	—	6,140
Reserves	—	97,580,288	(48,810,141)	19,401,056	4,913,464	1,212,543	2,697,170	36,548,676	113,543,056
2017 final dividend proposed	—	782,393	—	—	—	—	—	—	782,393
	6,140	98,362,681	(48,810,141)	19,401,056	4,913,464	1,212,543	2,697,170	36,548,676	114,331,589

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 USD	2016 USD
Cash flows from operating activities			
Cash generated from operations	30(a)	**21,047,044**	3,148,611
Income tax paid		**(1,217,937)**	(563,516)
Net cash generated from operating activities		**19,829,107**	2,585,095
Cash flows from investing activities			
Purchases of property, plant and equipment		**(818,410)**	(400,449)
Proceeds from disposal of property, plant and equipment	30(b)	**217,319**	2,762
Decrease/(increase) in short-term bank deposits		**9,745,647**	(13,269,022)
Interest income received		**437,841**	374,909
Purchases of other intangible assets		**(62,654)**	—
Purchase of financial assets at fair value through profit or loss		**(3,467,702)**	—
Net cash generated from/(used in) investing activities		**6,052,041**	(13,291,800)
Cash flows from financing activities			
Payment for listing expenses		**—**	(1,291,972)
Payment for dividend		**(580,846)**	—
Proceeds from issuance of ordinary shares		**—**	36,346,153
Exercise of share options		**122,011**	48,180
Net cash (used in)/generated from financing activities		**(458,835)**	35,102,361
Net increase in cash and cash equivalents		**25,422,313**	24,395,656
Cash and cash equivalents at beginning of year		**56,409,071**	33,972,375
Effect of exchange rate changes on cash and cash equivalents		**2,269,585**	(1,958,960)
Cash and cash equivalents at end of year	20	**84,100,969**	56,409,071

The notes on pages 70 to 139 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

SMIT Holdings Limited (the "Company") and its subsidiaries (together the "Group") principally are engaged 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 is also engaged in the development and sales of online-to-offline ("O2O") smart terminals to a cross-border e-commerce company, and development and sales blockchain chipsets and servers to be incorporated within servers with strong computing capability for players who wish to get advanced blockchain solutions.

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, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its registered office in the PRC is SSMEC Building, Gao Xin Nan First Avenue, High-Tech Park South, Nanshan District, Shenzhen, PRC.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 *Basis of preparation* *(continued)*

(a) *Amended standards adopted by the Group*

The following new and amended standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

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

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

(b) *New standards, amended standards and new interpretations not yet adopted by the Group*

The following new standards, new interpretations and amended standards have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group:

		Effective for accounting year beginning on or after
HKFRS 1 and HKAS 28 (Amendments)	Annual Improvements 2014-2016 Cycle	1 January 2018
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 (Amendment)	Clarifications to HKFRS 15	1 January 2018
HKAS 40 (Amendment)	Transfers of Investment Property	1 January 2018
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 *Basis of preparation* *(continued)*

(b) New standards, amended standards and new interpretations not yet adopted by the Group *(continued)*

The Group will adopt the new standards, new interpretations and amended standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standards, amended standards and new interpretations, none of which is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, "Financial instruments"

Nature of change

HKFRS 9 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.

Impact

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets as equity investments currently measured at fair value through profit or loss ("FVTPL") 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 Group does not expect the adoption of the ECL model would result in a significant impact to the impairment provision of its financial assets as most of them are repayable within one year.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 *Basis of preparation* *(continued)*

(b) *New standards, amended standards and new interpretations not yet adopted by the Group* *(continued)*

HKFRS 9, "Financial instruments"*(continued)*

Date of adoption by the Group

The standard is mandatory for financial years beginning on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 15, "Revenue from contracts with customers"

Nature of change

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.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

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.

The directors of the Company do not expect the application of HKFRS 15 would result in a significant impact on the Group's consolidated financial statements based on the current business models. Meanwhile, there will be additional disclosure requirements under HKFRS 15 upon its adoption.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 *Basis of preparation* *(continued)*

(b) *New standards, amended standards and new interpretations not yet adopted by the Group* *(continued)*

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

Date of adoption by the Group

The standard is mandatory for financial years beginning on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16, "Leases"

Nature of change

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.

Impact

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 USD1,132,521 (Note 32). 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.

Also, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

The standard is mandatory for financial years beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

(a) Consolidation

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

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

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

(b) Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gains or losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to the consolidated income statement, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to the consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

2.6 Intangible assets

(a) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 *Intangible assets* *(continued)*

(b) Other intangible assets

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

(c) Research and development costs

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

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

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

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

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

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

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

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

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

2.7 *Impairment of non-financial assets*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) 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 that 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 presented as current assets if they are expected to be settled within twelve months after the end of the reporting period; otherwise, they are classified as non-current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less, they are classified as current assets. If not, they are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, short-term bank deposits and cash and cash equivalents in the consolidated statements of financial position.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, i.e. the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets *(continued)*

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated income statement.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in the consolidated income statement within "other (losses)/gains, net".

Dividends on financial assets at fair value through profit or loss are recognised in consolidated income statement as part of other income when the Group's right to receive payments is established. Interest income from financial assets at fair value through profit or loss and loans and receivables calculated using the effective interest method is included in the consolidated income statement within "finance income".

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

2.9 Offsetting financial instruments

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

2.10 Impairment of financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Impairment of financial assets *(continued)*

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

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

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

Impairment testing of trade receivables is described in Note 18.

2.11 Inventories

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

2.12 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.8 for further information about the Group's accounting for trade and other receivables and Note 2.10 for a description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity.

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

2.15 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Current and deferred income tax

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Current and deferred income tax *(continued)*

(b) Deferred income tax

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

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(c) Investment allowances and similar tax incentives

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Employee benefits

(a) Employee leave entitlements

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

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

(b) Pension obligations

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

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

(c) Bonus plans

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

2.18 Share-based payments

Share-based compensation benefits are provided to employees via a share option scheme and a share award scheme. Information relating to these schemes is set out in Note 24(d) and Note 29.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Share-based payments *(continued)*

(a) Share option scheme

The fair value of options granted under the share option scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

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

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

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

(b) Share award scheme

Under the employee share award scheme, shares issued by the Company to employees of the Group for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

(c) Share-based payment transactions among group entities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Provisions

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

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

Provisions are measured at the present value of management's estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.20 Revenue recognition

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

(a) Sales of goods

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

(b) Interest income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Government grants

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

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

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

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of lease.

2.23 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 *Financial risk factors* *(continued)*

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2017, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax profit and total equity would have been approximately USD1,971,000 (2016: USD1,658,000) higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of USD denominated receivables and cash and cash equivalents in entities whose functional currency is RMB.

As at 31 December 2017, if USD had strengthened/weakened by 5% against EUR with all other variables held constant, the post-tax profit and total equity would have been approximately USD171,000 (2016: USD34,000) lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of Euro denominated receivables, cash and cash equivalents and payables.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities except for the deposits in banks, details of which have been disclosed in Notes 20 and 21. The interest rate risk is considered to be insignificant.

(iii) Price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as financial assets at fair value through profit or loss (Note 19).

The Group manages its price risk by regularly monitoring equity portfolio to address any portfolio issues promptly.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 *Financial risk factors* *(continued)*

(a) Market risk *(continued)*

(iii) Price risk *(continued)*

As at 31 December 2017, if the price of the unlisted fund in financial assets at fair value through profit or loss had been 10% higher/lower with all other variables held constant, the Group's post-tax profit for the year ended 31 December 2017 would have been approximately USD177,000 higher/lower (2016: Nil).

The sensitivity analysis has been determined based on a reasonable expectation of possible valuation volatility over the next 12 months.

(b) Credit risk

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

As at 31 December 2017, for cash and cash equivalents (excluding cash on hand) and deposits with banks, they are all deposited or traded with listed banks. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

As at 31 December 2017, top 3 customers of the Group accounted for approximately 64% (2016: 77%), to the trade receivables of the Group. The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers.

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 *Financial risk factors* *(continued)*

(c) Liquidity risk

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

As at 31 December 2017, all of the Group's financial liabilities were due for settlement contractually within 12 months or repayable on demand, the impact of discounting is not significant.

3.2 *Capital management*

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

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

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

3.3 *Fair value estimation*

The 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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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).

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
As at 31 December 2017				
Financial assets at fair value through profit or loss	—	—	3,808,986	3,808,986

There were 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 year.

(a) Financial instruments in level 3

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 *Fair value estimation* *(continued)*

(a) *Financial instruments in level 3* *(continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2017.

	Financial assets at fair value through profit or loss USD
Opening balance at 1 January 2017	—
Additions for the year	**3,467,702**
Gains recognised in the consolidated income statement	**268,950**
Currency translation difference	**72,334**
Closing balance at 31 December 2017	**3,808,986**
Total gains for the year included in the consolidated income statement for assets held at the end of the year, under "other (losses)/gains, net"	**268,950**
Changes in unrealised gains for the year included in the consolidated income statement at the end of the year	**268,950**

3.4 *Offsetting financial assets and financial liabilities*

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Useful lives of property, plant and equipment

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

4.2 Net realisable value of inventories

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

4.3 Provision for impairment of trade and other receivables

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.4 Income taxes

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

4.5 Estimated impairment of goodwill

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

4.6 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 and recent comparable arm's length transactions. 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 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 transaction 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.

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 these consolidated financial statements.

	CAM and mPOS USD	Blockchain servers USD	O2O smart terminals USD	Total USD
For the year ended 31 December 2017				
Segment revenue				
External revenue	**51,635,577**	**38,993,498**	**1,151,848**	**91,780,923**
Segment results	**19,524,948**	**12,642,959**	**335,490**	**32,503,397**
For the year ended 31 December 2016				
Segment revenue				
External revenue	59,053,896	—	—	59,053,896
Segment results	23,457,638	—	—	23,457,638

5 SEGMENT INFORMATION *(continued)*

	CAM and mPOS USD	Blockchain servers USD	O2O smart terminals USD	Total USD
As at 31 December 2017				
Segment assets	**25,682,668**	**9,874,663**	**3,428,832**	**38,986,163**
As at 31 December 2016				
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.

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

	Year ended 31 December	
	2017	2016
	USD	USD
Reporting segment results	**32,503,397**	23,457,638
Other income	**1,045,476**	1,286,406
Other (losses)/gains, net	**(1,982,646)**	2,159,243
Finance income	**461,282**	374,909
Corporate and unallocated expenses	**(17,996,282)**	(19,898,847)
Profit before income tax	**14,031,227**	7,379,349

	As at 31 December	
	2017	2016
	USD	USD
Reportable segment assets	**38,986,163**	31,501,695
Deferred income tax assets	**1,022,564**	2,180,722
Property, plant and equipment	**2,006,053**	2,009,722
Cash and cash equivalents	**84,100,969**	56,409,071
Short-term bank deposits	**3,523,375**	13,269,022
Corporate and unallocated assets	**2,043,907**	4,061,479
Total assets per consolidated statement of financial position	**131,683,031**	109,431,711

6 REVENUE, OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

Revenue, other income and other (losses)/gains, net recognised during the year is as follows:

	Year ended 31 December	
	2017	2016
	USD	USD
Revenue		
CAM	**36,814,388**	38,026,740
mPOS devices	**14,821,189**	21,027,156
Blockchain servers	**38,993,498**	—
O2O smart terminals	**1,151,848**	—
	91,780,923	59,053,896
Other income		
Government grants	**1,030,008**	1,272,691
Others	**15,468**	13,715
	1,045,476	1,286,406
Other (losses)/gains, net		
Exchange (losses)/gains, net	**(2,251,596)**	2,159,243
Fair value gains on financial assets at fair value through profit or loss	**268,950**	—
	(1,982,646)	2,159,243

7 EXPENSES BY NATURE

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

	Year ended 31 December	
	2017	2016
	USD	USD
Auditors' remuneration		
– Audit services	**390,188**	301,350
– Non-audit services	**200,393**	92,577
Loss on disposals of property, plant and equipment	**28,644**	25,069
Advertising costs	**810,464**	888,826
Cost of inventories sold	**54,528,750**	31,518,549
Employee benefits expenses (including directors' emoluments) (Note 8)	**10,113,954**	9,469,212
Royalty expenses	**2,707,808**	3,045,773
Freight charges	**185,539**	138,654
Other taxes	**615,996**	565,652
Provision for/(reversal of) impairment of inventories	**427,234**	(439,244)
Depreciation of property, plant and equipment (Note 14)	**676,040**	611,958
Amortisation of other intangible assets (Note 15)	**167,733**	214,546
Legal and professional fees	**1,434,872**	2,020,216
Listing expenses	**—**	1,908,416
Consulting fee	**6,393**	26,049
Provision for impairment of trade receivables	**2,039**	353,638
Operating lease payments	**1,105,849**	996,316
Travelling and entertainment expenses	**1,418,415**	1,476,537
Office and utilities	**753,833**	898,783
Others	**1,699,664**	1,382,228
Total cost of sales, research and development expenses, selling and distribution expenses and general and administrative expenses	**77,273,808**	55,495,105

8 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2017	2016
	USD	USD
Wages, salaries and other allowances	**7,834,149**	6,737,027
Discretionary bonuses	**1,062,219**	1,852,561
Share-based compensation	**7,879**	59,009
Share award expenses	**302,583**	—
Retirement benefit - defined contribution plans	**907,124**	820,615
	10,113,954	9,469,212

(a) Retirement benefit – defined contribution plans

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

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

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

8 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2016: one) directors whose emolument is reflected in the analysis shown in Note 36. The emoluments payable to the remaining two (2016: four) individual during the year are as follows:

	Year ended 31 December	
	2017	2016
	USD	USD
Basic salaries, allowances and benefits in kind	**118,653**	304,803
Discretionary bonuses	**24,027**	175,000
Share-based payments	**945**	30,071
Retirement benefit- defined contribution plan	**21,920**	27,037
	165,545	536,911

The emoluments fell within the following bands:

	Year ended 31 December	
	2017	2016
Emolument bands		
Nil to HK$1,000,000 (equivalent to Nil to USD128,159)	**2**	3
HK$1,000,001 to HK$1,500,000 (equivalent to USD128,160 to USD192,238)	**—**	—
HK$1,500,001 to HK$2,000,000 (equivalent to USD192,239 to USD256,318)	**—**	1
	2	4

9 FINANCE INCOME

	Year ended 31 December	
	2017	2016
	USD	USD
Interest income on short-term bank deposits	**437,841**	374,909
Interest accretion on non-current trade receivables	**23,441**	—
	461,282	374,909

10 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued and fully paid share capital	Direct and indirect ownership	
				2017	2016
				%	%
Directly held:					
SMIT Holdings (HK) Limited ("SMIT HK") (previously named SMIT (HK) Limited)	Hong Kong, limited liability company	Sales of CAM and other security products and related materials	HK$150,010,000 (2016: HK$150,010,000)	**100**	100
SMiT Digital GmbH	Germany, limited liability company	Sales of CAM and mPOS devices and other security products	EUR25,000 (2016: EUR25,000)	**100**	100
Indirectly held:					
Shenzhen State Micro Technology Co., Ltd. ("SMiT Shenzhen") (深圳國微技術有限公司)	The PRC, limited liability company	Research and development and sales of CAM, mPOS devices, blockchain servers and O2O smart terminals	RMB120,000,000 (2016: RMB120,000,000)	**100**	100

11 INCOME TAX EXPENSE/(CREDIT)

SMiT Shenzhen, a subsidiary of the Company, was established in the Shenzhen Special Economic Zone, the PRC. SMiT Shenzhen was approved as a High/New Technology Enterprise as defined under the New Enterprise Income Tax Law, accordingly, it is entitled to a reduced preferential enterprise income tax ("EIT") rate at 15% ("HNTE Preferential Tax Rate") for a 3-year period from 2017 to 2019. An EIT tax rate at 15% (2016: 15%) was applied for the year ended 31 December 2017.

For the year ended 31 December 2017, Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the applicable rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December	
	2017	2016
	USD	USD
Current income tax		
– PRC corporate income tax	**933,612**	1,049,679
– Overseas tax	**235,453**	44,658
– Hong Kong profits tax	**220,297**	—
Deferred income tax (Note 22)		
– Current year	**1,287,442**	(405,122)
Under/(over)-provision in prior years		
– Current income tax	**303,282**	(1,059,569)
– Deferred income tax (Note 22)	**(47,727)**	249,117
Income tax expense/(credit)	**2,932,359**	(121,237)

11 INCOME TAX EXPENSE/(CREDIT) *(continued)*

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

	Year ended 31 December	
	2017	2016
	USD	USD
Profit before income tax	**14,031,227**	7,379,349
Tax calculated at domestic tax rates applicable to profits in the respective countries	**2,275,457**	653,799
Income not subject to tax	**(66,967)**	(11,556)
Expenses not deductible for tax purposes	**275,406**	432,460
Income tax benefit – super deduction	**(541,701)**	(385,488)
Under/(over)-provision in prior years	**255,555**	(810,452)
Re-measurement of deferred tax — change in the tax rate	**734,609**	—
	2,932,359	(121,237)

During the year ended 31 December 2017, as a result of the approval obtained by SMIT Shenzhen as a High/New Technology Enterprise with the entitlement to HNTE Preferential Tax Rate for a 3-year period from 2017 to 2019, the deferred tax balances with respect to the temporary differences of SMiT Shenzhen have been re-measured. Deferred tax expected to be reversed during the year ending 31 December 2018 and 2019 has been re-measured using the HNTE Preferential Tax Rate at 15%.

The weighted average applicable tax rate for the year ended 31 December 2017 was 16.4% (2016: 8.9%). The increase is caused by a change in the profitability of the Company and its subsidiaries in the respective countries, in particular a loss making company in prior year was subject to a higher standard tax rate which lowered the prior year weighted average applicable tax rate.

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

12 EARNINGS PER SHARE

12.1 Basic

Basic earnings per share are calculated by dividing the profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares in issue.

	Year ended 31 December	
	2017	2016
	USD	USD
Profit attributable to owners of the Company	**11,098,868**	7,500,586
Weighted average number of ordinary shares in issue	**303,420,114**	282,803,853
Basic earnings per share	**0.037**	0.027

Note:

The calculation of the basic and diluted earnings per share for the year ended 31 December 2016 was adjusted for the capitalisation issue of 72,574,775 shares taken place on 6 March 2016 retrospectively as if they had been in issue since 1 January 2016 (Note 24(a)).

12 EARNINGS PER SHARE *(continued)*

12.2 Diluted

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

	Year ended 31 December	
	2017	2016
	USD	USD
Profit attributable to owners of the Company	**11,098,868**	7,500,586
Weighted average number of ordinary shares in issue	**303,420,114**	282,803,853
Adjustments for share options	**11,872,746**	18,703,873
Weighted average number of ordinary shares for diluted earnings per share	**315,292,860**	301,507,726
Diluted earnings per share	**0.035**	0.025

13 DIVIDENDS

	Year ended 31 December	
	2017	2016
	USD	USD
Proposed final dividend of HK$0.02 (equivalent to approximately USD0.003) (2016: HK$0.015 (equivalent to approximately USD0.002)) per share	**782,393**	580,846

The dividend paid in 2017 was USD580,846 (HK$0.015 (equivalent to approximately USD0.002) per share) (2016: Nil). A final dividend in respect of the year ended 31 December 2017 of HK$0.02 (equivalent to approximately USD0.003) per share, amounting to a total dividend of USD782,393, will be proposed at the upcoming annual general meeting of the Company. This proposed final dividend is not reflected as a dividend payable in the consolidated financial statements as at 31 December 2017.

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements USD	Furniture, fixtures and equipment USD	Motor vehicles USD	Total USD
At 31 December 2015				
Cost	2,277,629	3,192,262	180,519	5,650,410
Accumulated depreciation	(1,591,035)	(1,612,825)	(81,017)	(3,284,877)
Net book amount	686,594	1,579,437	99,502	2,365,533
Year ended 31 December 2016				
Opening net book amount	686,594	1,579,437	99,502	2,365,533
Additions	63,185	244,969	92,295	400,449
Disposals	(1,199)	(26,632)	—	(27,831)
Depreciation (Note 7)	(215,789)	(377,957)	(18,212)	(611,958)
Currency translation differences	(34,000)	(76,807)	(5,664)	(116,471)
Closing net book amount	498,791	1,343,010	167,921	2,009,722
At 31 December 2016				
Cost	2,289,643	1,731,145	242,388	4,263,176
Accumulated depreciation	(1,790,852)	(388,135)	(74,467)	(2,253,454)
Net book amount	498,791	1,343,010	167,921	2,009,722
Year ended 31 December 2017				
Opening net book amount	**498,791**	**1,343,010**	**167,921**	**2,009,722**
Additions	**64,543**	**631,477**	**122,390**	**818,410**
Disposals	**(470)**	**(229,735)**	**(15,758)**	**(245,963)**
Depreciation (Note 7)	**(219,474)**	**(397,335)**	**(59,231)**	**(676,040)**
Currency translation differences	**23,677**	**71,369**	**4,878**	**99,924**
Closing net book amount	**367,067**	**1,418,786**	**220,200**	**2,006,053**
At 31 December 2017				
Cost	**2,380,124**	**2,075,871**	**317,166**	**4,773,161**
Accumulated depreciation	**(2,013,057)**	**(657,085)**	**(96,966)**	**(2,767,108)**
Net book amount	**367,067**	**1,418,786**	**220,200**	**2,006,053**

14 PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

	Year ended 31 December	
	2017	2016
	USD	USD
Cost of sales	**73,653**	45,710
Research and development expenses	**399,054**	393,174
Selling and distribution expenses	**32,202**	36,932
General and administrative expenses	**171,131**	136,142
	676,040	611,958

15 OTHER INTANGIBLE ASSETS

	Year ended 31 December	
	2017	2016
	USD	USD
Acquired technologies and computer software		
Opening net book amount	**192,409**	490,661
Additions	**62,654**	—
Amortisation (Note 7)	**(167,733)**	(214,546)
Currency translation differences	**(1,019)**	(83,706)
Closing net book amount	**86,311**	192,409
Cost	**3,527,871**	3,477,772
Accumulated amortisation	**(3,441,560)**	(3,285,363)
Net book amount	**86,311**	192,409

15 OTHER INTANGIBLE ASSETS *(continued)*

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

	Year ended 31 December	
	2017	2016
	USD	USD
Cost of sales	**—**	1,144
Research and development expenses	**91,985**	110,475
Selling and distribution expenses	**19,706**	20,134
General and administrative expenses	**56,042**	82,793
	167,733	214,546

Research and development expenses are not generally capitalised as they are primary considered as expenditures to upgrade existing technical knowhow, and do not fulfil the strict capitalisation criteria as listed out in Note 2.6(c).

16 INVENTORIES

	As at 31 December	
	2017	2016
	USD	USD
Raw materials	**8,273,392**	5,403,258
Work in progress	**3,119,485**	2,011,014
Finished goods	**8,866,594**	2,373,408
	20,259,471	9,787,680
Less: Provision for impairment of inventories	**(3,531,606)**	(2,920,845)
	16,727,865	6,866,835

The cost of inventories recognised as expense and included in cost of sales amounted to USD54,528,750 (2016: USD31,518,549) for the year ended 31 December 2017.

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2017	2016
	USD	USD
Assets as per consolidated statement of financial position		
Loans and receivables		
– Trade receivables	**10,688,074**	17,530,550
– Notes and other receivables	**1,798,283**	1,537,320
– Short-term bank deposits	**3,523,375**	13,269,022
– Cash and cash equivalents	**84,100,969**	56,409,071
	100,110,701	88,745,963
Assets at fair value through profit or loss		
– Financial assets at fair value through profit or loss	**3,808,986**	—
	103,919,687	88,745,963
Liabilities as per consolidated statement of financial position		
Other financial liabilities at amortised cost		
– Trade payables	**7,552,913**	2,312,533
– Accruals and other payables	**4,547,074**	3,062,117
	12,099,987	5,374,650

18 TRADE, PREPAYMENTS AND OTHER RECEIVABLES

	Note	As at 31 December 2017 USD	2016 USD
Trade receivables from third parties	(a)	**11,840,686**	4,842,433
Trade receivables from related parties (Note 33(d))	(a)	**133,476**	13,896,865
Less: Provision for impairment of trade receivables	(a)	**(1,286,088)**	(1,208,748)
Trade receivables – net		**10,688,074**	17,530,550
Prepayments	(b)	**1,350,472**	3,247,476
Notes receivable	(b)	**1,633,905**	79,862
Other receivables	(b)	**164,378**	1,457,458
		3,148,755	4,784,796
Less: Non-current portion		**(545,554)**	(214,665)
		13,291,275	22,100,681

Note:

(a) Trade receivables

As at 31 December 2017, the ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December 2017 USD	2016 USD
Less than 30 days	**7,132,202**	6,086,764
31 to 60 days	**2,185,283**	3,920,039
61 to 90 days	**356,603**	2,944,571
91 to 180 days	**170,461**	4,500,721
181 to 365 days	**874,664**	283,300
Over 365 days	**1,254,949**	1,003,903
	11,974,162	18,739,298

The Group's credit terms granted to customers generally ranged from 30 to 180 days. As at 31 December 2017, trade receivables of approximately USD2,195,000 (2016: USD680,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

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

Note: *(continued)*

(a) Trade receivables *(continued)*

The ageing analysis of overdue trade receivables before provision for impairment of trade receivables based on due date is as follows:

	As at 31 December	
	2017	2016
	USD	USD
Less than 30 days	**1,879,831**	485,319
31 to 60 days	**186,668**	28,273
61 to 90 days	**110,102**	15,875
91 to 180 days	**15,555**	68,050
181 to 365 days	**3,501**	63,548
Over 365 days	**1,285,387**	1,227,225
	3,481,044	1,888,290

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

	As at 31 December	
	2017	2016
	USD	USD
As at 1 January	**1,208,748**	961,155
Provision for impairment	**2,039**	353,638
Currency translation differences	**75,301**	(106,045)
As at 31 December	**1,286,088**	1,208,748

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

The carrying amounts of the Group's trade receivables approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2017	2016
	USD	USD
RMB	**10,236,382**	15,633,134
USD	**1,449,697**	2,258,084
Others	**288,083**	848,080
	11,974,162	18,739,298

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

Note: *(continued)*

(b) Prepayments, notes receivable and other receivables

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

	As at 31 December	
	2017	2016
	USD	USD
USD	**420,928**	2,532,523
RMB	**2,543,538**	1,916,245
Others	**184,289**	336,028
	3,148,755	4,784,796

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

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		As at 31 December	
	Note	**2017**	2016
		USD	USD
Designated at fair value through profit or loss at inception:			
Unlisted equity security	(a)	**2,040,036**	—
Unlisted fund	(b)	**1,768,950**	—
		3,808,986	—

Note:

(a) The unlisted equity security investment represents 8.89% interest in Mainsweb Technology (Shenzhen) Company Limited ("Mainsweb"), a company incorporated in the PRC principally engaged in the operation of a one-stop cross-border e-commerce platform in the PRC. The investment is redeemable if Mainsweb is unable to be listed within 5 years from the date of investment at the consideration paid by the Group plus an interest income of 8% per annum less dividends received. The fair value is within level 3 of the fair value hierarchy (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 year ended 31 December 2017, a total gain of USD268,950 is recognised in the consolidated income statement.

20 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	USD	USD
Cash at banks	**84,065,122**	56,389,879
Cash on hand	**35,847**	19,192
	84,100,969	56,409,071

The carrying amounts of cash and cash equivalents approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2017	2016
	USD	USD
USD	**62,723,694**	44,180,449
RMB	**14,939,866**	5,368,618
EUR	**3,210,044**	4,959,674
HK$	**3,226,868**	1,899,876
Others	**497**	454
	84,100,969	56,409,071

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

21 SHORT-TERM BANK DEPOSITS

	As at 31 December	
	2017	2016
	USD	USD
Short-term bank deposits with maturities over three months and less than one year	**3,523,375**	13,269,022

The carrying amounts of the Group's short-term bank deposits approximate their respective fair values and are denominated in the following currencies:

	As at 31 December	
	2017	2016
	USD	USD
USD	**—**	8,003,250
HK$	**3,523,375**	5,265,772
	3,523,375	13,269,022

As at 31 December 2016, the Group's short-term bank deposits of USD11,517,000 were placed with certain banks in the PRC by the Company and its subsidiary. These balances are subject to exchange controls. As at 31 December 2017, none of the Group's short-term bank deposits were placed with banks in the PRC.

As at 31 December 2017, the effective interest rate on the Group's short-term bank deposits was 1.39% (2016: 1.44%) per annum and these deposits had an average maturity of 102 days (2016: 157 days).

22 DEFERRED INCOME TAX

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

	As at 31 December	
	2017	2016
	USD	USD
Deferred income tax assets:		
– to be realised within 12 months	**84,076**	1,511,205
– to be realised after more than 12 months	**952,178**	690,085
	1,036,254	2,201,290
Deferred income tax liabilities:		
– to be settled after more than 12 months	**(13,690)**	(20,568)
Deferred tax assets, net	**1,022,564**	2,180,722

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

	As at 31 December	
	2017	2016
	USD	USD
At 1 January	**2,180,722**	2,093,095
(Charged)/credited to profit or loss (Note 11)	**(1,239,714)**	156,005
Currency translation differences	**81,556**	(68,378)
At 31 December	**1,022,564**	2,180,722

22 DEFERRED INCOME TAX *(continued)*

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

Deferred income tax assets:

	Accelerated depreciation USD	Provisions USD	Tax losses USD	Other USD	Total USD
At 1 January 2016	25,866	872,787	853,137	363,245	2,115,035
(Charged)/credited to profit or loss	(5,404)	595,756	(368,489)	(67,230)	154,633
Currency translation differences	(784)	(56,255)	—	(11,339)	(68,378)
At 31 December 2016	19,678	1,412,288	484,648	284,676	2,201,290
At 1 January 2017	**19,678**	**1,412,288**	**484,648**	**284,676**	**2,201,290**
Charged to profit or loss	**(10,817)**	**(590,612)**	**(484,648)**	**(160,516)**	**(1,246,593)**
Currency translation differences	**869**	**68,251**	**—**	**12,437**	**81,557**
At 31 December 2017	**9,730**	**889,927**	**—**	**136,597**	**1,036,254**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. The Group did not have material unrecognised deferred income tax assets as at 31 December 2017 and 2016.

Deferred income tax liabilities:

	Accelerated depreciation USD
At 1 January 2016	21,940
Credited to profit or loss	(1,372)
At 31 December 2016	20,568
At 1 January 2017	**20,568**
Credited to profit or loss	**(6,878)**
At 31 December 2017	**13,690**

22 DEFERRED INCOME TAX *(continued)*

As at 31 December 2017, the retained earnings of the Group's PRC subsidiary not yet remitted to holding companies incorporated outside of the PRC, for which deferred income tax liability of approximately USD2,039,000 (2016: USD1,997,000) had not been provided, were approximately RMB282,669,000 (equivalent to approximately USD40,771,000) (2016: RMB277,120,000 (equivalent to approximately USD39,948,000)). Such earnings are expected to be retained by the PRC subsidiary for reinvestment purposes and would not be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

23 GOODWILL

	As at 31 December	
	2017	2016
	USD	USD
At 1 January	**6,188,584**	6,611,157
Currency translation differences	**381,495**	(422,573)
At 31 December	**6,570,079**	6,188,584

Goodwill of RMB42,930,000 arose from the application of purchase accounting to the acquisition of SMiT Shenzhen by the Company in April 2005 and has indefinite useful lives. The goodwill amount relates to the value of expected future economic benefits of the business operated by SMiT Shenzhen. As at 31 December 2017, management of the Group had conducted a review of the cash-generating unit ("CGU") of SMiT Shenzhen and determined that there is no impairment of the goodwill.

The recoverable amount of the CGU is determined based on a value-in-use calculation. That calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 20% (2016: 20%). The discount rate used is pre-tax and reflects specific risks related to the relevant operation. The revenue growth CAGR (i.e. compound annual growth rate over the five-year projection period) used is 1% (2016: 4%) for the year ended 31 December 2017. Cash flows beyond the 5-year period are extrapolated using a growth rate of 0% (2016: 2%). The volume of sales in each period is the main driver for revenue and costs. The growth in revenue and the relevant costs are estimated based on past performance and management's expectations for the market development.

If the forecasted revenue growth CAGR for the year ended 31 December 2017 had been lowered by one percentage point, the recoverable amounts would still exceed its carrying amount.

24 SHARE CAPITAL AND SHARE PREMIUM

	No of ordinary shares	Normal value ofordinary shares USD	Share premium USD
Authorised:			
Ordinary share of USD0.00002 each at 1 January 2016, 31 December 2016 and 2017	2,500,000,000	50,000	—
Issued and fully paid:			
At 1 January 2016	152,425,225	3,049	63,331,486
Issuance of ordinary shares under the capitalisation issue of USD0.00002 each (Note a)	72,574,775	1,451	(1,451)
Issuance 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
At 31 December 2016	301,856,379	6,037	97,421,918
Issuance of shares under the employee share award scheme (Note d)	1,005,000	20	302,563
Exercise of share options (Note c)	4,154,009	83	1,219,046
Dividends relating to 2016 paid in May 2017	—	—	(580,846)
	307,015,388	6,140	98,362,681

24 SHARE CAPITAL AND SHARE PREMIUM *(continued)*

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 USD36,346,153). Transaction cost attributable to issue of shares of USD2,796,321 has been offset against the share premium. Dealings in these shares on the Hong Kong Stock Exchange commenced on 29 March 2016.

(c) Exercise of share options

During the year ended 31 December 2017, 4,154,009 options were exercised (2016: 1,856,379 options) to subscribe for 4,154,009 ordinary shares (2016: 1,856,379 shares) in the Company at a consideration of USD122,011 (2016: USD48,180) of which USD83 (2016: USD37) was credited to share capital and the balance of USD121,928 (2016: US48,143) was credited to the share premium account. An amount of USD1,097,118 (2016: USD495,408) was therefore, as a result, transferred from the share-based payment reserve to the share premium account. As at 31 December 2017, there were in total 51,497,563 options (2016: 55,766,713) remained outstanding.

(d) Issuance of shares under employee share award scheme

On 30 June 2017, a total of 1,005,000 ordinary shares of the Company ("Awarded Shares"), which were all vested immediately, were granted to certain employees at no consideration in recognition of, and as award for, the contribution of such employees. The grant date fair value of these Awarded Shares was HK$2.35 per share. Employee benefits expenses of USD302,583 were recognised in the consolidated financial statements during the year.

25 RESERVES

(a) Statutory reserve

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

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

(b) Share-based payment reserve

In February 2008, the Group adopted a share plan ("2008 Share Plan") and State Micro Technology Corporation ("SMIT Corporation"), the ultimate holding company of companies of the Group before the completion of a reorganisation on 13 November 2015 ("Reorganisation"), reserved 16,936,135 ordinary shares, split adjusted, for issuance under the plan. In September 2010, the Board of Directors (the "Board") approved an amendment to the 2008 Share Plan to increase the number of ordinary shares for issuance by 16,523,060 to 33,459,195 ordinary shares. In February 2011, the Board approved an amendment to the 2008 Share Plan to further increase the number of ordinary shares for issuance by 6,160,000 to 39,619,195 ordinary shares.

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

Details of the equity settled share-based transactions are disclosed in Note 29.

25 RESERVES *(continued)*

(c) Capital reserve

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

(d) Merger reserve

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

26 TRADE PAYABLES

	As at 31 December	
	2017	2016
	USD	USD
Trade payables	**7,552,913**	2,312,533

As at 31 December 2017, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2017	2016
	USD	USD
Less than 30 days	**4,868,765**	2,081,113
31 to 90 days	**2,629,631**	180,609
91 to 180 days	**261**	—
181 to 365 days	**6,997**	8,183
Over 365 days	**47,259**	42,628
	7,552,913	2,312,533

26 TRADE PAYABLES *(continued)*

The carrying amounts of the Group's trade payables approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2017	2016
	USD	USD
RMB	**6,099,187**	2,312,533
USD	**1,453,726**	—
	7,552,913	2,312,533

27 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	USD	USD
Accrued employee benefits expenses	**2,032,129**	2,401,283
Receipt in advance	**763,981**	397,593
Accrued royalty fee	**862,441**	1,380,071
Other taxes payables	**326,976**	87,663
Others	**3,684,633**	1,682,046
	7,670,160	5,948,656

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

	As at 31 December	
	2017	2016
	USD	USD
RMB	**5,670,755**	2,410,391
USD	**964,573**	1,819,736
Others	**1,034,832**	1,718,529
	7,670,160	5,948,656

28 DEFERRED REVENUE

	As at 31 December	
	2017	2016
	USD	USD
Deferred government grant	**969,746**	1,424,420

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

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

On 6 March 2016, the capitalisation issue as disclosed in Note 24 (a) was completed, upon which the number of outstanding share options was adjusted to 58,470,406 pursuant to the anti-dilution arrangement in the Pre-IPO Share Option Scheme. No additional options have been granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2017.

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

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

Original date of grant	Date of modification	No. of options pertaining to employees and directors at the date of modification	No. of options pertaining to advisors at the date of modification	Exercise price	Remaining contractual life	Remaining vesting period
9 March 2008	15 September 2015	3,201,000	225,000	USD0.01	0.5 years	Fully vested
26 July 2009	15 September 2015	4,183,000	1,070,000	USD0.04	0.5 years	Fully vested
5 March 2010	15 September 2015	3,051,000	600,000	USD0.04	0.9 years	Fully vested
1 September 2010	15 September 2015	7,940,065	162,000	USD0.54	1.7 years	Fully vested
31 December 2010	15 September 2015	1,734,500	—	USD0.75	3 years	Fully vested
8 January 2011	15 September 2015	371,769	—	USD0.75	3.3 years	Fully vested
1 March 2011	15 September 2015	5,125,850	20,000	USD1.06	3.4 years	Fully vested
1 March 2011	15 September 2015	—	371,768	USD0.54	3.5 years	Fully vested
1 March 2012	15 September 2015	—	221,142	USD1.21	3.5 years	Fully vested
30 September 2012	15 September 2015	2,913,750	—	USD0.52	4.5 years	Fully vested
1 March 2013	15 September 2015	—	116,188	USD0.62	5.1 years	Fully vested
1 August 2013	15 September 2015	1,362,396	79,186	USD0.56	5.5 years	Fully vested
1 August 2013	15 September 2015	734,616	—	USD0.56	5.9 years	Fully vested
1 August 2013	15 September 2015	4,433,290	—	USD0.14	5.9 years	Fully vested
1 March 2014	15 September 2015	—	81,340	USD0.39	6.5 years	Fully vested
1 March 2012	15 September 2015	—	14,742	USD1.22	3.5 years	Fully vested
30 September 2012	15 September 2015	416,250	—	USD0.62	4.5 years	Fully vested
1 March 2013	15 September 2015	—	69,696	USD0.62	5.1 years	Fully vested
1 August 2013	15 September 2015	892,604	120,814	USD0.56	5.5 years	Fully vested
1 March 2014	15 September 2015	—	104,544	USD0.41	6.5 years	5.5-months

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

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

	As at 31 December			
	2017		2016	
	Number of Share Options	**Weighted Average Exercise Price USD**	Number of Share Options	Weighted Average Exercise Price USD
Balance as at beginning of the year	**55,766,713**	**0.45**	39,010,510	0.62
Pre-IPO Share Plan				
Increase in share options upon capitalisation issue	**—**	**—**	19,459,896	0.62
Share options forfeited/cancelled	**(115,141)**	**0.67**	(847,314)	0.08
Share options exercised	**(4,154,009)**	**0.03**	(1,856,379)	0.02
Balance as at year end	**51,497,563**	**0.52**	55,766,713	0.45

Out of the 51,497,563 outstanding options (2016: 55,766,713), 51,480,398 options (2016: 55,107,446) were exercisable. Options exercised in 2017 resulted in 4,154,009 (2016: 1,856,379) shares being issued at a weighted average price of USD0.03 (2016: USD0.02) each. The related weighted average share price at the time of exercise was USD0.45 (2016: USD0.62 per share).

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

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

	As at 31 December			
	2017		2016	
Expiry date	**Exercise price in USD per share option**	**Number of share options**	Exercise price in USD per share option	Number of share options
Pre-IPO Share Plan				
8 March 2018	**0.01**	**2,252,741**	0.01	4,011,834
8 March 2018	**0.04**	**5,790,516**	0.04	7,319,656
15 May 2019	**0.04**	**4,116,199**	0.04	4,981,975
30 August 2020	**0.54**	**11,959,747**	0.54	11,959,747
29 December 2020	**0.75**	**2,321,247**	0.75	2,362,580
6 January 2021	**0.75**	**548,781**	0.75	548,781
27 February 2021	**1.07**	**274,390**	1.07	7,595,972
27 February 2021	**0.54**	**7,870,363**	0.54	548,781
28 February 2022	**1.22**	**348,197**	1.22	348,197
29 September 2022	**0.62**	**4,502,006**	0.62	4,575,814
28 February 2023	**0.62**	**274,390**	0.62	274,390
31 July 2023	**0.56**	**1,084,394**	0.56	4,420,467
31 July 2023	**0.14**	**9,880,202**	0.14	6,544,129
28 February 2024	**0.41**	**274,390**	0.41	274,390
		51,497,563		55,766,713

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

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

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

The volatility measured at the historical volatility of the Group's comparable companies. The total expense recognised in the consolidated income statement for share options granted to employees and advisors is USD7,879 (2016: USD59,009) and USD6,393 (2016: USD26,049), respectively.

30 CASH FLOW INFORMATION

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

	Note	Year ended 31 December **2017** **USD**	2016 USD
Profit before income tax		**14,031,227**	7,379,349
Adjustments for:			
Interest income	9	**(437,841)**	(374,909)
Share-based payment		**14,272**	85,058
Share award expenses		**302,583**	—
Provision for impairment of trade receivables	7	**2,039**	353,638
Provision for/(reversal of provision for) impairment of inventories	7	**427,234**	(439,244)
Loss on disposals of property, plant and equipment	7	**28,644**	25,069
Depreciation of property, plant and equipment	14	**676,040**	611,958
Amortisation of other intangible assets	15	**167,733**	214,546
Fair value gains on financial assets at fair value through profit or loss	6	**(268,950)**	—
		14,942,981	7,855,465
Changes in working capital:			
– Inventories		**(9,610,292)**	572,131
– Trade and other receivables and prepayments		**10,245,981**	(480,200)
– Trade and other payables		**5,994,113**	(4,768,700)
– Deferred revenue		**(525,739)**	(30,085)
Cash generated from operations		**21,047,044**	3,148,611

30 CASH FLOW INFORMATION *(continued)*

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

	Year ended 31 December	
	2017	2016
	USD	USD
Net book amount (Note 14)	**245,963**	27,831
Loss on disposals of property, plant and equipment	**(28,644)**	(25,069)
Proceeds from disposals of property, plant and equipment	**217,319**	2,762

(c) *Reconciliation of liabilities arising from financing activities*

As at 31 December 2017, there were no liabilities for which cash flows have been, or will be classified as financing activities in the consolidated statement of cash flows.

31 CONTINGENCIES

The Group and the Company did not have any material contingent liabilities as at 31 December 2017 (2016: Nil).

32 COMMITMENTS

(a) *Operating lease commitments*

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

	As at 31 December	
	2017	2016
	USD	USD
Within one year	**944,100**	847,626
Later than one year and not later than five years	**188,421**	892,767
	1,132,521	1,740,393

(b) *Capital commitments*

The Group did not have any material capital commitments as at 31 December 2017 (2016: Nil).

33 RELATED PARTY TRANSACTIONS

(a) The directors are of the view that the following individuals and company were related parties that had transactions with the Group during the years ended 31 December 2017 and 2016:

Name of the related parties	Principal business activities	Relationship with the Group
Mr. Gao Songtao	N/A	Non-executive director of the Company
Mr. Kwan, Allan Chung-yuen	N/A	Non-executive director of the Company
Mr. Zeng Zhijie	N/A	Non-executive director of the Company
Mr. Huang Xueliang	N/A	Executive director, the CEO and controlling shareholder of the Company
Mr. Loong, Manfred Man-tsun	N/A	Executive director and the Chief Financial Officer of the Company
Mr. Shuai Hongyu	N/A	Executive director and the Chief Operating Officer of the Company
Mr. Jin Yufeng	N/A	Independent Director
Mr. Woo Kar Tung, Raymond	N/A	Independent Director
Mr. Zhang Junjie	N/A	Independent Director
Shenzhen State Micro Science and Technology Co. Ltd.	Research and development of integrated circuit design	Controlled by executive director, the CEO and controlling shareholder of the Company
深圳盒子信息科技有限公司	Mobile payment service provider	Executive director, the CEO and controlling shareholder of the Company being the director of the related party
銀盒達信息技術(深圳)有限公司	Mobile payment service provider	Executive director, the CEO and controlling shareholder of the Company being the director of the related party

33 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transaction with related parties

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

	Year ended 31 December	
	2017	2016
	USD	USD
Operating lease payments and the costs and fees relating to air-conditioning and public utilities in respect of properties of Shenzhen State Micro Science and Technology Co. Ltd.	**560,479**	568,555
Sales of mPOS devices to 深圳盒子信息科技有限公司 and 銀盒達信息技術(深圳)有限公司	**7,991,135**	20,381,062

These transactions are conducted at prices and 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:

	As at 31 December	
	2017	2016
	USD	USD
Basic salaries, allowances and benefits in kind	**1,446,158**	557,551
Discretionary bonuses	**372,309**	118,484
Retirement benefit – defined contribution plan	**46,619**	37,044
Share-based payments	**6,355**	44,665
	1,871,441	757,744

33 RELATED PARTY TRANSACTIONS *(continued)*

(d) Year-end balances arising from sales of goods

	As at 31 December	
	2017	2016
	USD	USD
Receivables from related parties (Note 18)	**133,476**	13,896,865

The receivables from the related parties arise mainly from sale transactions and are due one month (2016: six months) after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2016: Nil).

34 EVENTS AFTER REPORTING PERIOD

On 8 February 2018, SMiT Shenzhen completed a RMB20 million (equivalent to approximately USD3 million) investment in StorArt Technology (Shenzhen) Co., Ltd ("StorArt") pursuant to an investment agreement entered into between, among others, SMiT Shenzhen and StorArt. StorArt is an advanced integrated circuit design company based in Shenzhen and specialised in the development of flash memory main controller integrated circuits which are mainly supplied to the communications, consumer electronics and data processing industries. Upon completion of the transaction, SMiT Shenzhen held approximately a 3.4% stake in StorArt's share capital.

On 8 February 2018, SMIT HK completed a USD2 million investment in Sensel, Inc. ("Sensel") pursuant to a note purchase agreement entered into between, among others, SMIT HK and Sensel (the "Note Purchase Agreement"). Sensel is an advanced sensory technology company based in the United States, which owns the pressure grid technology that combines industry-leading performance and the extra dimension of control in the form of force sensitivity. Upon completion of the transaction, SMIT HK subscribed for a USD2 million promissory note which may be converted into common or preferred shares of Sensel pursuant to the terms of the Note Purchase Agreement.

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December 2017 USD	2016 USD
ASSETS			
Non-current asset			
Investment in subsidiaries		**70,108,372**	69,791,517
Current assets			
Amounts due from subsidiaries		**16,344,484**	18,542,341
Short-term bank deposits		**—**	1,752,395
Cash and cash equivalents		**24,931,146**	21,938,936
		41,275,630	42,233,672
Total assets		**111,384,002**	112,025,189
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**6,140**	6,037
Share premium	(a)	**98,362,681**	97,421,918
Share-based payment reserve	(a)	**1,728,238**	1,713,966
Accumulated losses	(a)	**(2,314,719)**	(1,164,617)
Total equity		**97,782,340**	97,977,304

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(continued)

	Note	As at 31 December 2017 USD	2016 USD
LIABILITIES			
Current liabilities			
Accruals and other payables		**621,609**	1,067,832
Amount due to a subsidiary		**12,980,053**	12,980,053
Total liabilities		**13,601,662**	14,047,885
Total equity and liabilities		**111,384,002**	112,025,189
Net current assets		**27,673,968**	28,185,787
Total assets less current liabilities		**97,782,340**	97,977,304

The statement of financial position of the Company was approved by the Board of Directors on 26 March 2018 and were signed on its behalf.

Huang Xueliang
Chairman

Loong, Manfred Man-tsun
Director

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(continued)

(a) Reserve movement of the Company

	Share premium USD	Share-based Payment reserve USD	Accumulated losses USD
At 1 January 2016	**63,331,486**	**1,628,908**	**(4,899)**
Loss for the year	—	—	(1,159,718)
Issuance of shares under the capitalisation issue	(1,451)	—	—
Issuance of shares under the open offer	33,548,332	—	—
Exercise of share options	543,551	—	—
Share-based compensation	—	85,058	—
At 31 December 2016	**97,421,918**	**1,713,966**	**(1,164,617)**
Representing:			
Reserves	96,841,072	1,713,966	(1,164,617)
2016 final dividend proposed	580,846	—	—
	97,421,918	1,713,966	(1,164,617)
At 1 January 2017	**97,421,918**	**1,713,966**	**(1,164,617)**
Loss for the year	—	—	(1,150,102)
Issuance of shares under the employee share award scheme	302,563	—	—
Exercise of share options	1,219,046	—	—
Share-based compensation	—	14,272	—
Dividends relating to 2016 paid in May 2017	(580,846)	—	—
At 31 December 2017	**98,362,681**	**1,728,238**	**(2,314,719)**
Representing:			
Reserves	97,580,288	1,728,238	(2,314,719)
2017 final dividend proposed	782,393	—	—
	98,362,681	1,728,238	(2,314,719)

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

(a) Directors' and senior management's emoluments

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

	Year ended 31 December 2017								
Name	Fees USD	Salaries USD	Discretionary bonuses USD	Housing allowance USD	Estimated money value of other benefits (Note (a)) USD	Remuneration paid or receivable in respect of accepting office as director USD	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking USD	Employer's contribution to a retirement benefit scheme USD	Total USD
Executive director									
Mr. Huang Xueliang (Note (b))	24,000	369,099	128,159	–	1,751	–	–	2,307	525,316
Mr. Shuai Hongyu	18,000	332,638	107,985	–	3,281	–	–	9,238	471,142
Mr. Loong, Manfred Man-tsun	18,000	322,962	96,120	–	–	–	–	2,307	439,389
Non-executive directors									
Mr. Zeng Zhijie	24,000	–	–	–	–	–	–	–	24,000
Mr. Kwan, Allan Chung-yuen	24,000	–	–	–	–	–	–	–	24,000
Mr. Gao Songtao	–	–	–	–	–	–	–	–	–
Independent non-executive directors									
Mr. Zhang Junjie	24,000	–	–	–	–	–	–	–	24,000
Mr. Woo Kar Tung, Raymond	24,000	–	–	–	–	–	–	–	24,000
Mr. Jin Yufeng	24,000	–	–	–	–	–	–	–	24,000
	180,000	1,024,699	332,264	–	5,032	–	–	13,852	1,555,847

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

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

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

(a) *Directors' and senior management's emoluments* *(continued)*

The remuneration of the directors of the Company is set out below: *(continued)*

Year ended 31 December 2016

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

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

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

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

(b) Directors' retirement benefits

The retirement benefits paid to Mr. Huang Xueliang, Mr. Shuai Hongyu and Mr. Loong, Manfred Man-tsun during the year ended 31 December 2017 by a defined contribution pension plan operated by the Group in respect of Mr. Huang Xueliang's, Mr. Shuai Hongyu's and Mr. Loong, Manfred Man-tsun's services as directors of the Company and its subsidiaries are USD2,307 (2016: USD10,199), USD9,238 (2016: Nil) and USD2,307 (2016: Nil), respectively. No other retirement benefits were paid to Mr. Huang Xueliang, Mr. Shuai Hongyu and Mr. Loong, Manfred Man-tsun in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

(c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year ended 31 December 2017 (2016: Nil).

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

The Company did not pay consideration to any third parties for making available directors' services for the year ended 31 December 2017 (2016: Nil).

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

No loans, quasi-loans and other dealings were made available in favour of directors, body corporates controlled by and connected entities with such directors subsisted at the end of the year or at any time during the year 31 December 2017 (2016: Nil).

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year 31 December 2017 (2016: Nil).

Financial Summary

	Year ended 31 December				
	2017	2016	2015	2014	2013
	USD	USD	USD	USD	USD
Revenue	**91,780,923**	59,053,896	65,141,051	56,006,825	47,180,984
Cost of sales	**(59,277,526)**	(35,596,258)	(41,016,720)	(33,250,459)	(23,733,224)
Gross profit	**32,503,397**	23,457,638	24,124,331	22,756,366	23,447,760
Profit before income tax	**14,031,227**	7,379,349	4,140,582	5,730,671	3,181,910
Income tax (expense)/benefit	**(2,932,359)**	121,237	(817,878)	(270,847)	(507,136)
Profit for the year attributable to owners of the Company	**11,098,868**	7,500,586	3,322,704	5,459,824	2,674,774

	2017	2016	2015	2014	2013
	USD	USD	USD	USD	USD
Total assets	**131,683,031**	109,431,711	78,937,477	121,779,110	111,713,767
Total equity	**114,331,589**	99,092,678	62,176,860	64,886,252	59,005,795
Total liabilities	**17,351,442**	10,339,033	16,760,617	56,892,858	52,707,972
Total equity and liabilities	**131,683,031**	109,431,711	78,937,477	121,779,110	111,713,767