SMIT HOLDINGS LIMITED
國微技術控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2239)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of SMIT Holdings Limited (the "**Company**") hereby announces the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

		Year ended 31 December	
		2017	**2016**
	Note	*USD*	*USD*
Revenue	4	91,780,923	59,053,896
Cost of sales	5	(59,277,526)	(35,596,258)
Gross profit		32,503,397	23,457,638
Other (losses)/gains, net	4	(1,982,646)	2,159,243
Other income	4	1,045,476	1,286,406
Research and development expenses	5	(7,765,265)	(6,803,953)
Selling and distribution expenses	5	(2,982,378)	(2,851,516)
General and administrative expenses	5	(7,248,639)	(10,243,378)
Operating profit		13,569,945	7,004,440
Finance income	6	461,282	374,909
Profit before income tax		14,031,227	7,379,349
Income tax (expense)/credit	7	(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	8	0.037	0.027
Diluted earnings per share	8	0.035	0.025

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		As at 31 December	
		2017	**2016**
	Note	*USD*	*USD*
ASSETS			
Non-current assets			
Property, plant and equipment		2,006,053	2,009,722
Other intangible assets		86,311	192,409
Goodwill		6,570,079	6,188,584
Trade and other receivables and prepayments	10	545,554	214,665
Financial assets at fair value through profit or loss		3,808,986	—
Deferred income tax assets		1,022,564	2,180,722
		14,039,547	10,786,102
Current assets			
Inventories		16,727,865	6,866,835
Trade and other receivables and prepayments	10	13,291,275	22,100,681
Short-term bank deposits		3,523,375	13,269,022
Cash and cash equivalents		84,100,969	56,409,071
		117,643,484	98,645,609
Total assets		131,683,031	109,431,711
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		6,140	6,037
Share premium		98,362,681	97,421,918
Merger reserve		(48,810,141)	(48,810,141)
Share-based payment reserve		19,401,056	20,483,902
Statutory reserve		4,913,464	4,099,819
Retained earnings		36,548,676	26,263,453
Capital reserve		1,212,543	1,212,543
Exchange reserve		2,697,170	(1,584,853)
Total equity		114,331,589	99,092,678

		As at 31 December	
		2017	**2016**
	Note	*USD*	*USD*
LIABILITIES			
Current liabilities			
Trade payables	11	7,552,913	2,312,533
Accruals and other payables		7,670,160	5,948,656
Deferred revenue		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

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

	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

NOTES:

1 General information

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 People's Republic of China ("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.

2 Basis of preparation

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

(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 period.

(b) New standards, amended standards 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

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.

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.

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. 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.

3 Segment information

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker that are used to making strategic decisions. The chief operating decision-maker ("CODM") is identified as the Chief Executive Officer of the Company. The Group is organised into three operating divisions: conditional access modules ("CAM") and mobile point-of-sales ("mPOS"), blockchain servers and online-to-offline ("O2O") smart terminals.

CAM and mPOS – development and sales of security products (CAM and mPOS devices) that enable secure distribution and delivery of digital content to television and secure mobile payment 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	**Blockchain servers**	**O2O smart terminals**	**Total**
	USD	*USD*	*USD*	*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

	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 *USD*	2016 *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 *USD*	2016 *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

4 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

5 Expenses by nature

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

	Year ended 31 December	
	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)	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	676,040	611,958
Amortisation of other intangible assets	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

6 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

7 Income tax expense/(credit)

Shenzhen State Micro Technology Co., Ltd. ("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		
- Current year	1,287,442	(405,122)
Under/(over)-provision in prior years		
- Current income tax	303,282	(1,059,569)
- Deferred income tax	(47,727)	249,117
Income tax expense/(credit)	2,932,359	(121,237)

8 Earnings per share

(a) 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 retrospectively for the capitalisation issue of 72,574,775 shares taken place on 6 March 2016 as if they had been in issue since 1 January 2016.

(b) Diluted

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

	Year ended 31 December	
	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

9 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.

10 Trade, prepayments and other receivables

		As at 31 December	
		2017	**2016**
	Note	*USD*	*USD*
Trade receivables from third parties	(a)	11,840,686	4,842,433
Trade receivables from related parties	(a)	133,476	13,896,865
Less: Provision for impairment of trade receivables		(1,286,088)	(1,208,748)
Trade receivables – net		10,688,074	17,530,550
Prepayments		1,350,472	3,247,476
Notes receivable		1,633,905	79,862
Other receivables		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	**2016**
	USD	*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 wholesale customers generally ranged from 30 to 180 days.

11 Trade payables

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

12 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 circuit, which are mainly supplied to the communications, consumer electronics and data processing industries. Upon completion of the transaction, SMiT Shenzhen held an approximately a 3.4% stake in StorArt's share capital.

On 8 February 2018, SMIT Holdings (HK) Limited ("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 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.

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 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 a 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 remain stable compared with 2016 and accounted for 37.8% of the Group's total revenue during the year under review. The good performance of the European areas was mainly attributable to the gradual recovery of the European markets fueled by economic growth, new growth drivers generated from the 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 large 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.

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 not only can 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 its 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. Hence it will continue to allocate resources for research and development as well as promotion. As a result, sales of the product are expected to grow 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 the 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, the 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 proportion of the Group's total revenue, it has 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 Business

Despite a rather short development history, the integrated blockchain chipset and 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 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.

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 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	**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 black chain 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 business.

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 announcement, the net proceeds raised from the Listing had been applied as follows:

Business objectives as stated in the Prospectus	Percentage of proceeds as stated in the Prospectus	Use of proceeds adjusted according to actual gross proceeds less estimated listing expense *HK$ million*	Actual use of proceeds from the Listing Date to the date of this announcement *HK$ million*
Product planning and research and development	40%	100.64	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).

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. 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 a 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.

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 initial 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 aims 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 meanings. 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.

ANNUAL DIVIDEND

The Board recommended a final dividend for the year ended 31 December 2017 of HK$0.02 (2016: HK$0.015) per share.

It is expected that the final dividend will be paid on Friday, 15 June 2018 to shareholders whose names appear on the register of members of the Company on Tuesday, 5 June 2018, subject to the approval of shareholders at the forthcoming annual general meeting to be held by the Company.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

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

THE AUDIT COMMITTEE

The audit committee has reviewed with the Company's management and the external auditors the accounting principles and practices adopted by the Group, and has discussed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance since the listing date. The Company has complied with the code provisions of the CG Code set out therein except for the code provision A.2.1 of the CG Code during the year ended 31 December 2017.

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

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the Directors. Having made specific enquiries with all the Directors, the Company confirms that all the Directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2017.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

By order of the Board
SMIT Holdings Limited
Huang Xueliang
Chairman

Hong Kong, 26 March 2018

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