



## **Plover Bay Technologies Limited**

**玊灣科技有限公司**

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

**(Stock Code: 1523)**

### **INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018**

#### **SUMMARY**

- Revenue for the six months ended 30 June 2018 was approximately US\$19,728,000, an increase of approximately 10.9% from approximately US\$17,788,000 for the six months ended 30 June 2017.
- Profit attributable to the owners of the Company for the six months ended 30 June 2018 was approximately US\$4,743,000, while the profit attributable to owners of the Company for the six months ended 30 June 2017 was approximately US\$4,135,000, representing an increase of approximately 14.7%.
- Basic earnings per share for the six months ended 2018 was approximately US0.47 cents (2017: approximately US0.41 cents).
- The Board has determined that an interim dividend of HK2.92 cents per share for the six months ended 30 June 2018 be payable on 24 August 2018 to the shareholders whose names appear in the Company's register of members on 15 August 2018.

The board (the “Board”) of directors (the “Directors”) of Plover Bay Technologies Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the six months ended 30 June 2018*

		(unaudited)	
		Six months ended 30 June	
		2018	2017
	Notes	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	4	19,728	17,788
Cost of sales and services		<u>(7,279)</u>	<u>(7,286)</u>
Gross profit		12,449	10,502
Other income and gains, net	4	83	369
Selling and distribution expenses		(1,058)	(637)
Administrative expenses		(2,166)	(1,974)
Research and development expenses		(3,511)	(3,268)
Finance costs	5	<u>(21)</u>	<u>(11)</u>
Profit before tax	6	5,776	4,981
Income tax expense	7	<u>(1,033)</u>	<u>(846)</u>
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b><u>4,743</u></b>	<b><u>4,135</u></b>
<b>OTHER COMPREHENSIVE LOSS</b>			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(32)</u>	<u>(139)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b><u>4,711</u></b>	<b><u>3,996</u></b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
— Basic ( <i>US cents</i> )	9	<u>0.47 ¢</u>	<u>0.41 ¢</u>
— Diluted ( <i>US cents</i> )		<u>0.45 ¢</u>	<u>0.41 ¢</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2018*

		At <b>30 June 2018</b>	At 31 December 2017
<i>Notes</i>		<i>US\$'000</i> <b>(unaudited)</b>	<i>US\$'000</i> (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>2,089</b>	1,995
Intangible assets		<b>722</b>	661
Deferred tax assets		<b>24</b>	22
		<hr/>	<hr/>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,835</b>	2,678
<b>CURRENT ASSETS</b>			
Inventories	<i>10</i>	<b>10,090</b>	11,629
Trade receivables	<i>11</i>	<b>4,422</b>	7,763
Prepayments, deposits and other receivables		<b>1,690</b>	1,713
Tax recoverable		<b>11</b>	29
Cash and cash equivalents		<b>22,234</b>	16,747
		<hr/>	<hr/>
<b>TOTAL CURRENT ASSETS</b>		<b>38,447</b>	37,881
<b>CURRENT LIABILITIES</b>			
Trade payables, other payables and accruals	<i>12</i>	<b>1,303</b>	2,630
Deferred revenue		<b>6,129</b>	5,036
Tax payable		<b>1,887</b>	919
Interest-bearing bank borrowings		<b>1,055</b>	1,944
		<hr/>	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>		<b>10,374</b>	10,529
<b>NET CURRENT ASSETS</b>		<hr/> <b>28,073</b>	<hr/> 27,352
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/> <b>30,908</b>	<hr/> 30,030

		At <b>30 June</b> <b>2018</b> <i>US\$'000</i> <b>(unaudited)</b>	At 31 December 2017 <i>US\$'000</i> (audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		138	95
Deferred revenue		<u>1,234</u>	<u>1,185</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>1,372</u>	<u>1,280</u>
<b>NET ASSETS</b>		<u>29,536</u>	<u>28,750</u>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Issued capital	<i>13</i>	1,310	1,307
Reserves		<u>28,226</u>	<u>27,443</u>
<b>TOTAL EQUITY</b>		<u>29,536</u>	<u>28,750</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

		Attributable to owners of the parent					
		Share	Share	Exchange	Retained	Total	
	Note	Issued capital	premium account	option reserve	fluctuation reserve	profits	equity
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2017 (audited)		1,288	13,413	407	77	9,061	24,246
Profit for the period		—	—	—	—	4,135	4,135
Other comprehensive loss for period:							
Exchange differences on translation of foreign operations		—	—	—	(139)	—	(139)
Total comprehensive income/(loss) for the period		—	—	—	(139)	4,135	3,996
Equity-settled share option arrangements		—	—	438	—	—	438
Second interim 2016 dividend	8	—	—	—	—	(2,484)	(2,484)
At 30 June 2017 (unaudited)		<u>1,288</u>	<u>13,413</u>	<u>845</u>	<u>(62)</u>	<u>10,712</u>	<u>26,196</u>
At 1 January 2018 (audited)		1,307	14,596	855	—	11,992	28,750
Profit for the period		—	—	—	—	4,743	4,743
Other comprehensive loss for the period:							
Exchange differences on translation of foreign operations		—	—	—	(32)	—	(32)
Total comprehensive income/(loss) for the period		—	—	—	(32)	4,743	4,711
Issue of shares upon exercise of share options		3	246	(52)	—	—	197
Equity-settled share option arrangements		—	—	413	—	—	413
Second interim 2017 dividend	8	—	—	—	—	(4,535)	(4,535)
At 30 June 2018 (unaudited)		<u>1,310</u>	<u>14,842</u>	<u>1,216</u>	<u>(32)</u>	<u>12,200</u>	<u>29,536</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***For the six months ended 30 June 2018*

	(unaudited)	
	Six months ended 30 June	
	2018	2017
	<i>US\$'000</i>	<i>US\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from operations	11,259	2,010
Hong Kong profits tax paid	—	(850)
	<u>11,259</u>	<u>1,160</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>11,259</u>	<u>1,160</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	82	68
Purchase of items of property, plant and equipment	(319)	(1,353)
Additions to intangible assets	(236)	(158)
Decrease in a pledged bank deposit	—	129
Proceeds from disposal of items of property, plant and equipment	1	17
	<u>1</u>	<u>17</u>
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(472)</u>	<u>(1,297)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of share options	197	—
Dividends paid	(4,535)	(2,484)
New bank loans	—	1,091
Repayment of bank loans	(881)	(293)
Interest paid	(21)	(11)
	<u>(21)</u>	<u>(11)</u>
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<u>(5,240)</u>	<u>(1,697)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>5,547</u>	<u>(1,834)</u>
Cash and cash equivalents at beginning of the period	16,747	19,193
Effect of foreign exchange rate changes, net	(60)	(63)
	<u>(60)</u>	<u>(63)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<u><u>22,234</u></u>	<u><u>17,296</u></u>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 1. CORPORATE AND GROUP INFORMATION

Plover Bay Technologies Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Unit B, 5/F, Dragon Industrial Building, 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

During the period, the Group was involved in the following principal activities:

- designing, development and marketing of software defined wide area network (the “SD-WAN”) routers; and
- provision of software licences and warranty and support services.

## 2.1 BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). They have been prepared under the historical cost convention and are presented in United States Dollars (“US\$”) and all values are rounded to the nearest thousands except when otherwise indicated.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements year ended 31 December 2017.

## 2.2 PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those set out in the Group’s annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs for the preparation of the Group’s condensed consolidated financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers to Investment Property</i>
HK(IFRIC)–Int 22	<i>Foreign Currency Transactions and Advance Considerations</i>
Annual Improvements to HKFRSs 2014–2016 cycle	<i>Amendments to HKFRS 1 and HKAS 28</i>

The adoption of the new and revised HKFRSs in the current interim period has had no material impact on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these consolidated financial statements.

### 3. REVENUE AND SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the sales of SD-WAN routers segment that primarily engages in sales of wired and wireless routers; and
- (b) software licences and warranty and support services segment that primarily engages in the provision of software licences and warranty and support services.

There were no material intersegment sales and transfers during the current and prior reporting periods.

#### Six months ended 30 June (unaudited)

	<u>Sales of SD-WAN routers</u>				Software licences and warranty and support services		Total	
	Wired routers		Wireless routers		support services			
	2018	2017	2018	2017	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Segment revenue:</b>								
Sales to external customers	<u>4,056</u>	<u>4,067</u>	<u>10,601</u>	<u>9,832</u>	<u>5,071</u>	<u>3,889</u>	<u>19,728</u>	<u>17,788</u>
<b>Segment result</b>	<u>2,026</u>	<u>1,934</u>	<u>3,053</u>	<u>2,438</u>	<u>3,689</u>	<u>2,754</u>	<u>8,768</u>	<u>7,126</u>
<i>Reconciliation</i>								
Other income and gains, net							83	369
Selling and distribution expenses							(1,058)	(637)
Unallocated administrative expenses							(1,996)	(1,866)
Finance costs							<u>(21)</u>	<u>(11)</u>
Profit before tax							<u>5,776</u>	<u>4,981</u>



## Geographical information

### Revenue from external customers

	(unaudited)	
	Six months ended 30 June	
	2018	2017
	US\$'000	US\$'000
North America	11,610	9,512
EMEA (Europe, Middle East, Africa)	4,783	3,823
Asia	2,900	3,902
Others	435	551
	<u>19,728</u>	<u>17,788</u>

#### 4. REVENUE, OTHER INCOME AND GAINS, NET

	(unaudited)	
	Six months ended 30 June	
	2018	2017
	US\$'000	US\$'000
<b>Revenue</b>		
Sale of SD-WAN routers		
— Wired	4,056	4,067
— Wireless	10,601	9,832
Provision of warranty and support services	4,208	3,114
Sales of software and licence fee income	863	775
	<u>19,728</u>	<u>17,788</u>
<b>Other income and gains, net</b>		
Sales of parts	1	109
Bank interest income	82	68
Foreign exchange gains, net	—	136
Others	—	56
	<u>83</u>	<u>369</u>



## 8. DIVIDENDS

During the period, a second interim dividend of HK3.50 cents per ordinary share for the year ended 31 December 2017 was paid to the shareholders of the Company on 27 March 2018.

In the Board Meeting held on 31 July 2018, the Board has resolved to declare an interim dividend of HK2.92 cents per share for the six months ended 30 June 2018 (2017: HK2.58 cents). The interim dividend is payable on Friday, 24 August 2018 to the shareholders whose names appear in the register of members of the Company on Wednesday, 15 August 2018.

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,015,583,470 (2017: 1,000,000,000) in issue during the period.

The calculations of basic and diluted earnings per share are based on:

### Earnings

The calculations of basic and diluted earnings per share are based on profit for the period attributable to ordinary equity holders of the parent.

### Shares

	(unaudited)	
	Six months ended 30 June	
	Number of shares	
	2018	2017
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,015,583,470	1,000,000,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	<u>45,682,803</u>	<u>16,533,000</u>
	<u><b>1,061,266,273</b></u>	<u><b>1,016,533,000</b></u>

## 10. INVENTORIES

	(unaudited)	(audited)
	At	At
	30 June	31 December
	2018	2017
	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials and consumables	7,016	7,464
Finished goods	3,074	4,165
	<u>10,090</u>	<u>11,629</u>

## 11. TRADE RECEIVABLES

	(unaudited)	(audited)
	At	At
	30 June	31 December
	2018	2017
	<i>US\$'000</i>	<i>US\$'000</i>
Trade receivables	4,516	7,856
Impairment	(94)	(93)
	<u>4,422</u>	<u>7,763</u>

The Group's trading terms with its customers are mainly on credit, except for new and individual customers, where payment in advance is normally required. The overall credit period is generally within 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	(unaudited)	(audited)
	At	At
	30 June	31 December
	2018	2017
	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 month	2,736	5,300
1 to 2 months	1,537	1,423
2 to 3 months	107	538
Over 3 months	42	502
	<u>4,422</u>	<u>7,763</u>

## 12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	(unaudited)	(audited)
	At	At
	30 June	31 December
	2018	2017
	<i>US\$'000</i>	<i>US\$'000</i>
Trade payables	266	1,297
Deposits received	215	237
Other payables	6	7
Accruals	816	1,089
	<u>1,303</u>	<u>2,630</u>

## 13. ISSUED CAPITAL

	(unaudited)	(audited)
	At	At
	30 June	31 December
	2018	2017
	<i>US\$'000</i>	<i>US\$'000</i>
Authorised:		
4,000,000,000 (31 December 2017: 4,000,000,000) ordinary shares of HK\$0.01 each	<u>5,152</u>	<u>5,152</u>
Issued and fully paid:		
1,016,824,000 (31 December 2017: 1,014,336,000) ordinary shares of HK\$0.01 each	<u>1,310</u>	<u>1,307</u>

A summary of movements in the Company's issued capital is as follows:

	<i>Notes</i>	Number of shares in issue	Issued capital <i>HK\$'000</i>	Issued capital <i>US\$'000</i>
At 1 January 2017		1,000,000,000	10,000	1,288
Share options exercised	<i>(a)</i>	<u>14,336,000</u>	<u>143</u>	<u>19</u>
At 31 December 2017 and 1 January 2018		1,014,336,000	10,143	1,307
Share options exercised	<i>(b)</i>	<u>2,488,000</u>	<u>25</u>	<u>3</u>
At 30 June 2018		<u>1,016,824,000</u>	<u>10,168</u>	<u>1,310</u>

*Notes:*

- (a) The subscription rights attaching to 14,336,000 share options were exercised at the subscription price of HK\$0.483 per share, resulting in the issue of 14,336,000 ordinary shares for a total cash consideration, before expenses, of approximately US\$887,000. An amount of approximately US\$315,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.
- (b) The subscription rights attaching to 1,012,000 and 1,476,000 share options were exercised at the subscription prices of HK\$0.483 and HK\$0.72 per share, respectively, resulting in the issue of 2,488,000 ordinary shares for a total cash consideration, before expenses, of approximately US\$197,000. An amount of approximately US\$52,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

#### 14. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with its related parties:

	<b>(unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
Rental expenses paid to related companies	<b>342</b>	307

These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The rental expenses were charged by related companies based on terms as agreed between the related parties. The controlling shareholder of the Company, Mr. Chan, is also a director and beneficial shareholder of the related companies.

## 15. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The Scheme became effective on 21 June 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The following share options were outstanding under the Scheme during the reporting period:

	(unaudited) 2018		(unaudited) 2017	
	Weighted average exercise price per share <i>HK\$</i>	Number of options	Weighted average exercise price per share <i>HK\$</i>	Number of options
At 1 January	0.647	77,960,000	0.483	78,000,000
Granted	1.934	13,500,000	0.72	13,600,000
Exercised	0.624	(2,488,000)	—	—
Forfeited	1.067	(2,388,000)	0.512	(4,100,000)
	<u>0.837</u>	<u>86,584,000</u>	<u>0.518</u>	<u>87,500,000</u>
At 30 June	<u>0.837</u>	<u>86,584,000</u>	<u>0.518</u>	<u>87,500,000</u>

The weighted average share price at the date of exercise for share options exercised during six months ended 30 June 2018 was HK\$0.624 per share. No share options were exercised in the prior period.

The exercise prices and exercise periods of the share options outstanding as at the end of reporting period are as follows:

Exercise period	Exercise price HK\$ per share	(unaudited)	
		Number of options outstanding as at 30 June 2018	2017
20-7-2017 to 19-7-2021	0.483	3,220,000	18,600,000
20-7-2018 to 19-7-2021	0.483	18,200,000	18,600,000
20-7-2019 to 19-7-2021	0.483	18,200,000	18,600,000
20-7-2020 to 19-7-2021	0.483	18,200,000	18,600,000
5-4-2018 to 4-4-2022	0.72	624,000	2,100,000
5-4-2019 to 4-4-2022	0.72	3,050,000	4,450,000
5-4-2020 to 4-4-2022	0.72	2,575,000	3,275,000
5-4-2021 to 4-4-2022	0.72	2,575,000	3,275,000
10-10-2019 to 9-10-2022	1.872	3,270,000	—
10-10-2020 to 9-10-2022	1.872	1,635,000	—
10-10-2021 to 9-10-2022	1.872	1,635,000	—
14-3-2019 to 13-3-2023	1.934	2,475,000	—
14-3-2020 to 13-3-2023	1.934	4,225,000	—
14-3-2021 to 13-3-2023	1.934	3,350,000	—
14-3-2022 to 13-3-2023	1.934	3,350,000	—
		<u>86,584,000</u>	<u>87,500,000</u>

The fair value of the share options granted during the reporting period was approximately US\$692,000 (US\$0.05 each). A share option expense of approximately US\$413,000 was recognized during the reporting period, of which about US\$99,000 related to share options granted during the six months ended 30 June 2018.

The fair value of equity-settled share options granted during the current reporting period and the same period last year were estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

<b>Date of option grant</b>	<b>14 March 2018</b>	<b>5 April 2017</b>
Dividend yield (%)	5.33	7.84
Expected volatility (%)	35.61	41.72
Risk-free interest rate (%)	2.47	1.28
Expected life of options ( <i>year</i> )	5.00	5.00
Weighted average share price ( <i>HK\$ per share</i> )	1.92	0.72

#### **16. EVENTS AFTER THE END OF THE REPORTING PERIOD**

There have been no other material events occurring after 30 June 2018 and up to the date of this report.



## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

#### Revenue and segment information

During the six months ended 30 June 2018, we generated revenue mainly from the sale of SD-WAN routers and the grant of software licences, including SpeedFusion and InControl cloud service for managing our devices, and the provision of warranty and support services in connection with our products. Our revenue represents the net invoiced value of (i) the products sold, after deducting allowances for returns and trade discounts; and (ii) services rendered.

Our product/service consist mainly of the following categories: (i) SD-WAN routers which are further divided into wired and wireless products; (ii) warranty and support services; and (iii) software licences.

For the six months ended 30 June 2018, revenue of the Group was approximately US\$19,728,000, representing an increase of approximately US\$1,940,000 or 10.9% from approximately US\$17,788,000 in the same period last year.

The table below sets out our revenue by product/service category:

	For the six months ended 30 June			
	2018		2017	
	Revenue	% of total	Revenue	% of total
	<i>US\$'000</i>	%	<i>US\$'000</i>	%
SD-WAN routers:				
Wired	4,056	20.6	4,067	22.9
Wireless	10,601	53.7	9,832	55.3
Warranty and support services	4,208	21.3	3,114	17.5
Software licences	863	4.4	775	4.3
Total	<u>19,728</u>	<u>100.0</u>	<u>17,788</u>	<u>100.0</u>

During the six months ended 30 June 2018, revenue from wireless SD-WAN routers increased approximately 7.8% compared to the same period in 2017. Revenue derived from wired SD-WAN routers slightly decreased by approximately 0.3%. Revenue from warranty and support services and software licences grew approximately 30.4% during the period and we expect provision of warranty and support service will become a more important source of income in the next few years due to the fact that accumulated number of SD-WAN routers is increasing and they require extended services or warranties.

During the reporting period, sales to North America increased to approximately US\$11,610,000, representing a growth of approximately 22.1% while sales to Europe, Middle East and Africa (EMEA) increased to approximately US\$4,783,000, growing approximately 25.1% compared to the previous reporting period. We consider growth in both markets to be satisfactory as SD-WAN continues to be adopted across various industries. Sales to Asia dropped to about US\$2,900,000, or a decrease of approximately 25.7% compared to the same period last year due to project delay in Malaysia.

The table below sets out the breakdown of revenue by location of customers in terms of absolute amount and as a percentage of total revenue for the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June			
	2018		2017	
	Revenue	Weight	Revenue	Weight
	<i>US\$'000</i>	%	<i>US\$'000</i>	%
North America	11,610	58.9	9,512	53.5
EMEA	4,783	24.2	3,823	21.5
Asia	2,900	14.7	3,902	21.9
Others	435	2.2	551	3.1
Total	<u>19,728</u>	<u>100.0</u>	<u>17,788</u>	<u>100.0</u>

#### Gross profit and gross profit margin

For the six months ended 30 June 2018, our gross profit was approximately US\$12,449,000, while gross profit margin was approximately 63.1%. This represents an increase of approximately 4.1 percentage points in gross profit margin compared to the same period last year.

The overall increase in gross profit margin was attributable to i) an overall improvement in production efficiencies in best-selling SD-WAN routers and ii) increased sales mix in warranty and support services and software licences.

The table below sets out our Group's gross profit and gross profit margin by product/service category:

	<b>For the six months ended 30 June</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Gross profit</b>	<b>Gross profit</b>	<b>Gross profit</b>	<b>Gross profit</b>
	<b>margin</b>	<b>margin</b>	<b>margin</b>	
	<b>US\$'000</b>	<b>%</b>	<b>US\$'000</b>	<b>%</b>
SD-WAN routers:				
Wired	<b>2,751</b>	<b>67.8</b>	2,684	66.0
Wireless	<b>5,087</b>	<b>48.0</b>	4,334	44.1
Warranty and support services	<b>3,748</b>	<b>89.1</b>	2,709	87.0
Software licences	<b>863</b>	<b>100.0</b>	775	100.0
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>12,449</b>	<b>63.1</b>	10,502	59.0
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### **Other income and gains, net**

Other income and gains, net mainly represented interest income. For the six months ended 30 June 2018, other income and gains, net was approximately US\$83,000, a decrease of approximately 77.5%, from approximately US\$369,000 for the six months ended 30 June 2017. The decrease was mainly due to (i) more materials being acquired by contract manufacturers directly for production of finished goods, as we took measure to reduce inventory accumulation which also lead to decrease in sales of parts; and (ii) foreign currency exchange loss (included in administrative expenses) in the current reporting period compared to a gain in the past reporting period.

#### **Selling and distribution expenses**

Selling and distribution expenses comprised mainly salaries and benefits of our sales and marketing staff and advertising and promotion expenses incurred to promote our products and other expenses relating to our sales and marketing activities.

Selling and distribution expenses for the six months ended 30 June 2018 and 2017 were approximately US\$1,058,000 and US\$637,000, respectively, representing an increase of approximately US\$421,000 or 66.1%. The increase was attributable to increased support to our distributors in promoting and marketing our products in their respective local markets. In addition, we also began organising partner training events worldwide to promote awareness of our brand and products across our partners.

### **Administrative expenses**

Administrative expenses mainly represented salaries and benefits of our administrative, finance and other supporting staff, depreciation of property, plant and equipment, amortisation of intangible assets, rental expenses and other office expenses.

Administrative expenses for the six months ended 30 June 2018 and 2017 were approximately US\$2,166,000 and US\$1,974,000, respectively, representing an increase of approximately US\$192,000 or 9.7%. This is mainly due to (i) general increases in the average wages and salaries, (ii) increase in amortisation charges as a result of additions in intangible assets; and (iii) recognition of foreign exchange loss due to depreciation of the Euro against the US Dollar, compared to a foreign exchange gain in the previous reporting period.

### **Research and development expenses**

Research and development (“R&D”) expenses represented mainly salaries and benefits of our engineering, testing and supporting staff, product testing fee, certification costs, tooling, components and parts used for product research and development purpose.

Research and development expenses for the six months ended 30 June 2018 and 2017 were approximately US\$3,511,000 and US\$3,268,000, respectively, representing an increase of approximately US\$243,000 or 7.4%. The increase is mainly due to (i) general increase in average wages and salaries, and (ii) expenses incurred in the research and development of new products.

### **Equity-settled share-based payment expenses**

Included in selling and distribution expenses, administrative expenses and research and development expenses were equity-settled share-based payment expenses, mainly represented equity-settled share-based payments to Directors and employees which are expensed on a straight-line basis over the vesting period since the grant date.

Share options of the Company were granted on 20 July 2016, 5 April 2017, 10 October 2017 and 14 March 2018. Equity-settled share-based payment expenses for the six months ended 30 June 2018 was approximately US\$413,000 (for the six months ended 30 June 2017: approximately US\$438,000). Details of share options granted by the Company are set out below under the heading “Share Option Scheme” of this interim report.

### **Total operating expenses**

Total operating expenses, which includes selling and distribution expenses, administrative expenses and research and development expenses for the six months ended 30 June 2018 amounted to approximately US\$6,735,000 (for the six months ended 30 June 2017: approximately US\$5,879,000), an increase of approximately US\$856,000 or 14.6%.

### **Finance costs**

Finance costs mainly represented interests on bank borrowings.

Finance costs for the six months ended 30 June 2018 was approximately US\$21,000 (for the six months ended 30 June 2017: approximately US\$11,000), representing an increase of approximately US\$10,000.

### **Income tax expenses**

We provided for Hong Kong profits tax at a rate of 16.5% on our estimated assessable profits arising in Hong Kong. The increase in income tax expenses corresponded to the increase of revenue and assessable profits during the six months ended 30 June 2018.

### **Profit attributable to owners of the Company**

Profit attributable to owners of the Company for the six months ended 30 June 2018 was approximately US\$4,743,000 compared to approximately US\$4,135,000 during the same period last year, representing an increase of approximately US\$608,000 or 14.7%.

During the current period, basic and diluted earnings per share attributable to owners of the Company were US0.47 cents and US0.45 cents (for the six months ended 30 June 2017 basic and diluted: US0.41 cents for both), representing an increase of approximately 14.6% and 9.8% compared to the same period last year.

## BUSINESS OUTLOOK

Looking forward, the SD-WAN market is filled with both opportunities and challenges.

We remain optimistic with the long-term future of our business as the demand for high-speed and resilient mobile connections continues to rise. We continue to see extensive opportunities of SD-WAN in the enterprise branch, transport, public safety, and Internet of Things (IoT) spaces.

In the past six months, besides working with distributors, a number of product brands showed strong interest in embedding our SD-WAN technologies into their product offerings to leverage our unbreakable wireless connectivity to reduce connectivity cost and enable new possibilities for their respective end customers. These potential new customers span from maritime satellite communications, luxury travel vehicles and information technology equipment and services, and are market leading names in their respective industries. We also launched a number of new products aimed at the IoT space. By introducing software-defined features and cloud management into traditional devices, these new products complement our existing SD-WAN connectivity products and provide tools for a software-defined smart office for end customers. In addition, we will launch a new service that prepackages mobile data from different telecom service providers to maximise the benefits of SpeedFusion. This service will enhance the coverage area and service quality of managed service providers, while simplifying deployment to a one-stop solution for end-customers. We are confident these developments will become important pillars of our business as the market for wireless SD-WAN and IoT continue to expand.

Finally, we have been strengthening our operations internally by expanding our sourcing capabilities in Taiwan. The new team will focus on driving production costs down by closely coordinating with existing contract manufacturers in Taiwan to optimize production flow and sourcing new suppliers. In the long run, this will improve our competitiveness and thus enhance our margins.

In terms of challenges, the deepening trade disputes between China and the US raises uncertainties to the fragile global economy. According to a list of proposed tariffed goods published by the US Trade Representative on 11 July 2018, our SD-WAN routers belong to a subcategory of goods being imposed with 10% tariff. While we are of the view that there will be little immediate financial impact in 2018, we took measures to isolate ourselves from the risk of any further deterioration of trade relations between China and the US. For instance, we began shifting US-specific products to our contractors in Taiwan from our contractor in China. As mentioned above, our drive to strengthen our competitiveness will also help offset any impact to our cost structures. We will continue to monitor the ongoing development of this trade war and we strive to turn this challenge into an opportunity to improve our competitiveness.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2018, our bank borrowings amounted to approximately US\$1,055,000 (At 31 December 2017: approximately US\$1,944,000). As at 30 June 2018, the gearing ratio (which is defined as total borrowings over total equity) of our Group was approximately 3.6% (At 31 December 2017: approximately 6.8%). The Directors confirm that the Group financed its operations principally from cash generated from its business operations and expect that this will continue to be the case in the foreseeable future. We did not experience any liquidity problem during the reporting period.

## **AGEING ANALYSIS OF TRADE RECEIVABLES**

For details of our ageing analysis of trade receivables, please refer to note 11 to the condensed consolidated financial statements.

## **FOREIGN CURRENCY EXPOSURE**

A majority of the Group's sales and purchases, receipts and payments as well as most of our bank balances and cash are denominated in US\$. Our bank loans and operating expenses are mainly denominated in US\$ or HK\$ which is pegged to US\$. In this respect, there is no significant currency mismatch in our operational cash flows and the Group considers its exposure to foreign currency exchange risk to be insignificant.

## **EMPLOYEE AND SALARY POLICIES**

The Directors consider the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers remuneration packages including salary, bonuses and retirement benefits with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 30 June 2018, the Group had 118 full-time employees (31 December 2017: 123 full time employees). In addition to enrolling all qualified employees in Hong Kong and Malaysia into the Mandatory Provident Fund Scheme in Hong Kong and the Employee Provident Fund operated by the Malaysian Government and making contributions for them on a periodic basis, the Group will continue to provide regular training and competitive remuneration packages to its employees.

The Company also adopted a share option scheme approved on 21 June 2016 for the purpose of, among other things, recognition of employees' contribution. A refreshment of the scheme limit of up to 10% of the issued shares of the Company was approved at the extraordinary general meeting on 17 October 2017. Further details are set out in note 15 to the condensed consolidated financial statements and the section headed "Share Option Scheme" elsewhere in this report.

The emoluments of the Directors are decided by the Remuneration Committee having regard to the Group's operating results, individual performance and comparable market statistics.

## **SIGNIFICANT INVESTMENTS HELD AND FUTURE PLAN FOR MATERIAL INVESTMENT**

As at 30 June 2018, the Group has no significant investment held and material investment plan.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

During the period ended 30 June 2018, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

## **PLEDGE OF ASSETS**

The Group's bank loans are secured by mortgages over the Group's leasehold land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately US\$1,159,000 (At 31 December 2017: US\$1,185,000).

## **USE OF PROCEEDS FROM THE LISTING**

The Company's ordinary shares were listed on the Main Board of Stock Exchange on 13 July 2016 ("Listing Date"). The net proceeds ("Net Proceeds") from the initial public offering amounted to approximately HK\$108.4 million (equivalent to approximately US\$14.0 million). Unutilised Net Proceeds as at 30 June 2018 amounted to approximately HK\$62.2 million (equivalent to approximately US\$7.93 million) is deposited into a licensed bank in Hong Kong as short-term fixed term deposits. The Company intends to use the remaining net proceeds in the coming years in accordance with the purposes set out in the prospectus issued on 30 June 2016 (the "Prospectus").



As at 30 June 2018, the Group has utilised the Net Proceeds as follows:

	<b>Percentage of total amount</b>	<b>Net proceeds <i>US\$ million</i></b>	<b>Utilised amount <i>US\$ million</i></b>	<b>Unutilised amount <i>US\$ million</i></b>
Strengthen our R&D capabilities:				
Expansion of R&D team	22%	3.12	1.44	1.68
Upgrade R&D facilities	13%	1.74	0.13	1.61
Establishment of a R&D centre	13%	1.75	1.23	0.52
Promotional and marketing activities	15%	2.10	0.84	1.26
Improving marketing capabilities	13%	1.87	0.47	1.40
Improve brand awareness	3%	0.48	0.14	0.34
Install an enterprise resource planning system	1%	0.12	0.10	0.02
Strengthen patent portfolio	10%	1.40	0.65	0.75
Working capital and general corporate purposes	10%	1.40	1.05	0.35
	<u>100%</u>	<u>13.98</u>	<u>6.05</u>	<u>7.93</u>

## **DIVIDEND**

The Board has resolved to declare an interim dividend of HK 2.92 cents per share for the six months ended 30 June 2018. The interim dividend is expected to be paid on 24 August 2018 to the shareholders whose names appear in the Company's register of members of the Company at the close of business on 15 August 2018.

## **CLOSURE OF REGISTER OF MEMBERS FOR 2018 INTERIM DIVIDEND**

The register of members of the Company will be closed on Wednesday, 15 August 2018 for the purpose of determining the entitlement to the 2018 interim dividend. The record date for entitlement to receive the 2018 interim dividend is Wednesday, 15 August 2018. In order to be qualified for the 2018 interim dividend, all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 14 August 2018. The cheques for dividend payment will be sent on Friday, 24 August 2018.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2018, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

### Long positions in shares and underlying shares

Name of Directors	Nature of interest	Number of shares of the Company interested	Number of underlying ordinary shares of the Company held under Share Option Scheme	Approximate percentage of shareholding %
Chan Wing Hong Alex	Beneficial owner	750,000,000	6,000,000	74.3
Chau Kit Wai	Beneficial owner	1,496,000	4,504,000	0.6
Yip Kai Kut Kenneth	Beneficial owner	1,496,000	4,504,000	0.6
Chong Ming Pui	Beneficial owner	1,496,000	4,504,000	0.6
Yeung Yu	Beneficial owner	1,440,000	4,560,000	0.6

Save as disclosed above, as of the date of this interim report, so far as is known to any Director or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) required to be recorded in the register kept by the Company pursuant to section 352 of the SFO; or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. Details of the Directors' interests in share options granted by the Company are set out below under the heading "Share Option Scheme".

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed “Share Option Scheme” below, at no time during the six months ended 30 June 2018 was the Group a party to any arrangements to enable the Directors, supervisors or chief executives of the Company, to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

### SHARE OPTION SCHEME

A share option scheme was conditionally adopted by the Company on 21 June 2016, and became effective on the Listing Date (the “Share Option Scheme”). Details of movements of the share options granted under the Share Option Scheme for the six months ended 30 June 2018 are as follows:

Grantee	Date of grant	Exercise price per share	Exercise period	Number of shares issuable under the share options				
				At 1 January 2018	Granted	Exercised	Lapsed/ cancelled	At 30 June 2018
<b>Directors</b>								
Mr. Chan Wing Hong Alex (note 1)	20/7/2016	HK\$0.483	20/7/2017-19/7/2021 (note 2)	6,000,000	—	—	—	6,000,000
Mr. Chau Kit Wai	20/7/2016	HK\$0.483	20/7/2017-19/7/2021 (note 2)	4,504,000	—	—	—	4,504,000
Mr. Yip Kai Kut Kenneth	20/7/2016	HK\$0.483	20/7/2017-19/7/2021 (note 2)	5,280,000	—	(776,000)	—	4,504,000
Mr. Chong Ming Pui	20/7/2016	HK\$0.483	20/7/2017-19/7/2021 (note 2)	4,504,000	—	—	—	4,504,000
Mr. Yeung Yu	20/7/2016	HK\$0.483	20/7/2017-19/7/2021 (note 2)	4,560,000	—	—	—	4,560,000
<b>Consultants of the Group in aggregate</b>								
	20/7/2016	HK\$0.483	20/7/2017-19/7/2021 (note 2)	1,940,000	—	(48,000)	(76,000)	1,816,000
	10/10/2017	HK\$1.872	10/10/2019-9/10/2022 (note 4)	3,500,000	—	—	(100,000)	3,400,000
	14/3/2018	HK\$1.934	14/3/2019-13/3/2023 (note 5)	—	3,384,000	—	—	3,384,000
<b>Employees of the Group in aggregate</b>								
	20/7/2016	HK\$0.483	20/7/2017-19/7/2021 (note 2)	32,272,000	—	(188,000)	(152,000)	31,932,000
	5/4/2017	HK\$0.720	5/4/2018-4/4/2022 (note 3)	11,700,000	—	(1,476,000)	(1,400,000)	8,824,000
	10/10/2017	HK\$1.872	10/10/2019-9/10/2022 (note 4)	3,700,000	—	—	(560,000)	3,140,000
	14/3/2018	HK\$1.934	14/3/2019-13/3/2023 (note 5)	—	10,116,000	—	(100,000)	10,016,000
			<b>Total:</b>	<u>77,960,000</u>	<u>13,500,000</u>	<u>(2,488,000)</u>	<u>(2,388,000)</u>	<u>86,584,000</u>

*Notes:*

1. Mr. Chan Wing Hong Alex is also the controlling shareholder of the Company
2. For all share options granted on 20 July 2016, the first 25% of the total options can be exercised 1 year after the date of grant, and each 25% of the total options will become exercisable in each subsequent year.
3. For the 13,600,000 share options granted on 5 April 2017, 25% of the 8,400,000 options can be exercised 1 year after the date of grant, and 25% of the 8,400,000 options will become exercisable in each subsequent year. For the remaining 5,200,000 options, 50% can be exercised 2 years after the date of grant, and 25% will become exercisable in each subsequent year.
4. For all share options granted on 10 October 2017, the first 50% of the total options can be exercised 2 years after the date of grant, and each 25% of the total options will become exercisable in each subsequent year.
5. For the 13,500,000 share options granted on 14 March 2018, 25% of the 9,900,000 options can be exercised 1 year after the date of grant, and 25% of the 9,900,000 options will become exercisable in each subsequent year. For the remaining 3,600,000 options, 50% can be exercised 2 years after the date of grant, and 25% will become exercisable in each subsequent year. The closing price of the Share immediately before the date on which the options were granted was HK\$1.90.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

Other than as disclosed in the paragraph headed “Directors’ and chief executives’ interests and short position in shares, underlying shares and debentures” above, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares which shall be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

For the six months ended 30 June 2018, so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

## **EVENTS AFTER THE REPORTING PERIOD**

There are no material subsequent events undertaken by the Company or by the Group after 30 June 2018 and up to the date of this interim report.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

## **CORPORATE GOVERNANCE CODE**

The Company has adopted the Corporate Governance Code (the "CG Code") as its own code of corporate governance, and is committed to maintaining high standards of corporate governance as well as transparency. The Company has complied with all applicable code provisions of the CG Code during the six months ended 30 June 2018.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct for the Directors in their dealings in the Company's securities. Having made specific enquiries with each Director, the Company confirmed that the Directors had complied with the required standard as set out in the Model Code during the period six months ended 30 June 2018.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the Group's unaudited interim results including the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters as well as the condensed consolidated financial statements for the six months ended 30 June 2018 with the management.

## **APPRECIATION**

Finally, I would like to take this opportunity to thank the Group's shareholders and business partners for their support and encouragement to the Group during the past six months. I would also like to thank our Directors and all staff member of the Group for their hard work and contribution to the Group.

By Order of the Board of  
**Plover Bay Technologies Limited**  
**Chan Wing Hong Alex**  
*Chairman and executive Director*

Hong Kong, 31 July 2018