Plover Bay Technologies Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1523

Annual Report 2016

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Wing Hong Alex *(Chairman)*
Mr. Chau Kit Wai
Mr. Yip Kai Kut Kenneth
Mr. Chong Ming Pui
Mr. Yeung Yu

Independent Non-Executive Directors

Dr. Yu Kin Tim
Mr. Ho Chi Lam
Mr. Wan Sze Chung

AUDIT COMMITTEE

Mr. Wan Sze Chung *(Chairman)*
Dr. Yu Kin Tim
Mr. Ho Chi Lam

NOMINATION COMMITTEE

Mr. Chan Wing Hong Alex *(Chairman)*
Dr. Yu Kin Tim
Mr. Wan Sze Chung

REMUNERATION COMMITTEE

Mr. Chan Wing Hong Alex *(Chairman)*
Dr. Yu Kin Tim
Mr. Wan Sze Chung

RISK MANAGEMENT COMMITTEE

Mr. Chan Wing Hong Alex *(Chairman)*
Mr. Chau Kit Wai
Mr. Yip Kai Kut Kenneth

COMPANY SECRETARY

Ms. Ng Shun Ying

REGISTERED OFFICE

P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 5/F, Dragon Industrial Building
93 King Lam Street
Lai Chi Kok
Kowloon
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Stephenson Harwood

COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Estera Trust (Cayman) Ltd
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL BANKS

The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1523

WEBSITE

www.ploverbay.com

Chairman's Statement

Dear Shareholders,

We are pleased to announce our first annual report for Plover Bay Technologies Limited ("Plover Bay"). Revenues for the year ended 31 December 2016 were US$28.4 million, while net profits were US0.60 cents per share and core net profits were US0.80 cents per share.

We believe our financial results are showing a strong growth and adoption of SD-WAN technologies in the areas of enterprise, industrial and service providers. We continue to deliver competitively-priced, proprietary technology platforms with outstanding performance and reliability to our end customers.

This year, our wireless SD-WAN technology revenues were up 33.7% year-over-year, which showed a strong adoption of our MAX product family in the industrial networking market.

Our wired SD-WAN technology revenues were up 10.0% year-over-year, which showed that our growth in the industrial networking market is faster than the enterprise networking market.

Our software licence and services revenues were up 52.4% year-over-year, which showed that our proprietary technology, SpeedFusion™, has been rapidly gaining traction on a global basis.

We remain focused on driving the adoption of SD-WAN in key market segments including transportation, maritime, public safety, unmanned systems and enterprises. We'll make substantial investments in R&D and operations to continue our leadership in the global SD-WAN technologies.

Within the year, we have been granted 17 patents from US Patent and Trademark Office. As of 31 December 2016, 21 patents have been granted and we have more than 150 patent applications filed internationally.

Plover Bay is a company with strong R&D, a market leading position, innovative business model, a strong balance sheet and a highly efficient operation. We'll continue to focus on developing technology innovation, expanding our addressable markets, and driving market adoption to continue the growth.

I want to express my deepest thanks to our colleagues for their passion and dedication over the years and to our ecosystem partners for their continued support.

Chan Wing Hong Alex
Chairman

Hong Kong, 28 February 2017

Financial Summary

A summary of the published results and of the assets, liabilities and equity of Plover Bay Technologies Company Limited (the "Company"), together with its subsidiaries (referred as the "Group" or "we" or "our" or "us") for each of the four years ended 31 December 2016 is as follows:

RESULTS

	Year ended 31 December			
	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000
Revenue	**28,358**	21,859	17,946	13,306
Profit for the year attributable to owners of the Company	**5,240**	3,357	3,743	2,565
Adjusted by:				
Listing expenses	**1,252**	1,001	—	—
Equity-settled share-based payments	**407**	—	—	—
Core net profit	**6,899**	4,358	3,743	2,565
Earning per share — basic (US cents)	**0.60**	0.45	N/A	N/A
Core net profit per share — basic (US cents)	**0.80**	0.58	N/A	N/A

ASSETS, LIABILITIES AND EQUITY

	As at 31 December			
	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000
Assets				
Total non-current assets	**1,183**	833	685	502
Total current assets	**31,315**	14,516	11,491	10,247
Total assets	**32,498**	15,349	12,176	10,749
Liabilities				
Total current liabilities	**7,342**	7,460	4,464	3,418
Total non-current liabilities	**910**	776	1,116	754
Total liabilities	**8,252**	8,236	5,580	4,172
Equity				
Equity attributable to owners of the Company	**24,246**	7,113	6,596	6,577

The summary of the consolidated results of the Group for each of the three years ended 31 December 2015 and of the assets, liabilities and equity as at 31 December 2013, 2014 and 2015 was extracted from the Company's prospectus issued on 30 June 2016 (the "Prospectus").

The summary above does not form part of the audited consolidated financial statements.

Management Discussion and Analysis

RESULTS OF OPERATIONS

Revenue and segment information

During the year ended 31 December 2016, 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. While we historically generated our revenues mainly from the sale of SD-WAN routers, we expect our business in the grant of software licences and the provision of warranty and support services 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.

For the year ended 31 December 2016, our revenue of the Group was approximately US$28,358,000 representing an increase of approximately 29.7% from approximately US$21,859,000 for the year ended 31 December 2015.

The table below sets out our revenue by product/service category for the year ended 31 December 2016:

	For the year ended 31 December			
	2016		2015	
	Revenue	**% of total**	Revenue	% of total
	US$'000	**%**	US$'000	%
SD-WAN routers:				
Wired	**7,687**	**27.1**	6,987	32.0
Wireless	**14,291**	**50.4**	10,685	48.9
Warranty and support services	**5,189**	**18.3**	3,905	17.8
Software licences	**1,191**	**4.2**	282	1.3
Total	**28,358**	**100.0**	21,859	100.0

There was an overall increase in revenue from all of our product and service categories during the year ended 31 December 2016 which was primarily due to enhanced global awareness of our brand and SD-WAN technology as well as strong market demand for high performance Internet connectivity.

Management Discussion and Analysis

Segment information about the reportable and operating segments is presented below, software licences and warranty and support services are aggregated into a single reportable segment as they have similar economic characteristics:

Year ended 31 December 2016

	Sale of SD-WAN routers		Software licences and warranty	
	Wired routers	Wireless routers	and support services	Total
	US$'000	US$'000	US$'000	US$'000
External sales and segment revenue	**7,687**	**14,291**	**6,380**	**28,358**
Segment profit	**3,825**	**4,405**	**4,572**	**12,802**
Other income				**104**
Selling and distribution expenses				**(1,697)**
Unallocated administrative expenses				**(3,259)**
Listing expenses				**(1,252)**
Finance costs				**(23)**
Profit before taxation				**6,675**

Management Discussion and Analysis

Year ended 31 December 2015

	Sale of SD-WAN routers		Software licences and warranty and support services	Total
	Wired routers US$'000	Wireless routers US$'000	US$'000	US$'000
External sales and segment revenue	6,987	10,685	4,187	21,859
Segment profit	3,430	2,371	2,907	8,708
Other income				69
Selling and distribution expenses				(1,003)
Unallocated administrative expenses				(2,632)
Listing expenses				(1,001)
Finance costs				(1)
Profit before taxation				4,140

The principal assets employed by the Group are located in Hong Kong. Therefore, no segment information based on the geographical location of assets is presented.

We sell products mainly to customers in North America. We expect the North American market will continue to account for a major part of our revenue in the foreseeable future. In terms of absolute sales amount, sales to North America and Asia experienced continuous growth during the year ended 31 December 2016. Sales to EMEA decreased slightly during the year.

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 during the year ended 31 December 2016:

	For the year ended 31 December			
	2016		2015	
	Revenue US$'000	**% of total %**	Revenue US$'000	% of total %
North America	**13,851**	**48.8**	9,179	42.0
EMEA	**6,945**	**24.5**	7,352	33.6
Asia	**5,752**	**20.3**	4,669	21.4
Others	**1,810**	**6.4**	659	3.0
Total	**28,358**	**100.0**	21,859	100.0

Management Discussion and Analysis

Gross profit and gross profit margin

For the year ended 31 December 2016, our gross profit was approximately US$17,945,000, with gross profit margin of approximately 63.3%, while the gross profit and gross profit margin for the year ended 31 December 2015 were approximately US$12,693,000 and approximately 58.1%, respectively, representing an increase of approximately 5.2% in gross profit margin.

The table below sets out our Group's gross profit and gross profit margin by product/service category for the year ended 31 December 2016:

	For the year ended 31 December			
	2016		2015	
	Gross profit US$'000	**Gross profit margin %**	Gross profit US$'000	Gross profit margin %
SD-WAN routers:				
Wired	**5,189**	**67.5**	4,687	67.1
Wireless	**7,056**	**49.4**	4,350	40.7
Warranty and support services	**4,509**	**86.9**	3,374	86.4
Software licences	**1,191**	**100.0**	282	100.0
Total	**17,945**	**63.3**	12,693	58.1

Gross profit margin increased by approximately 5.2% which was mainly due to the increase in revenue derived from the sale of higher margin wireless models (mainly MAX HD series) in our product mix during the year ended 31 December 2016, as well as revenue from our high gross profit margin subscription business including warranty and support services and software licences.

Other income

Other income mainly represented net gain on sales of parts material to our contract manufacturers. For the year ended 31 December 2016, our other income was approximately US$104,000, representing an increase of approximately 50.7%, from approximately US$69,000 for the year ended 31 December 2015. The increase was mainly due to the over-provision of expenses made in prior years and written back during the year ended 31 December 2016.

Selling and distribution expenses

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

Management Discussion and Analysis

Selling and distribution expenses for the year ended 31 December 2016 and year ended 31 December 2015 was approximately US$1,697,000 and approximately US$1,003,000, respectively, representing an increase of approximately US$694,000 or approximately 69.2%. This is mainly due to (i) an increase in average salaries and wages of our sales and marketing staff; and (ii) an increase in advertising, promotion and consultancy fee expenses as a result of our increased efforts to promote our products when compared to the year ended 31 December 2015.

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 year ended 31 December 2016 and year ended 31 December 2015 was approximately US$3,412,000 and approximately US$2,710,000, respectively, representing an increase of approximately US$702,000 or approximately 25.9%. This is mainly due to (i) an increase in average salaries, wages and share-based payments of our administrative, finance and other supporting staff; and (ii) an increase in depreciation and amortisation expenses as a result of additions to our property, plant and equipment and registered patents when compared to the year ended 31 December 2015.

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 year ended 31 December 2016 and year ended 31 December 2015 was approximately US$4,990,000 and approximately US$3,907,000, respectively, representing an increase of approximately US$1,083,000 or approximately 27.7%. This is mainly due to (i) an increase in average salaries, wages and share-based payments of our R&D staff; and (ii) an increase in sample expenses when compared to the year ended 31 December 2015.

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 and equity-settled share-based payment expenses for the year ended 31 December 2016 was approximately US$407,000 (year ended 31 December 2015: Nil). Details of share options granted by the Company are set out below under the heading "Share Option Scheme" of this annual report.

Management Discussion and Analysis

Finance costs

Finance costs mainly represented interests on bank borrowings during the year ended 31 December 2016.

Finance costs for the year ended 31 December 2016 and year ended 31 December 2015 were approximately US$23,000 and approximately US$1,000, respectively, representing an increase of approximately US$22,000. Interests on bank borrowings during the year ended 31 December 2015 were relatively low since the finance costs arose from the Group's bank borrowings, mortgaged loans drawn solely for the usage by the related companies (in which Mr. Chan has beneficial interest), were fully reimbursed by the related companies and set-off against the finance costs borne by the Group for the year ended 31 December 2015. A new bank loan was raised in December 2015 to finance the general daily operation of the Group and was subsequently settled in December 2016.

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 year ended 31 December 2016.

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2016 was approximately US$5,240,000, while the profit attributable to owners of the Company for the year ended 31 December 2015 was approximately US$3,357,000, representing an increase of approximately 56.1%. The increase was mainly due to the increase in revenue fueled by enhanced global awareness of our brand and SD-WAN technology as well as strong market demand for high performance Internet connectivity, and the increase in gross profit derived from sale of high margin products and services which was partially offset by the increase in income tax expenses and operating expenses due to expansion of our business scale.

PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties facing the Group, some of which are beyond our control.

— Brand recognition of our customers depends on our ability to keep up with the rapidly changing technologies or conduct R&D and market our new products and services;

— Competition from existing or new competitors may affect our market share in the SD-WAN markets and our revenue may be reduced;

— Our business and financial performance depend on our ability to manage our inventory effectively;

— We do not have long-term purchase commitments from our customers which may lead to significant uncertainty and volatility within our revenue; and

— We may expose to credit risk of our customers which will affect us in collecting trade receivables and adversely affect our cash flow.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisers before making any investment in the shares.

PROSPECT

According to an industry report dated 18 June 2016 regarding the SD-WAN router market prepared by an independent market researcher and consultant commissioned by us, we are the fifth largest SD-WAN router vendor internationally in the year of 2015 in terms of revenue value. Further, the SD-WAN router market is projected to grow at a compound annual growth rate of approximately 31.8% from 2015 to reach approximately US$1.51 billion by 2020. We believe that there is no significant change in the market from the date of the industry report to the date of this report. For details of the industry report, please refer to the paragraph headed “Industry Overview” to the Prospectus.

There are three key factors that are driving demand for our products.

First, we sell our products to a number of specialised verticals (such as public safety, transportation, and maritime) in which wireless SD-WAN technology is an essential part of their infrastructure. Applications include providing wireless connectivity to patrol vehicles and mobile command centers, in-train video surveillance, and high-speed connectivity to maritime fleets. Before wireless SD-WAN technology emerged, these applications were not possible or financially difficult to justify.

The second factor is SpeedFusion*TM*, our proprietary SD-WAN multi-cellular bonding technology. This patented technology allows unbreakable network connectivity using multiple wired and wireless connections for greater throughput and network reliability . For example, previously in North America, remote medical imaging (like mammography) for rural communities required a massive amount of imaging data to be transferred, making the application impractical. Now, our wireless SD-WAN routers empower mammography vehicles with enough bandwidth to make this possible. Also, high definition video surveillance can be deployed anywhere in hours instead of weeks.

Lastly, the economic environment is forcing companies to rethink the efficiency of their infrastructure and investments. Our SD-WAN products and patented SpeedFusion*TM* technology provide a good alternative to expensive leased lines. This is accomplished by combining connectivity from different service providers. Such cost savings factor makes our products more attractive to medium to large enterprises which run multi-branch networks.

Looking ahead, we see huge potential for SD-WAN technology applications in different markets. There will be growing demand from product and service providers to add SD-WAN capabilities into their offerings. As the Group excels at delivering disruptive Internet connectivity technologies, we will leverage our strength to deliver unbreakable mobility to new verticals such as broadcasting and providing unbreakable connectivity to the Internet of things (IoT). New product categories and more cloud-based subscription services will be launched.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2016, our bank borrowings amounted to approximately US$318,000 (as at 31 December 2015: approximately US$1,238,000). The bank borrowing as at 31 December 2015 was interest bearing at Hong Kong Best Lending Rate less 2.50% per annum and repayable within one year. Such bank borrowing was denominated in Hong Kong dollars ("HK$") and fully repaid during the year ended 31 December 2016. The bank borrowings as at 31 December 2016 represented bank borrowings denominated in US$ which were arranged at a floating rate at 1.5% over LIBOR per annum and repayable within one year.

As at 31 December 2016, the gearing ratio (which is defined as total borrowings over total equity) of our Group was approximately 1.3% (2015: approximately 17.4%). The Directors confirm that the Group financed its operations principally from cash generated from its business operations and expect that it will continue in the coming year. We did not experience any significant liquidity problem during the year ended 31 December 2016.

AGED ANALYSIS OF TRADE RECEIVABLES AND TRADE PAYABLES

For details of our aged analysis of trade receivables and trade payables, please refer to note 16 and note 19 of the audited consolidated financial statements of this annual report, respectively.

FOREIGN CURRENCY EXPOSURE

Most of the Group's sales and purchases, receipts and payments as well as most of our bank balances and cash are denominated in US$. Our bank loan and our operating expenses are mainly denominated in US$ or HK$ which is pegged to US$. In this respect, there is no significant currency mismatch in our operational cashflows and the Group is not exposed to any significant foreign currency exchange risk in its operations.

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 31 December 2016, the Group had 103 full-time employees. The total amount of staff costs of the Group for the year was approximately US$5,517,000 (2015: approximately US$4,313,000). 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. Details have been set out in the section headed "Share Option Scheme" in the Directors' Report of this annual report and note 29 to the audited consolidated financial statements.

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.

Management Discussion and Analysis

RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contribution per employee is HK$1,500 per month. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. The expenses arising from the provident fund of the Group for the year ended 31 December 2016 were approximately US$150,000 (2015: approximately US$143,000).

The employees in the Group's subsidiary in Malaysia are members of the state-managed retirement benefit scheme, the Employees Provident Fund (the "EPF Scheme") operated by the Malaysia government. The subsidiary is required to contribute a certain percentage of payroll costs to the EPF Scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions. The retirement benefit scheme contribution arising from the EPF Scheme charged to profit or loss for the year ended 31 December 2016 were approximately US$27,000 (2015: approximately US$24,000).

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLAN FOR MATERIAL INVESTMENT

As at 31 December 2016, the Group has no significant investment held and material investment plan except as disclosed in the paragraph headed "Commitments" below.

MATERIAL ACQUISITIONS AND DISPOSALS

Apart from the group reorganisation prepared for the listing of our shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing"), for the year ended 31 December 2016, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

CONTINGENT LIABILITIES

As at 31 December, 2016, we did not have any significant contingent liabilities required to disclose in this annual report.

COMMITMENTS

As at 31 December 2016, capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the audited consolidated financial statements was approximately US$1,112,000 (2015: Nil).

We do not have any significant operating lease commitments required to disclose in this annual report.

Management Discussion and Analysis

PLEDGE OF ASSETS

In December 2015, our Group raised a bank loan for estimated working capital needs of our operations at a prevailing market interest rate and was repayable within one year. The borrowing together with the facility granted by the bank were guaranteed by our Company and secured by a limited guarantee of approximately HK$20.60 million (equivalent to approximately US$2.66 million) provided by Mr. Chan. The limited guarantee was released upon the Listing. The facility granted by the bank was also secured by a pledged bank deposit of approximately US$129,000 as at 31 December 2016 (2015: Nil) which was released and replaced by two mortgaged properties up to the date of this annual report.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing ("Net Proceeds") received by the Company after deducting underwriting fees and estimated expenses was approximately HK$108.39 million (approximately US$13.98 million). The intended use of the Net Proceeds are disclosed in the section "Future Plans and Use of Proceeds" in the Prospectus. Unutilised Net Proceeds as at 31 December 2016 amounted to approximately HK$102 million (equivalent to approximately US$13.12 million), is deposited in a licensed bank in Hong Kong as short-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.

As at 31 December 2016, the Group has utilised the Net Proceeds as follows:

	Percentage to total amount	**Net proceeds** US$ million	**Utilised amount** US$ million	**Unutilised amount** US$ million
Strengthen our R&D capabilities:				
Expansion of R&D team	22%	3.12	0.06	3.06
Upgrade R&D facilities	13%	1.74	0.04	1.70
Establishment of a R&D centre	13%	1.75	0.10	1.65
Promotional and marketing activities	15%	2.10	0.19	1.91
Improving marketing capabilities	13%	1.87	0.01	1.86
Improve brand awareness	3%	0.48	0.01	0.47
Install an enterprise resource planning system	1%	0.12	—	0.12
Strengthen patent portfolio	10%	1.40	0.10	1.30
Working capital and general corporate purposes	10%	1.40	0.35	1.05
	100%	13.98	0.86	13.12

Management Discussion and Analysis

DIVIDEND

The Board has resolved to declare a second interim dividend of HK1.93 cents per share for the year ended 31 December 2016. The interim dividend is expected to be paid on Thursday, 23 March 2017 to the shareholders whose names appear in the Company's register of members of the Company at the close of business on Wednesday, 15 March 2017.

CLOSURE OF REGISTER OF MEMBERS FOR 2016 SECOND INTERIM DIVIDEND

The register of members of the Company will be closed on Wednesday, 15 March 2017 for the purpose of determining the entitlement to the 2016 second interim dividend. The record date for entitlement to receive the 2016 second interim dividend is Wednesday, 15 March 2017. In order to be qualified for the 2016 second 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 March 2017. The cheques for dividend payment will be sent on Thursday, 23 March 2017.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to supporting the environmental sustainability and maintaining sustainable working practices and therefore pays close attention to ensure all resources are efficiently utilised. The Group strives to become an environmental-friendly corporation by saving electricity and encouraging recycling of packaging materials and other resources. Detailed environmental policies and performance of the Group are set out in the Environment, Social and Governance Report on pages 17 to 27.

COMPLIANCE WITH LAWS AND REGULATIONS

All non-compliance incidents disclosed in "Business — Non-compliance Incidents" in the Prospectus are rectified before the Listing. We did not aware of any other material breach of or non-compliance with applicable laws and regulations that has a significant impact on the business and operations of our Group as at 31 December 2016.

RELATIONSHIPS WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

We recognise that employees, customers and suppliers are keys to our sustainable development. We are committed to establishing a close and caring relationship with our employees, providing high quality products and services to our customers and maintain cooperation with our contract manufacturers.

We provide a fair and safe workplace, promotes diversity to our employees, provides competitive remuneration packages and career development opportunities based on their performance and experience. The Group also provides regular training and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

Management Discussion and Analysis

We understand the importance of maintaining continuous communications to gain insight on the changing market needs. The Group owns and operates an online message board (the "Community Forum") which allows our distributors, prospective customers and end users to seek information and share knowledge about our products and software. We can also collect prompt and substantive feedback on the functionality and effectiveness of our products. The solutions, problems and suggestions posted by members of our online Community Forum enable our R&D team to quickly resolve issues with our existing products and improve features in future products and product enhancements. The Group has also established procedures for handling end user' complaints in a prompt and timely manner. Our end users can submit support tickets when they have questions or comments for our products that they have purchased from our distributors or directly from us. When we receive a support ticket, our technical support team will first contact our distributors or end users to understand the details of the question or comment and will try to solve any technical problems. If the technical problem or comment is related to the quality of our products, the technical support team will inform our R&D team accordingly. Our R&D team will conduct analysis to determine the source of the problem and try to rectify it.

We are also dedicated to develop good relationship with contract manufacturers and suppliers as long-term business partners to ensure stability of the supply of products and materials which is important to our Group's business.

Corporate Governance Report

The board of directors (the "Board") of Plover Bay Technologies Company Limited (the "Company"), together with its subsidiaries (referred as the "Group" or "we" or "our" or "us") is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2016.

CORPORATE GOVERNANCE CODE

The Board has committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders of the Company ("Shareholders") and to enhance corporate value and accountability. 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 from 13 July 2016 (the "Listing Date") to 31 December 2016.

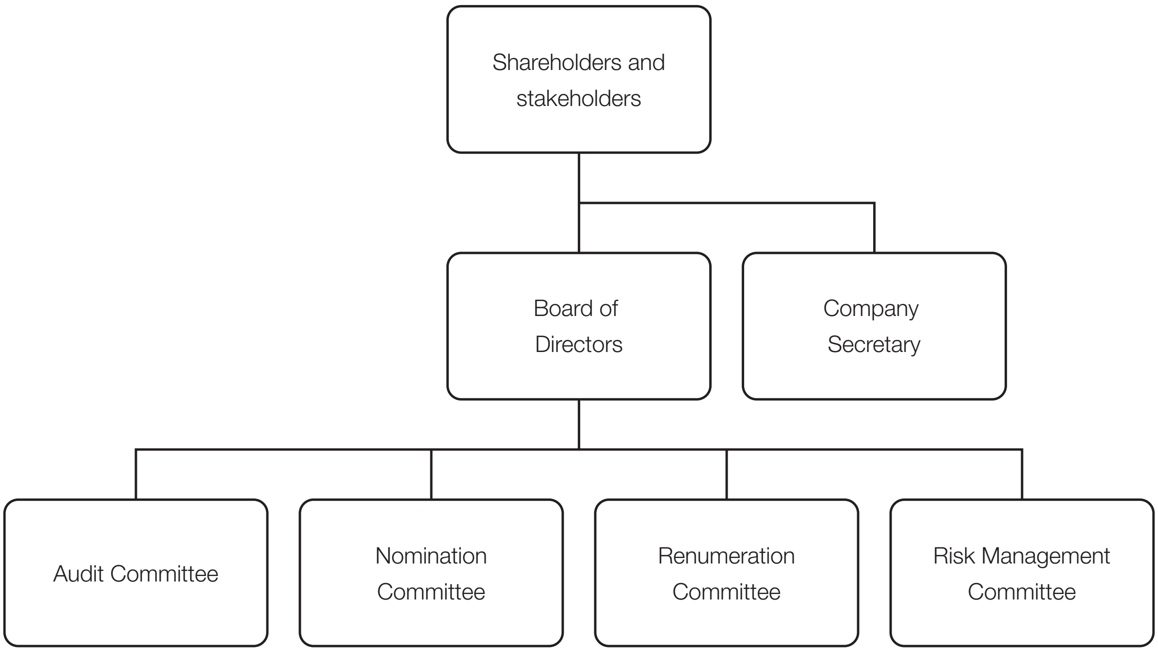
The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own securities dealing code to regulate all dealings by Directors of securities in the Company and other matters covered by the Model Code. Specific enquiry has been made of all the Directors and they have confirmed that they have complied with the Model Code from the Listing Date to 31 December 2016.

Corporate Governance Report

CORPORATE GOVERNANCE STRUCTURE



The Company strives to attain and maintain high standards of corporate governance best suited to the needs and interests of the Group as it believes that effective corporate governance practices is fundamental to enhancing shareholder value and safeguarding interests of Shareholders and stakeholders. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

BOARD OF DIRECTORS

The Board currently comprises eight members, consisting of five executive Directors and three independent non-executive Directors. The function of the Board is to guide the management to ensure the interests of the Shareholders are safeguarded.

The Directors during the year and up to the date of this annual report were:

Executive Directors

Mr. Chan Wing Hong Alex *(Chairman)*
Mr. Chau Kit Wai *(Chief Executive Officer)*
Mr. Yip Kai Kut Kenneth
Mr. Chong Ming Pui
Mr. Yeung Yu

Independent Non-Executive Directors

Dr. Yu Kin Tim (appointed on 21 June 2016)
Mr. Ho Chi Lam (appointed on 21 June 2016)
Mr. Wan Sze Chung (appointed on 21 June 2016)

Biographical information of the Directors and relationship amongst them, if any, are set out in the section headed "Profile of Directors and Company Secretary" of this annual report.

The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmations, considers, them to be independent.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances. While allowing management substantial autonomy to run and develop the business, the Board plays a key role in structuring and monitoring the reporting systems and internal controls. The composition and functions of each Board committee and their major roles and functions are described below. The final decision still rests with the Board unless otherwise provide for in the terms of reference of relevant committees.

The independent non-executive Directors bring a wide range of skills and business experience to the Group. They also bring independent judgment on the issues of strategy, performance and risk through their contribution to the Board meetings and to the committees' meetings.

The Board is responsible for the oversight of the management of the Company's business and affairs with the goal of maximizing long term shareholder's value, while balancing broader stakeholder interests. The Board has the following main duties:

- determine all the corporate matters;
- be responsible for the management, direction and supervision of the businesses of the Group; and
- be responsible to ensure the effectiveness on Group's financial reporting and compliance.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. All executive Directors, and independent non-executive Directors bring a variety of experience and expertise to the Company.

Corporate Governance Report

BOARD MEETINGS AND BOARD PRACTICES

The Board holds regular meetings at appropriate intervals during a year. The Board will also meet on other occasions when a board-level decision on a particular matter is required. As the Company only became listed on the Stock Exchange on 13 July 2016, the Board only held 2 regular meetings after the Listing for the year ended 31 December 2016. The attendance records of the Directors to these regular board meetings are set out in the table on page 24 of this annual report.

All minutes of the meetings, record in sufficient detail the matters considered and decisions reached, are kept by the Company Secretary and are opened for inspection by Directors at any time.

The meetings are structured to allow open discussion. All Directors participate in discussing the strategy, operational and financial performance and internal control of the Group.

The Company Secretary assists the Chairman to prepare the agenda of the meeting and each Director may request to include any matters in the agenda. At least 3 days' notice is given to the Directors for the regular meetings by the Company. All substantive agenda items have comprehensive briefing papers which are distributed by the Company Secretary to Directors at least 3 days before the Board meetings so as to ensure that the Directors may receive accurate, timely and clear information to make informed decisions regarding the matters discussed in the meetings.

All Directors may access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF THE GROUP

The Chairman of the Group is Mr. Chan Wing Hong Alex and the Chief Executive Officer of the Group is Mr. Chau Kit Wai. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to ensure a balance of power and authority, so that power is not concentrated in any one individual. The Chairman of the Group is primarily responsible for the management of the Board, whereas the Chief Executive Officer is primarily responsible for the daily operations and management of the Group.

The Chairman is responsible for leading the Board and ensuring the Board work effectively, through which the Chairman will ensure that good corporate governance practices and procedures are established and followed, and that all Directors receive all relevant information in a timely manner.

The Chairman will also encourage all Directors, including the independent non-executive Directors, to actively participate in all board meetings and the committee meetings.

Corporate Governance Report

NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years commencing on 21 June 2016. Their terms of appointment shall be subject to the rotational retirement provision of the articles of association of the Company.

BOARD COMMITTEES

To assist the Board in the execution of its duties, the Board has currently delegated specific functions to four Board committees. They are the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. As at the date of this annual report, the compositions of each committee are as follows:

Name	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Directors:				
Mr. Chan Wing Hong Alex		C	C	C
Mr. Chau Kit Wai				M
Mr. Yip Kai Kut Kenneth				M
Independent non-executive Directors:				
Dr. Yu Kin Tim	M	M	M	
Mr. Ho Chi Lam	M			
Mr. Wan Sze Chung	C	M	M	

Notes: C Chairman of the relevant Board committees

M Member of the relevant Board committees

The written terms of reference of Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee are available on the Company's website and the Stock Exchange's website.

Audit Committee

We have established an Audit Committee pursuant to a resolution of our Directors passed on 21 June 2016. Our Audit Committee has written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee of our Company are mainly to make recommendations to our Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the risk management and internal control procedures of our Company. At present, the Audit

Corporate Governance Report

Committee consists of three members being all independent non-executive Directors: Mr. Wan Sze Chung, who serves as chairman of the committee, Dr. Yu Kin Tim and Mr. Ho Chi Lam. The external auditor and the financial controller also attend meetings of Audit Committee by invitation.

Since the Listing Date up to 31 December 2016, the Audit Committee held a meeting to review interim results of the Group for the six months ended 30 June 2016. Subsequent to the financial year and up to the date of this report, the Audit Committee held another meeting to review the annual results of the Group for the year ended 31 December 2016. Both of the meetings were held for the purpose of reviewing financial reporting and compliance procedures, internal control and arrangements for employees to raise concerns about possible improprieties.

The external auditors attended the meeting for annual results to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

Remuneration Committee

We have established a Remuneration Committee pursuant to a resolution of our Directors passed on 21 June 2016. Our Company has written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The primary functions of the Remuneration Committee of our Company are to make recommendation to the Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. At present, the Remuneration Committee consists of three members: one executive Director, being Mr. Chan Wing Hong Alex, who serves as chairman of the committee, and two independent non-executive Directors, being Dr. Yu Kin Tim and Mr. Wan Sze Chung.

Since the Listing Date up to the year ended 31 December 2016, the Remuneration Committee held one meeting to review and recommend the remuneration packages of the Directors to the Board, assess the performance of relevant Directors and other related matters.

Nomination Committee

We have established a Nomination Committee pursuant to a resolution of our Directors passed on 21 June 2016. Our Company has written terms of reference in compliance with the CG Code. The primary functions of the Nomination Committee of our Company are to review the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and make recommendation to our Board on any proposed changes to our Board to complement our Company's corporate strategy; identify individuals suitably qualified as potential board members and select or make recommendations to our Board on the selection of individuals nominated for directorships; to assess the independence of our independent non-executive Directors; and make recommendations to our Board on the appointment or reappointment of Directors and succession planning of Directors, in particular that of our Chairman and our Chief Executive Officer. At present, the Nomination Committee consists of three members: one executive Director, being Mr. Chan Wing Hong Alex, who will serve as chairman of the committee, and two independent non-executive Directors, being Dr. Yu Kin Tim and Mr. Wan Sze Chung.

Pursuant to code provision B.1.5 of the CG Code, the remuneration paid to the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands	Number of person(s)
Nil to US$250,000	5
US$250,001 to US$500,000	1

The Company has a diversity policy of Board members. Under this policy, the diversity of the Board is considered in terms of factors such as gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are based on merit, and candidates are considered against various objective criteria, with due regard for the benefits of diversity on the Board.

As the Company only became listed on the Stock Exchange on 13 July 2016, no meeting was held between the Listing Date and 31 December 2016. Subsequent to the financial year and up to the date of this report, the Nomination Committee held one meeting to review the structure, size and composition (including the skills, knowledge and experience) of our Board and no recommendation to our Board on any changes to our Board is proposed.

Risk Management Committee

We have established a Risk Management Committee pursuant to a resolution of our Directors passed on 29 February 2016. Our Company has written terms of reference in compliance with the CG Code. The primary functions of the Risk Management Committee of our Company are to enhance our Company's risk management ability and improve corporate governance of our Company, as well as to assess the latest sanctions-related risks our operations may be exposed to. At present, the Risk Management Committee consists of three members, being Mr. Chan Wing Hong Alex, who will serve as chairman of the committee, Mr. Chau Kit Wai and Mr. Yip Kai Kut Kenneth. All of them are executive Directors.

For the year ended 31 December 2016, the Risk Management Committee held two meetings to review and assess the effectiveness of risk management and internal control systems.

Corporate Governance Report

ATTENDANCE AT MEETINGS

Since the Listing Date up to 31 December 2016, the attendance records of the Directors at Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Risk Management Committee meetings are as follows:

	Number of meetings attended				
Name of Directors	**Board meetings**	**Audit Committee meetings**	**Remuneration Committee meetings**	**Nomination Committee meetings**	**Risk Management Committee meetings**
Executive Directors					
Mr. Chan Wing Hong Alex	2/2	—	1/1	N/A	2/2
Mr. Chau Kit Wai	2/2	—	—	—	2/2
Mr. Yip Kai Kut Kenneth	2/2	—	—	—	2/2
Mr. Chong Ming Pui	2/2	—	—	—	—
Mr. Yeung Yu	2/2	—	—	—	—
Independent non-executive Directors					
Dr. Yu Kin Tim	2/2	1/1	1/1	N/A	—
Mr. Ho Chi Lam	2/2	1/1	—	—	—
Mr. Wan Sze Chung	2/2	1/1	1/1	N/A	—

Note: The Company has not held any general meeting since the Listing.

CORPORATE GOVERNANCE FUNCTION

The Board, through Audit Committee, is responsible for performing the corporate governance functions, which includes developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements etc. From the Listing Date to the year ended 31 December 2016, the Board has reviewed the Company's policies and practices on corporate governance.

DIRECTORS' INDUCTION AND DEVELOPMENT

Since the Listing Date up to 31 December 2016, all Directors had received sufficient and relevant training and continuous professional development. In doing so, the Directors have undertaken various forms of activities relevant to the Company's business, Directors' duties and responsibilities. The Company held a training for all Directors to provide them with knowledge on the duties and responsibilities of the Directors before the Listing and a training to provide them with update on the Listing Rules and amendments to CG Code and Corporate Governance Report.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that the appropriate accounting policies are selected and applied consistently. The reporting responsibilities of the Company's external auditor on the audited consolidated financial statements of the Group are set out in the independent auditor's report on pages 47 to 51 of this annual report. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibilities for maintaining a sound and effective risk management and internal control systems of the Group. The systems include a defined management structure with limits of authority, and are designed for the Group to identify and manage the significant risks to achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. The Group has dedicated internal audit function who reviews the effectiveness of the risk management and internal control systems from time to time in order to ensure that they meet with the dynamic and ever changing business environment.

From the Listing Date to the year ended 31 December 2016, the Board, through Audit Committee and Risk Management Committee, conducted a review on the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls and risk management functions, adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and training program and budget. Appropriate measures have been put in place to manage the risks. No major issue was raised for improvement. The Board is satisfied with the effective risk management and internal control of the Company.

The Group regularly reminds the Directors and employees for the compliance of policies regarding the inside information, and provide them with update on the appropriate guidelines or policies to ensure the compliance with regulatory requirements.

Corporate Governance Report

AUDITOR'S REMUNERATION

During the year ended 31 December 2016, the total fees paid/payable, excluding disbursements, in respect of audit and non-audit services provided by the Company's external auditors are approximately as below:

	US$'000
Audit services:	
Annual audit services	161
Audit services relating to the Listing	497
Non-audit services:	
Tax advisory services	14
Internal control review services	40
Total	712

SHAREHOLDERS' RIGHTS

Pursuant to Article 64 of the Articles of Association of the Company (the "Articles"), extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding at the date of deposit of the requisition not less than 10% of the Company's paid up capital having the right of voting at general meetings of the Company, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and put forward proposals; and such meeting shall be held within two months after the deposit of such requisition.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director by any Shareholder(s) and notice in writing by that person of his willingness to be elected including that person's biographical details as required by Rule 13.51(2) of the the Listing Rules, shall have been lodged to the Board or the company secretary at the Company's principal place of business at Unit B, 5/F, Dragon Industrial Building, 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong at least 7 days before the date of the general meeting.

Any Shareholder(s) of the Company who wish to raise his/their enquiry(ies) concerning the Company to the Board may deliver his/their written enquiry(ies) to the principal place of business of the Company in Hong Kong with the address at Unit B, 5/F, Dragon Industrial Building, 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong or at any address notified by the Company from time to time and for the attention of the Chairman of the Board or the Company Secretary. Upon receipt of the enquiry(ies), the Company would reply as soon as possible.

Further details in relation to "Shareholders' Rights" are available and accessible on the Company's website at www.ploverbay.com.

INVESTOR RELATIONSHIPS

To strengthen its relationship with investors, the Group meets with analysts, accommodates visiting funds and investors, and participates in conferences and presentations.

Since the Listing Date up to 31 December 2016, the Company published voluntary announcements in relation to shareholders' right on the Company's website to keep the Shareholders and investors updated regarding the corporate governance status.

CONSTITUTIONAL DOCUMENTS

Since the Listing Date up to 31 December 2016, there was no significant change in the articles of association of the Company.

Profile of Directors and Company Secretary

EXECUTIVE DIRECTORS

Mr. Chan Wing Hong Alex (陳永康) ("Mr. Chan"), aged 49, is our executive Director and Chairman, and the founder of our Group. Mr. Chan was appointed as Director on 5 May 2015 and designated as executive Director and Chairman of the Board on 27 November 2015. Mr. Chan has over 28 years of experience in electronic engineering and information technology industry. He is responsible for formulating overall strategies, planning and business development of our Group.

Mr. Chan received a higher certificate in electronic engineering from the Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1988, and obtained an executive master of business administration degree at The Hong Kong University of Science and Technology in May 2004.

Mr. Chau Kit Wai (周傑懷) ("Mr. Chau"), aged 42, is our executive Director, chief executive officer and general manager, who joined our Group in October 2007. Mr. Chau was appointed as Director on 27 November 2015 and designated as executive Director on 27 November 2015. Since 16 March 2015, Mr. Chau has been a director of Pismo Research (Malaysia) SDN. BHD.. Mr. Chau has over 18 years of experience in sales and marketing in information technology industry. Mr. Chau joined our Group in October 2007 as a manager of product management and marketing, and was then promoted to general manager in April 2008. He is responsible for product development, and managing and implementing sales and marketing strategies of our Group.

Mr. Chau graduated with a bachelor of science degree from The Chinese University of Hong Kong in December 1996, and obtained a degree of master of business administration at The Hong Kong University of Science and Technology in November 2006.

Mr. Yip Kai Kut Kenneth (葉繼吉) ("Mr. Yip"), aged 42, is our executive Director and patent counsel. Mr. Yip was appointed as executive Director on 27 November 2015. Mr. Yip has over 15 years experience in technology industry. He joined our Group in September 2011 as patent counsel. Mr. Yip has been qualified as a solicitor of Hong Kong since December 2010. He is responsible for overseeing the intellectual property and legal aspects of our Group.

Mr. Yip graduated with a bachelor's degree from University of Waterloo in electrical engineering in May 1997 and a master's degree from Leland Stanford Junior University in electrical engineering in January 1999. He obtained a master of laws degree in Chinese and Comparative Law from City University of Hong Kong in November 2004. He then studied as an external student and obtained a bachelor of laws degree from the University of London in August 2006, and later received a postgraduate certificate in laws from City University of Hong Kong in July 2008.

Mr. Chong Ming Pui (莊明沛) ("Mr. Chong"), aged 39, is our executive Director and director of hardware engineering. Mr. Chong was appointed as executive Director on 27 November 2015. Mr. Chong has over 11 years experience in hardware products developments. He is responsible for overall management of hardware development and purchasing and production of our Group. In January 2007, Mr. Chong joined our Group as a product development manager and then was promoted to director of hardware engineering in February 2011.

Profile of Directors and Company Secretary

Mr. Chong graduated with a bachelor of engineering degree in electrical energy systems engineering in November 2000 and obtained a master of science degree in engineering (communication engineering) in December 2004 from the University of Hong Kong.

Mr. Yeung Yu (楊瑜) ("Mr. Yeung"), aged 41, is our executive Director and director of software engineering. Mr. Yeung was appointed as executive Director on 27 November 2015. Mr. Yeung has over 16 years experience in software development industry. He is responsible for overall management of software development and quality assurance of our Group. In January 2007, Mr. Yeung joined our Group as a lead engineer of product development department and then was promoted to director of software engineering in February 2011.

Mr. Yeung graduated with a bachelor of science degree in electrical and computer engineering from the Ohio State University in March 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yu Kin Tim (余健添) ("Dr. Yu"), aged 59, was appointed as our independent non-executive Director on 21 June 2016. Dr. Yu is currently a director of Brighton Energy Hong Kong Ltd, a company that operates manufacturing facility for casting, forging, machining, fabricating and finishing the large steel components required for nuclear and conventional power generation, for petrochemical and coal liquefaction pressure vessels, and for other heavy industry uses. From May 2004 to October 2006, Dr. Yu became the managing director for North Asia of Allied Telesyn Hong Kong Limited, a provider of secure IP and Ethernet access solutions, and from November 2006 to May 2008 he served as the managing director of Blue Coat Systems HK Limited, a company provides services of business applications, network infrastructure and information technology solutions. He subsequently worked as a senior manager, channel and alliance in SAP Hong Kong Co. Limited, an enterprise application software provider with its headquarters in Germany, from July 2008 to May 2009. From June 2009 to January 2010 and from February 2010 to December 2014, Dr. Yu was general manager of engineering service group and the president of Brighton Equipment Corporation Limited, respectively, a company that provides pre-sale support, installation and after-sale support.

Dr. Yu received a higher diploma from The Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1981. He then obtained a master of business administration degree and a doctorate of business administration degree from The University of South Australia in December 1997 and December 2001, respectively.

Mr. Ho Chi Lam (何志霖) ("Mr. Ho"), aged 58, was appointed as our independent non-executive Director on 21 June 2016. Mr. Ho was employed by Cable & Wireless HKT Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 00008) (which was acquired by and merged to Pacific Century Cyberworks in 2000 and was renamed to PCCW-HKT Limited), a provider of telecommunications services in Hong Kong, from August 1980 to February 2000, and his last position was group manager, corporate planning and development department. He then joined SUNeVision Holdings Limited, a company listed on the growth enterprise market of the Stock Exchange (stock code: 08008), a company which provides services such as carrier-neutral data centre services, installation and maintenance of satellite distribution network, fibre-optic cable, networking and security surveillance systems, and consultancy service for wireless and broadband network projects, as

Profile of Directors and Company Secretary

a chief technology officer during its initial public offering in 2000 and appointed as an executive director in June 2000, and resigned from the same position in February 2001. Mr. Ho joined The Hong Kong and China Gas Company Limited, a company listed on the main board of the Stock Exchange (stock code: 00003), an energy supplier in Hong Kong, as a strategic programme manager of information technology department from August 2002 to October 2003. He later joined United Luminous International (Holdings) Limited, a company designs and manufactures sealed LED which are used for full colour video screens, information signs, traffic signals, automotive lighting, LED Backlights for LCD TV and specialty lighting, as a director of operation from June 2007 to February 2009. Mr. Ho has been a general manager of The Institute of Network Coding of The Chinese University of Hong Kong since April 2010.

Mr. Ho obtained a higher diploma in electronic engineering from The Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1978, a bachelor of science degree in engineering in November 1980 and master of science degree in engineering in November 1988 from The University of Hong Kong, and also completed extramural studies on a diploma course in business management from The Chinese University of Hong Kong in January 1986. He was admitted as a member and has become a fellow member of The Hong Kong Institution of Engineers since March 1986 and June 1996, respectively.

Mr. Wan Sze Chung (溫思聰) ("Mr. Wan"), aged 42, was appointed as our independent non-executive Director on 21 June 2016. Mr. Wan is currently the chief executive officer in Jacob Walery Limited, a company specialising in providing corporate consultancy and training, a position Mr. Wan has held since 1 March 2007, and an independent non-executive director of E.Bon Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 00599), since 27 September 2004 which is principally engaged in the supply of architectural hardware, bathroom, kitchen collection and designer furniture in Hong Kong. He also holds certain workshops at the Hong Kong Polytechnic University and the Hong Kong Institute of Certified Public Accountants.

Mr. Wan graduated with a bachelor degree of arts in accountancy from The Hong Kong Polytechnic University in November 1997 and a master of business administration degree from The Chinese University of Hong Kong in December 2002. He then obtained a bachelor of law from Tsinghua University in January 2006, a master of education degree from University of Newcastle upon Tyne, in July 2006, and a graduate diploma in management research from University of South Australia in August 2008. Mr. Wan is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants since April 2002 and April 2007, respectively. He is also a fellow of the Hong Kong Institute of Directors and an associate member of the Chartered Institute of Arbitrators since July 2012 and February 2003, respectively.

COMPANY SECRETARY

Ms. Ng Shun Ying (吳舜瑛) ("Ms. Ng"), aged 39, is our financial controller and company secretary. Ms. Ng joined our Group in January 2015. She has over 16 years of experience in accounting industry. She is responsible for overall management of finance and administration of our Group.

Ms. Ng graduated with a bachelor of arts degree in accountancy in the Hong Kong Polytechnic University in December 1999. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants since August 2008 and April 2008, respectively.

Directors' Report

The Board submits the Directors' Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are the designing, development and marketing of SD-WAN routers and provision of software licences and warranty and support services. The principal activities of the subsidiaries of the Company are set out in note 32 to the audited consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year is included in the Chairman's Statement on page 3 and Management Discussion and Analysis on pages 5 to 10 of this annual report. We monitor core net profit, which is not a standard measure under Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, to provide additional information about our business performance. Core net profit represents our profit for the year attributable to owners of the Company before listing expenses and equity-settled share-based payment expenses. We have chosen to use core net profit because our management does not take listing expenses and equity-settled share-based payment expenses into account when evaluating our business performance, making planning decisions and allocating resources.

Subsequent to the end of the reporting period, the pledged bank deposit of approximately US$129,000 as at 31 December 2016 was released and replaced by two mortgaged properties in February 2017.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2015. In preparation of the listing of the Company's shares on the Stock Exchange, the Group underwent the reorganisation pursuant to which the Company became the holding company of the companies now comprising the Group (the "Group Reorganisation"). For details of the Group Reorganisation, please refer to "History, Reorganisation and Corporate Structure — Reorganisation" in the Prospectus.

The Company's shares have been listed on the Stock Exchange since the Listing Date.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 52 of this annual report.

During the year ended 31 December 2016, dividends recognised as distributions were as follows:

	2016 **US$'000**	2015 US$'000
2016 Interim dividend for ordinary shareholders of the Company of HK1.73 cents per share (2015: 2015 Interim dividends (Note))	**2,230**	2,800
2015 Final dividend (Note)	**998**	—
	3,228	2,800

Directors' Report

The Board has determined that a second interim dividend of HK1.93 cents per ordinary share for the year ended 31 December 2016, in an aggregate amount of approximately US$2,488,000, be payable on 23 March 2017 to the shareholders whose names appear in the Company's register of members on 15 March 2017.

Note: A subsidiary of the Company distributed interim dividends of approximately US$2,800,000 and a final dividend of approximately US$998,000 for the year ended 31 December 2015, respectively, to its then shareholder prior to the Group Reorganisation.

Closure of register of members for 2016 second interim dividend

The register of members of the Company will be closed on Wednesday, 15 March 2017 for the purpose of determining the entitlement to the 2016 second interim dividend. The record date for entitlement to receive the 2016 second interim dividend is Wednesday, 15 March 2017. In order to be qualified for the 2016 second 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 March 2017. The cheques for dividend payment will be sent on Thursday, 23 March 2017.

FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and equity of the Group for each of the four years ended 31 December 2016 is set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2016, calculated under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands, amounted to approximately US$2.60 million (2015: approximately US$-1.0 million).

SHARES ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2016 are set out in note 23 to the audited consolidated financial statements.

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 year ended 31 December 2016.

Directors' Report

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors
Mr. Chan Wing Hong Alex *(Chairman)*
Mr. Chau Kit Wai
Mr. Yip Kai Kut Kenneth
Mr. Chong Ming Pui
Mr. Yeung Yu

Independent non-executive Directors
Dr. Yu Kin Tim (appointed on 21 June 2016)
Mr. Ho Chi Lam (appointed on 21 June 2016)
Mr. Wan Sze Chung (appointed on 21 June 2016)

In accordance with articles 108 and 109 of the articles of association of the Company. Dr. Yu Kin Tim and Mr. Ho Chi Lam, both being independent non-executive Directors and Mr. Yip Kai Kut Kenneth as an executive Director, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Company considered all of the independent non-executive Directors to be independent.

DIRECTORS' AND COMPANY SECRETARY'S BIOGRAPHIES

Biographical details of the Directors and Company Secretary of the Company are set out on pages 28 to 30 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for transactions in connection with the Group Reorganisation in preparation for the Listing as disclosed in the Prospectus and save for disclosed elsewhere in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director or controlling shareholders of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

MANAGEMENT CONTRACTS

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

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

At 31 December 2016, 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 ordinary shares of the Company interested	Number of underlying ordinary shares held under Share Option Scheme	Approximate percentage of shareholding
				%
Chan Wing Hong Alex	Beneficial owner	750,000,000	6,000,000	75.6
Chau Kit Wai	Beneficial owner	—	6,000,000	0.6
Yip Kai Kut Kenneth	Beneficial owner	—	6,000,000	0.6
Chong Ming Pui	Beneficial owner	—	6,000,000	0.6
Yeung Yu	Beneficial owner	—	6,000,000	0.6

Save as disclosed above, as of the date of this 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 Director's interests in the 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 from the Listing Date to 31 December 2016 was the Group a party to any arrangements to enable the Directors 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 year ended 31 December 2016 are as follows:

				Number of shares issuable under the share options				
Grantee	**Date of grant**	**Exercise price per share**	**Exercise period** (note 2)	**As at 1 January 2016**	**Granted during the year** (note 3)	**Exercised during the year**	**Lapsed/ cancelled during the year**	**As at 31 December 2016**
Directors								
Mr. Chan Wing Hong Alex (note 1)	20/7/2016	HK$0.483	20/7/2016–19/7/2021	–	6,000,000	–	–	6,000,000
Mr. Chau Kit Wai	20/7/2016	HK$0.483	20/7/2016–19/7/2021	–	6,000,000	–	–	6,000,000
Mr. Yip Kai Kut Kenneth	20/7/2016	HK$0.483	20/7/2016–19/7/2021	–	6,000,000	–	–	6,000,000
Mr. Chong Ming Pui	20/7/2016	HK$0.483	20/7/2016–19/7/2021	–	6,000,000	–	–	6,000,000
Mr. Yeung Yu	20/7/2016	HK$0.483	20/7/2016–19/7/2021	–	6,000,000	–	–	6,000,000
Consultants of the Group in aggregate	20/7/2016	HK$0.483	20/7/2016-19/7/2021	–	2,700,000	–	–	2,700,000
Employees of the Group in aggregate	20/7/2016	HK$0.483	20/7/2016–19/7/2021	–	46,000,000	–	(700,000) (Note 4)	45,300,000
			Total:	–	78,700,000	–	(700,000)	78,000,000

Directors' Report

Note:

1. Mr. Chan Wing Hong Alex is also a controlling shareholder of the Company.

2. All the share options granted under the Share Option Scheme are subject to the following vesting period: 25% of the share options are exercisable from 20 July 2017 to 19 July 2021, 25% of the share options are exercisable from 20 July 2018 to 19 July 2021, 25% of the share options are exercisable from 20 July 2019 to 19 July 2021 and 25% of the share options are exercisable from 20 July 2020 to 19 July 2021.

3. The closing price of the Share immediately before the date on which the options were granted was HK$0.460.

4. The 700,000 share options held by employees were lapsed due to cessation of the relevant options holders as eligible person by reason of resignation of employment.

Further details of the Share Option Scheme are set out in note 29 to the audited consolidated financial statements.

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 BUSINESS

During the year ended 31 December 2016, 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the Group's five largest customers in aggregate accounted for approximately 39.5% of the Group's total revenue (2015: approximately 39.7%) and the largest customer accounted for approximately 23.8% of the Group's total revenue (2015: approximately 20.5%).

During the year ended 31 December 2016, the Group's five largest suppliers in aggregate accounted for approximately 67.5% of the Group's total purchase (2015: approximately 77.4%) and the largest supplier accounted for approximately 22.9% of the Group's total purchase (2015: approximately 37.3%).

To the best of the knowledge of the Directors, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the Group's five largest customers and suppliers.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year ended 31 December 2016 set out in note 27 to the consolidated financial statements included transactions that constitute continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied with.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016, the following transactions between the connected person(s) (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant disclosure had been made by the Company in the Prospectus or disclosed by way of announcement in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Pegatrack Limited, our wholly-owned subsidiary, as tenant, has entered into the following tenancy agreements which are required to be disclosed in this annual report:

Date of Transaction	Landlord	Location	Gross area	Term	Annual rent payable	Purpose of property	Rental paid during the year ended 31 December 2016
29 January 2016	Open Gain Limited	Unit A2, 5/F, Hong Kong Spinners Industrial Building, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Kowloon	1,276 sq.ft.	1 February 2016 to 31 December 2018	2016: HK$220,000 2017: HK$264,000 2018: HK$290,400	Product development	HK$220,000
29 January 2016	PBS Ventures Limited	Unit A5, 5/F, Hong Kong Spinners Industrial Building, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Kowloon	2,953 sq.ft.	1 February 2016 to 31 December 2018	2016: HK$484,000 2017: HK$580,800 2018: HK$638,880	Office and product development	HK$484,000
29 January 2016	Nice Achieve Limited	Unit A6, 5/F, Hong Kong Spinners Industrial Building, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Kowloon	1,844 sq.ft.	1 February 2016 to 31 December 2018	2016: HK$308,000 2017: HK$369,600 2018: HK$406,560	Office and product development	HK$308,000

Directors' Report

Date of Transaction	Landlord	Location	Gross area	Term	Annual rent payable	Purpose of property	Rental paid during the year ended 31 December 2016
29 January 2016	Perfect Giant Limited	Unit A7, 5/F, Hong Kong Spinners Industrial Building, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Kowloon	2,083 sq.ft.	1 February 2016 to 31 December 2018	2016: HK$341,000 2017: HK$409,200 2018: HK$450,120	Office and product development	HK$341,000
29 January 2016	Talent Trend International Limited	Unit A8, 5/F, Hong Kong Spinners Industrial Building, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Kowloon	2,083 sq.ft.	1 February 2016 to 31 December 2018	2016: HK$341,000 2017: HK$409,200 2018: HK$450,120	Office and product development	HK$341,000
29 January 2016	Advance Action Limited	Unit A9, 5/F, Hong Kong Spinners Industrial Building, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Kowloon	2,083 sq,ft.	1 February 2016 to 31 December 2018	2016: HK$341,000 2017: HK$409,200 2018: HK$450,120	Office	HK$341,000
29 January 2016	Plan Smart Limited	Unit B, 5/F, Dragon Industrial Building, 93 King Lam Street, Cheung Sha Wan, Kowloon	7,323 sq.ft.	1 February 2016 to 31 December 2018	2016: HK$902,000 2017: HK$1,082,400 2018: HK$1,190,640	Office and warehouse	HK$902,000
1 August 2016	Rise Gold Limited	Unit A on the 5th Floor of Dragon Industrial Building, 93 King Lam Street, Cheung Sha Wan, Kowloon, Hong Kong	7,012 sq.ft.	1 August 2016 to 31 December 2018	2016: HK$392,500 2017: HK$1,036,800 2018: HK$1,140,000	Office and warehouse	HK$392,500
1 August 2016	Real Energy Limited	Unit A1 on the 5th Floor of Hong Kong Spinners Industrial Building Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong	1,077 sq.ft.	1 August 2016 to 31 December 2018	2016: HK$80,000 2017: HK$211,200 2018: HK$232,320	Office	HK$80,000

Directors' Report

Open Gain Limited, PBS Ventures Limited, Nice Achieve Limited, Perfect Giant Limited, Talent Trend International Limited, Advance Action Limited, Plan Smart Limited, Rise Gold Limited and Real Energy Limited (collectively, the "Landlord Companies") are wholly owned by Mr. Chan Wing Hong Alex, the controlling shareholder of the Company and executive Director. Therefore, each of Mr. Chan Wing Hong Alex and the Landlord Companies is a connected person of our Company for the purposes of the Listing Rules.

Directors' Confirmation

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Review by the Company's auditor

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to perform certain review procedures in order to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Our auditor has issued his unmodified independent assurance report on continuing connected transactions disclosed by the Group in pages 37 to 38 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the independent assurance report has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules from the Listing Date and up to the date of this annual report.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 17 to 27 of this annual report.

Directors' Report

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director for the time being of the Company shall be entitled to be indemnified out of assets of the Company against all losses or liabilities incurred or sustained by him as a Director about the execution of the duties of his office or otherwise in relation thereto provided that such indemnity shall not extend to any matter in respect of fraud or dishonesty which may attach to the Director.

The Company has taken out and maintained appropriate Directors' liability insurance coverage for the Directors.

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "Share Option Scheme", no equity-linked agreements were entered into during the year or subsisted at the end of the year ended 31 December 2016.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the pledged bank deposit of approximately US$129,000 as at 31 December 2016 was released and replaced by two mortgaged properties in February 2017.

Other than the above, there is no other material subsequent event undertaken by the Company or by the Group after 31 December 2016 and up to the date of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu who will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Chan Wing Hong Alex
Chairman

Hong Kong, 28 February 2017

Environmental, Social and Governance Report

The board (the "Board") of directors (the "Director(s)") of Plover Bay Technologies Limited (the "Company", together with its subsidiaries, the "Group" or "we" or "our" or "us") is pleased to present this report setting out matters relating to the environmental, social and governance ("ESG") of the Group for the period from 13 July 2016, the date of listing of the Company (the "Listing Date"), to 31 December 2016 (the "year") with reference to the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

ENVIRONMENTAL

The Group undertakes environmental protection as part of its corporate responsibilities, and it is fully aware of the importance of sustainable environmental development in achieving sustainability in its operations. We focus on integrating environmental objectives into our business decisions in a cost-effective manner and enhancing awareness of environmental and resource efficiency issues amongst suppliers, staff and stakeholders in the respective areas. The Group has started monitoring the carbon emission with reference made according to the guidelines of Environmental Protection Department in Hong Kong and The Greenhouse Gas (GHG) Protocol developed by World Resources Institute and World Business Council on Sustainable Development.

Type of emissions the Group has involved in the year was mainly electricity, paper and non-hazardous waste.

Materials

Packaging materials are the major resources we use which may affect the environment. The Group continuously monitor the packaging materials procurement by expanding the items with sustainable attributes. The policy of reusing packaging materials is also adopted during the year for products after repair or replacement products sending to customers in order to reduce GHG emissions and non-hazardous waste.

Proposed 2017

- Reduce GHG emissions and non-hazardous waste by increasing the use of recycled materials and/or biodegradable materials
- Periodically review our inventory and evaluate the usage of material to avoid over-stocking.

Electricity consumption

The Group is committed to reducing and utilising the energy consumption. Energy-saving measures are implemented over the workplace as follows:

- Encourage staff to switch off equipment while they leave office or turn to energy-saving mode
- Switch off the lights and air conditioners in conference rooms and common areas after meetings

Environmental, Social and Governance Report

- Consider energy efficiency as the first priority when we purchase electrical appliances. Air conditioners with the best grade according to the Mandatory Energy Efficiency Labelling Scheme in Hong Kong are purchased.

Proposed 2017

The Group will start replacing T8 tubes with T5 tubes gradually, reducing the number of tubes and lowering the light troughs' level in our workplace in 2017.

Paper consumption

The Group continues to practise paper saving initiatives. In order to reduce paper consumption, the Group had adopted the followings during the year:

- Electronic communication internally
- Efax systems
- Electronic document filing system
- Reducing printed marketing materials by sending newsletter in electronic mails
- Encourage staff to reuse paper for internal documentation, print on both sides and few pages per sheet

Environmental awareness

Greenhouse effect is impacting the world and the resilience of ecosystems. The Group inspires and supports the employee to be mindful of how to reduce environmental impact in their daily lives and support by taking action to reduce consumption and waste including:

- Three-colour recycle bins are set in the lobby with the building management company to collect paper, aluminium cans and plastic bottles for recycling
- Out-dated computer equipment such as computers and notebooks will be repaired and donated to Caritas Computer Workshop and Hong Kong WEEE Recycling Association
- Video conferencing are encouraged in order to reduce GHG emission by travelling
- Encourage employees to join campaign organised by non-profit organisations

SOCIAL

Employment and labour practices

The Group implements comprehensive mechanisms to ensure that high standard of ethical business practices are adopted. Our staff handbook sets out the Group's working hours, rest breaks, holidays, leave entitlements as well as termination of employment and compensation matters. The Group hires diverse human resources, regardless of nationality, gender, age or religion and strictly prohibits discrimination of any kind by maintaining an equal opportunity work environment to our employees. Employees are hired based on their abilities to perform their professional duties. During the year, we strictly comply with local laws and regulations concerning employment, health and safety at work.

The Group aims to offer competitive remuneration packages and conduct regular reviews to ensure that we can attract and retain the best talents. We have established a system of appraisal which all employees undergo each year. Salary increments are made based on appraisal results. We also help our employees to set three-to-five-year career plans, development and training.

For benefits, aside from basic pension, medical insurance, special occasion paid leave are provided. Pregnant employees are entitled to maternity leave while male employees are also entitled to paternity leave as set out by regulations. Flexible working hours has implemented since 2010, employees could have more flexibility in balancing their family obligations and work duties.

Health and safety

As employees are valuable asset, we value their health and safety. The Group is always committed to maintaining a safe working environment and making continued and sustainable improvements in our safety performance. In order to minimise workplace incidents, preventive and corrective measures are implemented, including installing air purifiers in the workplace to remove harmful particles like dust, virus with sufficient air flow rate, regularly reviewing the employees' health and safety procedure to safeguard employees' well-being, providing and maintaining safe access to and egress from workplaces, and providing news and tips to employees to raise their awareness on health and safety. We have joined the "Joyful@Healthy Workplace" Program organised by the Department of Health and The Occupational Safety and Health Council to improve the well being of our employees. We also provide fresh fruit on a weekly basis to encourage our employees to have a healthy diet.

Employee training

To aid new hires understand our culture and get familiar with the new working environment, all new staff are required to undergo the orientation as follows:

- Basic knowledge about the Group's corporate culture, operations, business performance and development
- Professional ethics and basic business protocol

Environmental, Social and Governance Report

- Professional knowledge and skills for appointed position, duties and operational procedure and production safety etc.

In addition to internal orientation, we also encourage and support employees taking training courses and workshops that are relevant to their roles at external organisations in order to strengthen their existing job skills and knowledge.

Labour standard

No child nor forced labour has been identified within the Group during the year.

The recruitment process is strictly abided by the guidelines of the Group's human resource department. Every job applicant is required to fill in their information in a recruitment questionnaire, which is checked by human resource department to ensure information's accuracy and avoid child and forced labour during the recruitment process.

Supply chain management

In order to provide top quality products to our customers, we have responsible employees for supply chain management. They are responsible for the selection of raw materials and components including electronic components, printed circuit board assembly, packaging materials and wireless communication modules supplied by different contract manufacturers and suppliers. In the selection of suppliers, we have a comprehensive supplier approval process in which we only choose suppliers that are reliable, experienced and reputable in the industry. We will also perform quality control tests on the raw materials and components.

Product responsibility

We take our product safety obligations seriously so as to meet the regulatory standards in relation to health and safety, fair advertising and labelling that are applicable to our products and services. During the year, our products obtained recognised certificates and strictly complied with the applicable regulations and local laws. In this connection, we conduct regular reviews of our product designs and production, implement different tests and review the quality of our products to ensure our products meet the relevant standards. We have also established a system for collecting our customers' feedback on our products and services so that we can improve the quality of our products and services. We are responsible for defective products. Customers are allowed to return for repair and replacement within warranty period.

Intellectual property rights

Our intellectual property rights are crucial to us as we rely on our proprietary technologies and recognition of our brands and products. We believe that in order to maintain our competitiveness in the market, we must develop and protect the intellectual property rights of our technologies, products and services. We have established an in-house patent team that devotes its efforts to protecting our rights.

Environmental, Social and Governance Report

We rely primarily on intellectual property laws and contractual arrangements with our employees, business partners and other parties to protect our intellectual property rights. Our employees are required to enter into employment agreements where they are required to keep confidential relating to our intellectual property and trade secrets. Intellectual property rights associated with the technological achievements developed by our employees during the course of their employment with our Group belong to us.

Customer data protection

We are also committed to safeguarding the security of customers' personal data. Our employees are required to enter into employment contracts which typically include a confidentiality provision to safeguard the security of our customers' data. During the year ended 31 December 2016, we were not aware of any breach relating to the confidentiality provision by our employees.

Anti-corruption

We have established policies and procedures to identify corruption risks and strictly monitor the operations of the Group in all forms of corruption including money laundering, bribery, extortion and fraud. Code of conduct in relation to anti-corruption is provided to our employees. If any employee does not know how to deal with a situation in a manner that complies with the code of conduct such as in the case of conflict of interest, financial dealings or relationship with related parties, they are encouraged to seek further advice.

The Group has complied throughout the year relevant laws and regulations in relation to bribery, extortion, fraud and money laundering.

COMMUNITY INVESTMENT

Encourage community engagement

We consider social responsibility as indispensable to our business. Volunteer activities are an important way for our employees to pay back to the society. We support and encourage our employees to devote themselves to all kinds of volunteer activities and contribute their strengths to the development of the community every year.

Create local job opportunities

We are committed to creating job opportunities in areas where we have established a healthy and harmonic environment for employees, in addition to providing on-the-job training and helping them develop their careers.

Workshop to educate students

We organise certain Internet connectivity technology workshops with schools and colleges, providing opportunities for students to discuss and explore our innovations.

Environmental, Social and Governance Report

Local youth employment program

We recognise that attracting smart and talented candidates is important for the sustained growth of the Group. We regularly organise recruitment talks at local universities and institutions. We believe in investing in young persons, that by encouraging them to find their passion, they could in return offer us their perspectives and fresh ideas. This program not only helps graduates gain practical working experience and develop their career skills, but also enhances the local workforce as a whole. The Group will continuously support local youth employment programs in the local communities where we operate.

Nourish an innovative environment

In order to nourish an innovative environment and stay ahead of the latest trends and developments in the industry, we support and sponsor various technology forums, awards and competitions around the world. In 2016, we sponsored a technology competition in Hong Kong, which provided a platform for the developers, programmers and designers to exchange ideas about their innovative designs and technologies.

Charity

We continue to support and encourage our employees to contribute to charities locally and nationally through donations or volunteering.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF PLOVER BAY TECHNOLOGIES LIMITED
珩灣科技有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Plover Bay Technologies Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 52 to 106, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified the revenue recognition of the Group's bundled transactions under contract with customers including sales of both services and products as a key audit matter due to management judgment is required in determining the obligations and identifying the product and service's elements in the contracts and allocate the transaction price to each obligation and element on the basis of the relative fair value of each distinct product or service included in the contract. As disclosed in note 5 to the consolidated financial statements, the Group's revenue is US$28,358,000 (2015: US$21,859,000) for the year ended 31 December 2016, comprising revenue from sales of products of US$21,978,000 (2015: US$17,672,000), warranty and support services of US$5,189,000 (2015: US$3,905,000), software licences of US$1,191,000 (2015: US$282,000). In recognising the revenue from the respective obligations or elements, the management is required to distinct the product and service provided in the contract, and allocated the transaction price to each obligation in proportion to its relative fair value (i.e. stand-alone selling price). Where the management is unable to determine the stand-alone selling price, the management uses the residual value method. Under this method, the management estimates the stand-alone selling price by reference to the total contract consideration less the sum of the observable stand-alone selling prices of other elements.	Our procedures in relation to revenue recognition of the Group's bundled transactions under contract with customers included: • understanding the revenue recognition policy of bundled transactions; • understanding and testing the entity's key control in relation to the transaction flow of revenue; • obtaining the list of stand-alone selling price prepared by the management and assessing the validity of the list of stand-alone selling price of the product, software, warranty and support services with reference to the observable stand-alone selling prices of each of respective elements when the Group sells that product, software or/and services separately in similar circumstances and to similar customers; and • assessing the reasonableness of estimated amount of each of the hardware, software and service elements of the contract by reference to the market information.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We identified the valuation of inventories as a key audit matter due to management judgment is required in making an assessment of the adequacy of the impairment provision for those obsolete or/ and slow-moving inventories being identified as no longer suitable for use in production nor saleable in the market as a result of change in the market conditions and technology. As disclosed in note 15 to the consolidated financial statements, the Group held inventories of US$6,678,000 (2015: US$4,138,000). In determining the impairment provision of inventories, the management considers the aging analysis, estimation of the net realisable value of items of inventory, and the movements and usefulness of items of inventory.	Our procedures in relation to valuation of inventories included: • obtaining an understanding of how inventory provision is estimated by the management; • understanding and testing the entity's key control in relation to the identification of aged, obsolete and slow-moving inventories as well as the preparation of aging analysis of inventories; • testing the aging analysis of inventories by applying the computer-aided audit tools; • discussing with the management and evaluating their assessment on the estimation of the net realisable value of items of inventory for those obsolete or/and slow-moving inventories without/with little utilisation or movement during the year or subsequent to the end of the reporting period; and • assessing the reasonableness of the estimation of the net realisable value of items of inventory with reference to the movements and usefulness of items of inventory, bill-of-materials of products, subsequent usage and aging analysis of each individual part of inventories.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Mr. Lau Ngai Kee, Ricky.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 February 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	2016 US$'000	2015 US$'000
Revenue	5	**28,358**	21,859
Cost of sales		**(10,413)**	(9,166)
Gross profit		**17,945**	12,693
Other income	6	**104**	69
Selling and distribution expenses		**(1,697)**	(1,003)
Administrative expenses		**(3,412)**	(2,710)
Research and development expenses		**(4,990)**	(3,907)
Listing expenses		**(1,252)**	(1,001)
Finance costs	7	**(23)**	(1)
Profit before taxation	8	**6,675**	4,140
Income tax expenses	9	**(1,435)**	(783)
Profit for the year		**5,240**	3,357
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**13**	58
Total comprehensive income for the year		**5,253**	3,415
Profit for the year attributable to owners of the Company		**5,240**	3,357
Total comprehensive income for the year attributable to owners of the Company		**5,253**	3,415
Earnings per share (US cents)	12		
Basic		**0.60**	0.45

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016 US$'000	2015 US$'000
Non-current assets			
Property, plant and equipment	13	**694**	556
Intangible assets	14	**383**	277
Deposits paid for acquisition of property, plant and equipment		**106**	—
Total non-current assets		**1,183**	833
Current assets			
Inventories	15	**6,678**	4,138
Trade and other receivables	16	**5,315**	3,857
Amounts due from related companies	17	**—**	459
Pledged bank deposit	18	**129**	—
Bank balances and cash	18	**19,193**	6,062
Total current assets		**31,315**	14,516
Current liabilities			
Trade and other payables	19	**1,884**	1,045
Amount due to a Director	17	**—**	1,794
Amounts due to related companies	17	**—**	15
Deferred revenue	20	**3,551**	2,852
Tax liabilities		**1,589**	516
Bank borrowings	21	**318**	1,238
Total current liabilities		**7,342**	7,460
Net current assets		**23,973**	7,056
Total assets less current liabilities		**25,156**	7,889
Non-current liabilities			
Deferred tax liabilities	22	**56**	40
Deferred revenue	20	**854**	736
Total non-current liabilities		**910**	776
Net assets		**24,246**	7,113
Capital and reserves			
Share capital	23	**1,288**	—
Share premium and other reserves		**22,958**	7,113
Equity attributable to owners of the Company		**24,246**	7,113

The consolidated financial statements on pages 52 to 106 are approved and authorised for issue by the Board of Directors on 28 February 2017 and are signed on its behalf by:

CHAN WING HONG ALEX
DIRECTOR

CHAU KIT WAI
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company						
	Share capital US$'000	**Share premium** US$'000	**Capital reserve** US$'000 (Note)	**Exchange reserve** US$'000	**Share options reserve** US$'000	**Retained earnings** US$'000	**Total** US$'000
At 1 January 2015	–	–	98	6	–	6,492	6,596
Other comprehensive income for the year	–	–	–	58	–	–	58
Profit for the year	–	–	–	–	–	3,357	3,357
Profit and total comprehensive income for the year	–	–	–	58	–	3,357	3,415
Dividends recognised as distributions (see note 11)	–	–	–	–	–	(2,800)	(2,800)
Issue of a new share (see note 23a)	–	–	–	–	–	–	–
Deemed distribution to a shareholder	–	–	(98)	–	–	–	(98)
At 31 December 2015	**–**	**–**	**–**	**64**	**–**	**7,049**	**7,113**
Other comprehensive income for the year	**–**	**–**	**–**	**13**	**–**	**–**	**13**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**5,240**	**5,240**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**13**	**–**	**5,240**	**5,253**
Capitalisation issue (see note 23d)	**966**	**(966)**	**–**	**–**	**–**	**–**	**–**
Issue of shares upon global offering (see note 23e)	**322**	**15,789**	**–**	**–**	**–**	**–**	**16,111**
Transaction costs attributable to issue of shares	**–**	**(1,410)**	**–**	**–**	**–**	**–**	**(1,410)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**407**	**–**	**407**
Dividends recognised as distributions (see note 11)	**–**	**–**	**–**	**–**	**–**	**(3,228)**	**(3,228)**
At 31 December 2016	**1,288**	**13,413**	**–**	**77**	**407**	**9,061**	**24,246**

Note: The capital reserve of the Group as at 1 January 2015 represented the nominal values of the share capital of Pepwave Limited, Peplink International Limited, Pismo Labs Limited, Pismo Labs Technology Limited, Pismo Research (Malaysia) Sdn. Bhd. and Peplink Worldwide Limited.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 US$'000	2015 US$'000
OPERATING ACTIVITIES		
Profit before taxation	**6,675**	4,140
Adjustments for:		
Amortisation of intangible assets	**153**	78
Depreciation of property, plant and equipment	**292**	254
Provision of inventories	**20**	36
Interest expenses	**23**	1
Allowance for doubtful debts	**39**	—
Loss on disposal of property, plant and equipment	**32**	—
Equity-settled share-based payment expenses	**407**	—
Operating cash flows before movements in working capital	**7,641**	4,509
Increase in inventories	**(2,560)**	(523)
Increase in trade and other receivables	**(1,497)**	(529)
(Decrease) increase in amounts due to related companies	**(474)**	70
Increase (decrease) in trade and other payables	**839**	(939)
Increase in deferred revenue	**817**	1,209
Cash generated from operations	**4,766**	3,797
Income tax paid	**(346)**	(777)
NET CASH FROM OPERATING ACTIVITIES	**4,420**	3,020
INVESTING ACTIVITIES		
Additions to intangible assets	**(240)**	(265)
Purchases of property, plant and equipment	**(462)**	(215)
Deposits paid for acquisition of property, plant and equipment	**(106)**	—
Placement of a pledged bank deposit	**(129)**	—
Repayment of borrowings on behalf of related companies	**—**	(516)
Advances to related companies	**—**	(39)
Receipts on advances to related companies	**—**	119
NET CASH USED IN INVESTING ACTIVITIES	**(937)**	(916)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 US$'000	2015 US$'000
FINANCING ACTIVITIES		
Dividends paid	**(3,228)**	(2,800)
Interest paid	**(23)**	(1)
New bank loans raised	**318**	1,238
Repayment of bank borrowings	**(1,238)**	—
Repayment of advances from a director	**(1,794)**	(362)
Advances from a director	**—**	2,155
Repayment of advances from related companies	**—**	(45)
Advances from related companies	**918**	17
Proceeds from issue of new shares	**16,111**	—
Transaction costs attributable to issue of shares	**(1,410)**	—
NET CASH FROM FINANCING ACTIVITIES	**9,654**	202
NET INCREASE IN CASH AND CASH EQUIVALENTS	**13,137**	2,306
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**6,062**	3,696
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(6)**	60
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**19,193**	6,062

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2015 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2016. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report. The immediate and ultimate controlling party of the Company is Mr. Chan Wing Hong Alex ("Mr. Chan").

The Company is an investment holding company. The principal activities of its subsidiaries are the designing, development and marketing of software defined wide area network (the "SD-WAN") routers and provision of software licences and warranty and support services.

The consolidated financial statements are presented in United States dollars ("US$"), which is also the Company's functional currency.

In preparation for the listing of the Company's shares on the Stock Exchange (the "Listing"), the Company and its subsidiaries (the "Group") underwent a group reorganisation (the "Group Reorganisation"), which involves interspersing the Company between Protean Holdings Limited ("Protean Holdings") (the then holding company of the Group's subsidiaries before the Group Reorganisation) and its shareholder. The sole shareholder of Protean Holdings was Mr. Chan. Details of the Group Reorganisation are set out in the paragraph headed "Reorganisation" in Appendix IV to the prospectus dated 30 June 2016 issued by the Company (the "Prospectus").

The Group resulting from the Group Reorganisation is regarded as a continuing entity and the consolidated financial statements of the Group have been prepared as if the Company had been the holding company of Protean Holdings and its subsidiaries throughout the reporting periods.

The Group Reorganisation was completed on 15 June 2016 and since then, the Company became the holding company of the companies comprising the Group (the "Combined Entities"). The Combined Entities and the Company are under common control of Mr. Chan before and after the Group Reorganisation. Therefore, the acquisition of the Combined Entities is accounted for as business combination under common control by applying the principle of merger accounting.

The consolidated financial statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows of Group for the years include the results, changes in equity and cash flows of the Combined Entities as if the current group structure had been in existence throughout the years, or since their respective dates of incorporation, where there is a shorter period.

The consolidation financial statements of financial position of the Group as at 31 December 2015 have been prepared to present the assets and liabilities of the Combined Entities as if the current group structure had been in existence at those dates taking into account the respective dates of incorporation where applicable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied for the first time in current year the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 16 "Leases" (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of US$1,344,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of Company anticipated that the application of other new and amendments to HKFRSs will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "Companies Ordinance").

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or business first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Merger accounting for business combination involving entities under common control (Continued)

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and service provided in the normal course of business, net of discounts and sales related taxes.

The Group's turnover includes, separately or in combination, revenues from sale of SD-WAN routers and provision of software licences and warranty and support services.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Sale of hardware product and software licence

The Group's sale arrangement typically includes multiple elements which comprise product sold, software, undelivered warranty and support services. The revenue is allocated based on the transaction price to each obligations from these multiple elements in proportion to its relative fair value (i.e. stand-alone selling price) identified from distinguishing the product and service provided in the contract, and the relative fair value is determined based on the current market price of these elements when sold separately. Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group estimates the stand-alone selling price by reference to the total contract consideration less the sum of the observable stand-alone selling prices of other elements.

The Group recognises revenue from the sale of hardware product together with the element of software bundled with hardware that is essential to the functionality of the hardware. Revenue allocated to the delivered hardware products and the related essential software is recognised at the time of the delivery of hardware product.

For the Group's sale of software licence, revenue from sale of stand-alone software licences is recognised at the time of delivery.

Cost of sales related to delivered hardware product and software licence are recognised at the time of delivery.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Provision of warranty and support services

Service revenue is recognised when services are rendered or recognised over the period of the warranty and support services (including cloud based device management services, embedded firmware upgrade rights and hardware maintenance) expected to be provided for each of the devices sold.

Revenue allocated to the undelivered warranty and support services is deferred and recognised on a straight-line basis over the estimated period of the warranty and support services are expected to be provided for each of these devices, which ranges from one to three years.

Costs incurred to provide warranty and support services are recognised as cost of sales as incurred, and engineering and sales and marketing costs are recognised as operating expenses as incurred.

The Group records deferred revenue when it receives payments in advance of the performance of relevant services.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency of the Group (i.e. US$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated financial statements when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, pledged bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets carried at amortised cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables, amount due to a director, amounts due to related companies and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgment in applying accounting policies

The following is the critical judgment, that the directors have made in the process of applying the Group's accounting policies and that has a significant effect on the amount recognised in the consolidated financial statements.

Development costs

Careful judgment by the Group's management is applied when deciding whether the recognition requirements for intangible assets arising from development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at the time of incurrence of such costs.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allocation of revenue for bundled transactions with customers

The Group has bundled transactions under contract with customers including sales of both products and services. The amount of revenue recognised upon the sale of products is determined by considering the estimated fair value of each of the obligations from the product element and service element of the contract. Significant judgment is required in determining the obligations and identifying the elements in the contracts and allocate the transaction price to each obligation and the elements on the basis of the relative fair value of each distinct product or service element included in the contract.

Estimated useful lives of intangible assets

The Group's management determines the estimated useful lives and related amortisation charges and impairment for its intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry activities.

Actual economic lives may differ from estimated useful lives. If the actual useful lives of intangible assets are less than the original estimated useful lives due to changes in commercial and technological environment, such difference may result in impairment and will impact the amortisation charges for the remaining periods.

As at 31 December 2016, the carrying amount of intangible assets is US$383,000 (2015: US$277,000). Details of the useful lives of the intangible assets are disclosed in note 14.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Estimated allowance for doubtful receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowance is applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts in the period in which such estimate has changed. As at 31 December 2016, the carrying amounts of trade receivables are US$3,947,000 (net of allowance of US$79,000) (2015: US$2,702,000 (net of allowance of US$43,000)).

Allowance for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that the net realisable value is lower than the cost. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, a write-off or write-down of inventories may arise. As at 31 December 2016, the carrying amounts of inventories are US$6,678,000 (net of allowance of US$231,000) (2015: US$4,138,000 (net of allowance of US$373,000)).

5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in designing, development, marketing and sale of SD-WAN routers and provision of software licences and warranty and support services. Information reported to the chief operating decision maker (the "CODM"), being the executive directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered and services provided. Software licences and warranty and support services are aggregated into a single reportable segment as they have similar economic characteristics.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Sale of SD-WAN routers	—	Sales of wired routers bundled together with embedded software and firmware
	—	Sales of wireless routers bundled together with embedded software and firmware
Software licences and warranty and support services	—	Including provision of warranty and support services over the expected service period, and stand-alone sale of software licences

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 3.

Segment information about these reportable and operating segments is presented below:

Year ended 31 December 2016

	Sale of SD-WAN routers		Software licences and warranty and support services	Total
	Wired routers US$'000	Wireless routers US$'000	US$'000	US$'000
External sales and segment revenue	**7,687**	**14,291**	**6,380**	**28,358**
Segment profit	**3,825**	**4,405**	**4,572**	**12,802**
Other income				**104**
Selling and distribution expenses				**(1,697)**
Unallocated administrative expenses				**(3,259)**
Listing expenses				**(1,252)**
Finance costs				**(23)**
Profit before taxation				**6,675**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015

	Sale of SD-WAN routers		Software licences and warranty and support services	Total
	Wired routers US$'000	Wireless routers US$'000	US$'000	US$'000
External sales and segment revenue	6,987	10,685	4,187	21,859
Segment profit	3,430	2,371	2,907	8,708
Other income				69
Selling and distribution expenses				(1,003)
Unallocated administrative expenses				(2,632)
Listing expenses				(1,001)
Finance costs				(1)
Profit before taxation				4,140

Segment profit represents the profit earned by each segment without allocation of certain administrative expenses, other income, allowance for doubtful debts, selling and distribution expenses, listing expenses and finance costs. This is the measure reported to the CODM for purposes of resource allocation and performance assessment.

Information of assets and liabilities for reportable and operating segments are not provided to CODM for their review. Therefore, no analysis of the Group's assets and liabilities by reportable and operating segments are presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

More than 90% of the Group's non-current assets are situated in Hong Kong.

The Group's revenue from external customers is presented based on the location of the customers:

	2016 US$'000	2015 US$'000
United States of America	**13,776**	8,900
United Kingdom	**1,574**	1,065
Hong Kong	**1,063**	839
Malaysia	**1,048**	1,385
France	**982**	578
Singapore	**841**	730
Indonesia	**759**	141
Italy	**699**	410
Denmark	**640**	814
Vietnam	**467**	172
Israel	**312**	1,908
Others	**6,197**	4,917
	28,358	21,859

Revenue from major products and services

	2016 US$'000	2015 US$'000
Sale of SD-WAN routers:		
— Wired	**7,687**	6,987
— Wireless	**14,291**	10,685
Warranty and support services	**5,189**	3,905
Software licences	**1,191**	282
Total	**28,358**	21,859

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Other segment information

	Sale of SD-WAN routers		Software licences and warranty and support services	Total
	Wired routers US$'000	Wireless routers US$'000	US$'000	US$'000
Amount included in the measure of segment result				
Year ended 31 December 2016				
Amortisation of intangible assets	**11**	**137**	**5**	**153**
Provision of inventories	**7**	**13**	**—**	**20**
Year ended 31 December 2015				
Amortisation of intangible assets	7	70	1	78
Provision of inventories	8	28	—	36

Information about major customers

	2016 US$'000	2015 US$'000
Customer A (Note)	**6,759**	4,479

Note: For each of the years ended 31 December 2016 and 2015, Customer A was the only customer contributed more than 10% of total revenue involved in sales of SD-WAN routers and software licences and warranty and support service income.

6. OTHER INCOME

	2016 US$'000	2015 US$'000
Sales of parts material	**65**	69
Others	**39**	—
	104	69

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. FINANCE COSTS

	2016 **US$'000**	2015 US$'000
Interest on bank borrowings	**23**	—
Interest on bank overdraft	**—**	1
	23	1

8. PROFIT BEFORE TAXATION

	2016 **US$'000**	2015 US$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 10)		
— Fee	**24**	—
— Salaries and allowances	**1,140**	943
— Contribution to retirement benefit scheme	**10**	10
— Equity-settled share-based payment expenses	**160**	—
Other non-research and development staff costs		
— Salaries and allowances	**825**	657
— Contribution to retirement benefit scheme	**49**	41
— Equity-settled share-based payment expenses	**30**	—
Research and development staff costs (excluded the directors' remuneration)		
— Salaries and allowances	**2,958**	2,546
— Contribution to retirement benefit scheme	**118**	116
— Equity-settled share-based payment expenses	**203**	—
Total staff costs	**5,517**	4,313
Equity-settled share-based payment expenses for consultants	**14**	—
Auditors' remuneration	**218**	17
Cost of inventories recognised as an expense	**9,572**	8,443
Foreign exchange loss, net	**96**	217
Allowance for doubtful debts	**39**	—
Amortisation of intangible assets	**153**	78
Depreciation of property, plant and equipment	**292**	254
Loss on disposal of property, plant and equipment	**32**	—
Provision of inventories	**20**	36

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

9. INCOME TAX EXPENSES

	2016 US$'000	2015 US$'000
Current tax:		
Hong Kong	**1,418**	793
Underprovision in prior year	**1**	—
Deferred tax (note 22)	**16**	(10)
Income tax expenses for the year	**1,435**	783

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands (the "BVI") pursuant to the rules and regulations in those jurisdictions.

The Group is subject to Hong Kong Profits Tax at a rate of 16.5% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2016 US$'000	2015 US$'000
Profit before taxation	**6,675**	4,140
Tax at applicable statutory tax rate of 16.5% (2015: 16.5%)	**1,101**	683
Tax effect of income not taxable for tax purpose	**(5)**	(3)
Tax effect of expenses not deductible for tax purpose	**307**	165
Tax effect of tax losses not recognised	**31**	27
Utilisation of tax losses previously not recognised	**—**	(89)
Underprovision in prior year	**1**	—
Income tax expenses for the year	**1,435**	783

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the directors and the chief executive of the Company, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, were as follows:

For the year ended 31 December 2016

Name of directors	Fees	Salaries and allowances	Contribution to retirement benefit scheme	Equity-settled share-based payment expenses	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Executive directors: (note 1)					
Mr. Chan	–	418	2	32	452
Mr. Chau Kai Wai ("Mr. Chau")	–	187	2	32	221
Mr. Yip Kai Kut ("Mr. Yip")	–	161	2	32	195
Mr. Yeung Yu ("Mr. Yeung")	–	187	2	32	221
Mr. Chong Ming Pui ("Mr. Chong")	–	187	2	32	221
Independent non-executive directors: (note 2)					
Dr. Yu Kin Tim@	8	–	–	–	8
Mr. Ho Chi Lam@	8	–	–	–	8
Mr. Wan Sze Chung@	8	–	–	–	8
Total	24	1,140	10	160	1,334

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2015

Name of directors	Fees	Salaries and allowances	Contribution to retirement benefit scheme	Equity-settled share-based payment expenses	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Executive directors: (note 1)					
Mr. Chan#	—	353	2	—	355
Mr. Chau*	—	155	2	—	157
Mr. Yip*	—	125	2	—	127
Mr. Yeung*	—	155	2	—	157
Mr. Chong*	—	155	2	—	157
Total	—	943	10	—	953

\# Mr. Chan was appointed as executive director and Chairman of the Company on 5 May 2015.

* Mr. Chau, Mr. Yip, Mr. Yeung and Mr. Chong were appointed as executive directors of the Company on 27 November 2015.

@ Dr. Yu Kin Tim, Mr. Ho Chi Lam and Mr. Wan Sze Chung were appointed as independent non-executive directors on 21 June 2016.

Notes:

1. The executive directors' emoluments were for their services in connection with the management of the affairs of the Company and the Group.

2. The independent non-executive directors' emoluments were for their services as directors of the Company.

There were no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 29.

(b) Five highest paid employees

The five (2015: five) executive directors of the Company are the five highest paid individuals for both years.

11. DIVIDENDS

	2016	2015
	US$'000	US$'000
Dividends recognised as distributions during the year:		
2016 Interim dividend for ordinary shareholders of the Company of HK1.73 cents per share (2015: 2015 Interim dividends (Note))	**2,230**	2,800
2015 Final dividend (Note)	**998**	—
	3,228	2,800

Subsequent to the end of the reporting period, an interim dividend in respect of the year ended 31 December 2016 of HK1.93 cents per ordinary share, in an aggregate amount of approximately US$2,488,000, has been determined by the directors of the Company.

Note: A subsidiary of the Company distributed interim dividends of US$2,800,000 and a final dividend of US$998,000 for the year ended 31 December 2015, respectively, to its then shareholder prior to the Group Reorganisation.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2016	2015
	US$'000	US$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic earnings per share	**5,240**	3,357

	Number of ordinary shares	
	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**867,486**	750,000

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12. EARNINGS PER SHARE (CONTINUED)

For the years ended 31 December 2016 and 2015, the weighted average number of ordinary shares for the purpose of basic earnings per share has been taken into account the share issued pursuant to the Group Reorganisation as disclosed in note 1 and the capitalisation issue of 749,999,998 ordinary shares of HK$0.01 each of the Company at par value on 13 July 2016 as stated in note 23 as if it had been effective on 1 January 2015.

No diluted earnings per share were presented as there were no potential dilutive shares during both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Computer equipment	Office equipment	Machine and equipment	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
COST					
At 1 January 2015	397	228	90	407	1,122
Additions	14	24	68	109	215
Disposals/written off	—	(1)	—	—	(1)
Exchange realignment	(1)	—	—	1	—
At 31 December 2015	410	251	158	517	1,336
Additions	259	76	23	104	462
Disposals/written off	(54)	—	—	—	(54)
Exchange realignment	(1)	—	—	—	(1)
At 31 December 2016	614	327	181	621	1,743
ACCUMULATED DEPRECIATION					
At 1 January 2015	136	155	22	214	527
Provided for the year	79	37	33	105	254
Disposals/written off	—	(1)	—	—	(1)
Exchange realignment	(1)	—	—	1	—
At 31 December 2015	214	191	55	320	780
Provided for the year	93	41	46	112	292
Disposals/written off	(22)	—	—	—	(22)
Exchange realignment	(1)	—	—	—	(1)
At 31 December 2016	284	232	101	432	1,049
CARRYING VALUES					
At 31 December 2016	330	95	80	189	694
At 31 December 2015	196	60	103	197	556

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13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Furniture and fixtures	20%
Computer equipment	$33^1/_3$%
Office equipment	$33^1/_3$%
Machine and equipment	$33^1/_3$%

14. INTANGIBLE ASSETS

	Patents US$'000	Trademarks US$'000	Total US$'000
COST			
At 1 January 2015	215	17	232
Additions	262	3	265
Exchange realignment	1	—	1
At 31 December 2015	478	20	498
Additions	237	3	240
Exchange realignment	19	—	19
At 31 December 2016	734	23	757
ACCUMULATED AMORTISATION			
At 1 January 2015	140	2	142
Provided for the year	76	2	78
Exchange realignment	1	—	1
At 31 December 2015	217	4	221
Provided for the year	151	2	153
At 31 December 2016	368	6	374
CARRYING VALUES			
At 31 December 2016	366	17	383
At 31 December 2015	261	16	277

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14. INTANGIBLE ASSETS (CONTINUED)

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the estimated useful lives as follows:

Patents	3–3.5 years
Trademarks	5–10 years

15. INVENTORIES

	2016 US$'000	2015 US$'000
Raw materials and consumables	**4,143**	1,866
Finished goods	**2,535**	2,272
	6,678	4,138

16. TRADE AND OTHER RECEIVABLES

	2016 US$'000	2015 US$'000
Trade receivables	**4,026**	2,745
Less: Allowance for doubtful debts	**(79)**	(43)
	3,947	2,702
Other receivables	**297**	183
Trade deposits paid	**384**	206
Utility and deposits	**232**	99
Prepaid expenses	**455**	376
Deferred listing expenses	**—**	291
	5,315	3,857

Included in the trade receivables are debts with total carrying amount of US$1,861,000 (2015: US$1,225,000) which are past due as at 31 December 2016, for which the Group has not provided for impairment loss as the Group considers that the default risk is low after considering the creditworthiness and repayment history of the debtors and settlement after the end of each reporting period. No collateral is held over these receivables. Trade receivables which are neither overdue nor impaired are of good quality.

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Ageing of trade receivables which are past due but not impaired based on due date

	2016 US$'000	2015 US$'000
1–30 days	**1,297**	724
31–60 days	**417**	397
61–90 days	**54**	52
91–120 days	**25**	52
Over 120 days	**68**	—
	1,861	1,225

Movement in allowance for doubtful debts

	2016 US$'000	2015 US$'000
At 1 January	**43**	43
Provided for the year	**39**	—
Exchange realignment	**(3)**	—
At 31 December	**79**	43

The allowance for doubtful debts is provided on individual basis for those trade debtors which have either been in severe financial difficulties or defaulted payments.

Credit terms for periods ranging from 0 to 60 days are granted to customers based on the relationship and potential business opportunities with the customers, order size and creditworthiness. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of each reporting period.

Ageing of trade receivables

	2016 US$'000	2015 US$'000
1–30 days	**2,272**	1,587
31–60 days	**1,030**	572
61–90 days	**494**	434
Over 90 days	**151**	109
Total	**3,947**	2,702

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16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Ageing of trade receivables (Continued)

Trade deposits paid and prepayments mainly represent the deposits and prepayments paid for manufacturing of products. The Group is required to make prepayments and trade deposits to certain suppliers to secure regular manufacturing of routers.

Deferred listing expenses represented professional fees for the Listing, which had been offset against the share premium accounts in equity upon the Listing.

17. AMOUNT(S) DUE FROM/(TO) A DIRECTOR/RELATED COMPANIES

(a) Amount due to a director

	At 31 December	
	2016	2015
	US$'000	US$'000
Mr. Chan	–	1,794

(b) Amounts due from/(to) related companies

	2016	2015
	US$'000	US$'000
Amounts due from related companies:		
Glamour Technologies Limited (note 1)	–	71
Conficiency Limited (note 1)	–	88
Open Gain Limited (note 2)	–	18
PBS Ventures Limited (note 1)	–	132
Paciot Limited (note 1)	–	1
Advance Action Limited (note 2)	–	147
Rich Origin Limited (note 1)	–	2
	–	459
Amount due to a related company:		
Tramunta Ventures Limited (note 1)	–	15

Note 1: The amounts were non-trade nature.

Note 2: As at 31 December 2015, the amounts were mainly arising from rental of premises by the Group and aged within 30 days.

17. AMOUNT(S) DUE FROM/(TO) A DIRECTOR/RELATED COMPANIES (CONTINUED)

The amounts due from/(to) a director and related companies at 31 December 2015 were unsecured, interest-free and repayable on demand.

The related companies are companies in which the controlling shareholder of the Company, Mr. Chan has beneficial interest. The amounts were fully settled in June 2016.

18. BANK BALANCES AND CASH/PLEDGED BANK DEPOSIT

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at market rates which range from 0.001% to 2% (2015: 0.001% to 2%) per annum for the year ended 31 December 2016.

Pledged bank deposit represents a deposit pledged to a bank to secure banking facilities granted to the Group. Deposit amounting to US$129,000 (31 December 2015: nil) has been pledged to secure short-term bank loans and is therefore classified as a current asset.

19. TRADE AND OTHER PAYABLES

	2016 **US$'000**	2015 US$'000
Trade payables	**725**	223
Deposits received from customers	**260**	193
Accruals	**835**	605
Other payables	**64**	24
	1,884	1,045

The average credit period on purchase of goods is 45 days. The following is an aged analysis of trade payables, based on the invoice date at the end of each reporting period.

	2016 **US$'000**	2015 US$'000
Within 30 days	**725**	208
31 to 90 days	**—**	15
	725	223

The advances and deposits received from customers mainly represent the advances and deposits received as security for the sales of products.

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20. DEFERRED REVENUE

	2016 US$'000	2015 US$'000
Undelivered warranty and support services deferred revenue	**4,405**	3,588
Current portion	**3,551**	2,852
Non-current portion	**854**	736
	4,405	3,588

21. BANK BORROWINGS

	2016 US$'000	2015 US$'000
Secured bank loans repayable within one year	**318**	1,238

In December 2015, the Group raised a bank loan which was repayable on a straight-line basis by twelve equal monthly instalments and interest bearing at Hong Kong Best Lending Rate less 2.50% per annum. The borrowing together with a facility granted by bank was guaranteed by the Company and secured by a limited guarantee of HK$20,600,000 (equivalent to approximately US$2,658,000) provided by Mr. Chan. Based on the banking facilities letter signed with the bank, the limited guarantee of HK$20,600,000 provided by Mr. Chan was released on 13 July 2016.

During the year ended 31 December 2016, the Group raised bank borrowings, which were arranged at a floating rate and exposed the Group to cash flow interest rate risk. The interest rate is at 1.5% over LIBOR per annum.

22. DEFERRED TAX LIABILITIES

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the reporting periods:

	Accelerated tax depreciation and others	**Accelerated tax amortisation of intangible assets**	**Loss available for offset against future taxable profit**	**Total**
	US$'000	US$'000	US$'000	US$'000
At 1 January 2015	(34)	(15)	—	(49)
Credit (charge) to profit or loss	10	(30)	30	10
Exchange realignment	—	(1)	—	(1)
At 31 December 2015	**(24)**	**(46)**	**30**	**(40)**
(Charge) credit to profit or loss	**(22)**	**(17)**	**23**	**(16)**
At 31 December 2016	**(46)**	**(63)**	**53**	**(56)**

At the end of each reporting period, the Group had unused tax losses of US$765,000 (2015: US$444,000) as at 31 December 2016 available for offset against future profits. Deferred tax assets have been recognised in respect of such tax losses of US$317,000 (2015: US$182,000) and no deferred tax asset was recognised in respect of the remaining tax losses of US$448,000 (2015: US$262,000) as at 31 December 2016 due to the unpredictability of future profit streams. Such tax losses can be carried forward indefinitely.

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23. SHARE CAPITAL

The movements of share capital of the Company are as follows:

	Number of shares	Amount
		HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 5 May 2015 (date of incorporation) and 31 December 2015 (note a)	38,000,000	380,000
Increased on 21 June 2016 (note b)	3,962,000,000	39,620,000
At 31 December 2016	4,000,000,000	40,000,000
Issued and fully paid:		
At 5 May 2015 (date of incorporation) and 31 December 2015 (note a)	1	0.01
Issue of share on 15 June 2016 (note c)	1	0.01
Issue of shares by capitalisation of share premium (note d)	749,999,998	7,499,999.98
Issue of shares in the global offering (note e)	250,000,000	2,500,000.00
At 31 December 2016	1,000,000,000	10,000,000.00

	US$'000
Shown in the financial statements	1,288

Notes:

(a) On 5 May 2015, the Company was incorporated in the Cayman Islands as exempted company with limited liability with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 5 May 2015, one subscriber share was allotted and issued as fully paid share to Mr. Chan.

(b) On 21 June 2016, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 shares to HK$40,000,000 divided into 4,000,000,000 shares by the creation of additional 3,962,000,000 ordinary shares.

(c) On 15 June 2016, the Company allotted and issued one share to Mr. Chan credited as fully paid in consideration of Mr. Chan transferring the entire interest in Protean Holdings to the Company.

(d) Pursuant to the written resolutions of the sole shareholder passed on 21 June 2016, conditional upon the share premium account of the Company being credited as a result of the Listing, the directors were authorised to capitalise the amount of HK$7,499,999.98 from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par 749,999,998 shares for allotment and issue to Mr. Chan on 13 July 2016.

23. SHARE CAPITAL (CONTINUED)

Notes: (Continued)

(e) On 13 July 2016, the Company issued 250,000,000 shares of HK$0.01 each at HK$0.50 per share upon the completion of its global offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

All ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

24. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting periods are as follows:

	NOTE	2016 US$'000	2015 US$'000
Non-current assets			
Investments in a subsidiary		**7**	—
Current assets			
Other receivables		**19**	290
Amounts due from subsidiaries		**7,734**	—
Bank balances and cash		**14,116**	—
Total current assets		**21,869**	290
Current liabilities			
Other payables		**65**	133
Amounts due to subsidiaries		**4,106**	1,159
Total current liabilities		**4,171**	1,292
Total assets less current liabilities		**17,705**	(1,002)
Capital and reserves			
Share capital (note 23)		**1,288**	—
Reserves	(a)	**16,417**	(1,002)
Equity attributable to owners of the Company		**17,705**	(1,002)

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24. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note:

(a) Movement in the Company's reserves

	Share premium US$'000	Share options reserve US$'000	(Accumulated losses) retained earnings US$'000	Total US$'000
At 5 May 2015 (date of incorporation)	—	—	—	—
Total comprehensive expense for the period	—	—	(1,002)	(1,002)
At 31 December 2015	—	—	(1,002)	(1,002)
Total comprehensive income for the year	—	—	5,829	5,829
Capitalisation issue (note 23d)	(966)	—	—	(966)
Issue of shares upon global offering (note 23e)	15,789	—	—	15,789
Transaction costs attributable to issue of shares	(1,410)	—	—	(1,410)
Recognition of equity-settled share-based payments	—	407	—	407
Dividend recognised as distribution	—	—	(2,230)	(2,230)
At 31 December 2016	13,413	407	2,597	16,417

25. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout both reporting periods.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising share capital, retained earnings and other reserves.

The directors review the capital structure periodically. As part of this review, the directors assess budgets of major projects taking into account of the provision of funding. Based on the operating budgets, the directors consider the cost of capital and the risks associated with each class of capital and will balance its overall capital structure through issue of new shares, as well as the raising of bank borrowings.

26. FINANCIAL INSTRUMENTS

26a. Categories of financial instruments

	2016 US$'000	2015 US$'000
Financial assets		
Loans and receivables:		
Trade and other receivables	**4,244**	2,885
Amounts due from related companies	**—**	459
Pledged bank deposit	**129**	—
Bank balances and cash	**19,193**	6,062
	23,566	9,406
Financial liabilities		
Financial liabilities held at amortised cost:		
Trade and other payables	**789**	247
Amounts due to related companies	**—**	15
Amount due to a director	**—**	1,794
Bank borrowings	**318**	1,238
	1,107	3,294

26b. Financial risk management objectives and policies

The management of the Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 18) throughout both reporting periods and variable-rate bank borrowings (note 21) as at 31 December 2016 and 2015. The Group's cash flow interest rate risk is mainly resulted from the fluctuation of market interest rate.

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26. FINANCIAL INSTRUMENTS (CONTINUED)

26b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Interest rate risk management (Continued)

Interest rate risk sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rate on bank balances and bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting periods were outstanding for the whole year.

5 basis point and 50 basis point increases are used for bank balances and bank borrowings respectively and represent management's assessment of the reasonably possible change in interest rates. If interest rates had been 5 or 50 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would increase US$3,200 (2015: decrease US$3,000). Management does not expect a significant decrease of interest rate.

(ii) Foreign currency risk management

Certain sale and purchase of goods of the Group are denominated in Ringgit Malaysia ("RM") and Euro, the currencies other than the functional currencies of the relevant group entities.

Certain subsidiaries of the Group have financial assets denominated in Renminbi ("RMB"), RM and HK$ which are other than the functional currency of the relevant group entities and expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

26. FINANCIAL INSTRUMENTS (CONTINUED)

26b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Foreign currency risk management (Continued)

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities (representing trade and other receivables, bank balances and cash and trade and other payables) at the reporting date is as follows:

	Assets US$'000	Liabilities US$'000
31 December 2016:		
RMB	**22**	**1**
RM	**7**	**3**
HK$	**5,519**	**135**
31 December 2015:		
RMB	30	—
RM	157	2
HK$	2,064	1,374

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 5%) increase or decrease in RMB and RM for the year ended 31 December 2016. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rate. It excludes items denominated in HK$ held by group entities with US$ as functional currency as the directors consider that the Group's exposure to HK$ for such entities is insignificant on the ground that HK$ is pegged to US$. A positive number indicates an increase in profit before taxation for the year where the foreign currencies strengthen 5% (2015: 5%) against the functional currency of respective group entity. For a 5% (2015: 5%) weakening of the foreign currencies against the functional currency of respective group entity, there would be an equal and opposite impact.

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26. FINANCIAL INSTRUMENTS (CONTINUED)

26b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Foreign currency risk management (Continued)

Foreign currency sensitivity analysis (Continued)

	Profit before taxation	
	2016	2015
	US$'000	US$'000
RMB	**1**	2
RM	**1**	8

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk management

As at the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

The Group has concentration of credit risk in relation to its trade receivables as follows:

	2016	2015
Amount due from the largest debtor as a percentage to total trade receivables	**21%**	42%
Total amount due from the five largest debtors as a percentage to total trade receivables	**57%**	69%

26. FINANCIAL INSTRUMENTS (CONTINUED)

26b. Financial risk management objectives and policies (Continued)

Credit risk management (Continued)

The Group has implemented the following procedures to minimise its credit risk:

(i) A delegated team is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

(ii) Management regularly visits the Group's key customers to understand their latest financial position and to ensure that there is no dispute on amounts due.

(iii) Management reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

In this regard, the directors consider that the Group's credit risk on trade receivables is significantly reduced. In addition, the Group keeps exploring new customers to diversify and strengthen its customer base and thus, reduce the concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation. Other than the above, the Group does not have other significant concentration of credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity table

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the bank choosing to exercise its rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

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26. FINANCIAL INSTRUMENTS (CONTINUED)

26b. Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

Liquidity table (Continued)

	Weighted average effective interest rate %	On demand or within 1 year US$'000	Total undiscounted cash flow US$'000	Carrying value US$'000
At 31 December 2016				
Financial liabilities				
Trade and other payables	**—**	**789**	**789**	**789**
Bank borrowings	**2.75**	**319**	**319**	**318**
		1,108	**1,108**	**1,107**
At 31 December 2015				
Financial liabilities				
Trade and other payables	—	247	247	247
Amounts due to related companies	—	15	15	15
Amount due to a director	—	1,794	1,794	1,794
Bank borrowings	2.75	1,257	1,257	1,238
		3,313	3,313	3,294

26c. Fair value measurements of financial instruments

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

27. RELATED PARTY DISCLOSURES

The directors of the Company are of the opinion that all the related party transactions have been transacted under terms as negotiated with the related parties.

(a) Transactions with related companies

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

Rental expenses

	2016 US$'000	2015 US$'000
PBS Ventures Limited	**68**	68
Nice Achieve Limited	**43**	43
Talent Trend International Limited	**48**	48
Open Gain Limited	**31**	29
Advance Action Limited	**48**	48
Perfect Giant Limited	**48**	48
Plan Smart Limited	**127**	30
Real Energy Limited	**10**	—
Rise Gold Limited	**51**	—
	474	314
Dividends paid		
Mr. Chan	**998**	2,800
Service expenses		
Glamour Technologies Limited	**—**	18

The related companies are companies in which the controlling shareholder of the Company, Mr. Chan, has beneficial interest.

(b) Significant balances with related parties

The significant balances with related parties have been disclosed in note 17.

(c) Guarantees provided by the Company or a director of the Company

The Group's bank borrowings as at 31 December 2015 (note 21) were guaranteed by the Company and secured by a limited guarantee of HK$20,600,000 (equivalent to approximately US$2,658,000) provided by Mr. Chan. The limited guarantee of HK$20,600,000 provided by Mr. Chan was released on 13 July 2016.

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27. RELATED PARTY DISCLOSURES (CONTINUED)

(d) Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company either directly or indirectly.

The directors considered the key management personnel of the Group are the directors. The remuneration of members of key management personnel of the Group are disclosed in note 10.

28. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contribution per employee is HK$1,500 per month. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. During the year ended 31 December 2016, the retirement benefit scheme contribution arising from the MPF Scheme charged to profit or loss were approximately US$150,000 (2015: US$143,000).

The employees in the Group's subsidiary in Malaysia are members of the state-managed retirement benefit scheme the Employees Provident Fund (the "EPF Scheme") operated by the Malaysia government. The subsidiary is required to contribute a certain percentage of payroll costs to the EPF Scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions. During the year ended 31 December 2016, the retirement benefit scheme contribution arising from the EPF Scheme charged to profit or loss were approximately US$27,000 (2015: US$24,000).

29. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 21 June 2016 for the primary purpose of providing incentives to the following persons ("Eligible Participants"):

(i) any executive, employee, director (including non-executive director and independent non-executive director) of any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity");

(ii) any advisor, consultant, professional, agent, contractor, customer, provider of goods and/or services, business or joint venture partner of any member of the Group or any Invested Entity whom the board in its sole discretion considers eligible for the Scheme on the basis of his or her contribution to the Group or the Invested Entity (as the case may be); and

29. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(iii) any person whom the board in its sole discretion considers has contributed or will contribute to the Group or to the Invested Entity (as the case may be).

The Scheme shall be valid and effective for a period of 10 years commencing on 21 June 2016.

Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2016, the number of share options in respect of which options had been granted and remained outstanding under the Scheme was 78,000,000, representing 7.8% of the shares of the Company in issue at that date ("2016A1"). The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any twelve month period, are subject to shareholders' approval in advance in a general meeting.

The subscription price of a share payable on the exercise of any particular option granted under the Scheme shall be such price as the board in its absolute discretion shall determine, save that such price shall at least be the highest of: (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities ("Business Day"); and (iii) the average closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer, or (where applicable) such price as from time to time adjusted pursuant to the Scheme.

HK$1.00 is payable by Eligible Participants on acceptance of an offer of option. Any offer of option may be accepted, in whole or in part, in a board lot of dealing in shares on the Stock Exchange or an integral multiple thereof and in writing received by any director or the secretary of the Company until 5:00 p.m. on the date specified in the offer provided that no such offer shall be open for acceptance after the expiry of the scheme period or after the Scheme has been terminated in accordance with the rules thereof.

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29. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The board of directors of the Company may in its absolute discretion determine the period, save that such period shall not be more than 10 years commencing on the date of the grant of options, and the minimum period for which a share option must be held before it can be exercised.

Details of specific categories of options are as follows:

Share options	Date of grant	Vesting period	Exercise period	Exercise price
2016A1-(i)	20 July 2016	20 July 2016 to 19 July 2017	20 July 2017 to 19 July 2021	HK$0.483
2016A1-(ii)	20 July 2016	20 July 2016 to 19 July 2018	20 July 2018 to 19 July 2021	HK$0.483
2016A1-(iii)	20 July 2016	20 July 2016 to 19 July 2019	20 July 2019 to 19 July 2021	HK$0.483
2016A1-(iv)	20 July 2016	20 July 2016 to 19 July 2020	20 July 2020 to 19 July 2021	HK$0.483

The following table discloses movements of the number of the Company's share options held by the Eligible Participants during the year:

Category of participants	Outstanding at 31.12.2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2016
Directors	—	30,000,000	—	—	**30,000,000**
Employees	—	46,000,000	—	(700,000)	**45,300,000**
Consultants	—	2,700,000	—	—	**2,700,000**
	—	78,700,000	—	(700,000)	**78,000,000**
Exercisable at the end of the year					**—**
Weighted average exercise price (HK$)	N/A	0.483	0.483	0.483	**0.483**

During the year ended 31 December 2016, options were granted on 20 July 2016. The estimated fair values of the options granted on that date is HK$13,703,000 (equivalent to US$1,766,000).

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

Share price	HK$0.47
Exercise price	HK$0.483
Expected volatility	43.741%
Expected life	4.995 years
Risk-free rate	0.645%
Expected dividend yield	0%

29. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Expected volatility was determined by using the historical volatility of the Company's comparable companies' share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$3,159,000 (equivalent to US$407,000) for the year ended 31 December 2016 in relation to share options granted by the Company.

30. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payment paid under operating leases for office premises during the year ended 31 December 2016 was US$580,000 (2015: US$484,000).

At the respective reporting dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 US$'000	2015 US$'000
Within one year	**645**	89
In the second to fifth year inclusive	**699**	55
	1,344	144

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse. Leases are generally negotiated for an average term of two years (2015: two years) and rentals are fixed over the lease terms.

31. CAPITAL COMMITMENTS

	2016 US$'000	2015 US$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,112**	—

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For the year ended 31 December 2016

32. PARTICULARS OF THE SUBSIDIARIES

Particulars of the subsidiaries directly and indirectly held by the Company at the end of each reporting period are as follows:

Name of subsidiary	Place of operation	Place of incorporation/ establishment	Date of incorporation/ establishment	Equity interest attributable to the Group as at 31 December 2016	2015	Issued and fully paid share capital	Principal activities
Direct							
Protean Holdings	Hong Kong	BVI	8 April 2015	100%	100%	US$1	Investment holding
Indirect							
Pepwave Limited	Hong Kong	Hong Kong	13 October 2006	100%	100%	HK$1	Designing, development and marketing of SD-WAN routers and provision of software licence and warranty and support services
Peplink International Limited	Hong Kong	Hong Kong	22 August 2007	100%	100%	HK$1,000	Designing, development and marketing of SD-WAN routers and provision of software licence and warranty and support services
Pismo Labs Limited	Hong Kong	Hong Kong	13 October 2006	100%	100%	HK$1	Development of SD-WAN routers
Pismo Labs Technology Limited	Hong Kong	Hong Kong	14 November 2006	100%	100%	HK$1	Intellectual property holding
Pismo Research (Malaysia) Sdn. Bhd.	Malaysia	Malaysia	3 August 2011	100%	100%	RM350,000	Development of SD-WAN routers
Peplink Worldwide Limited	Hong Kong	BVI	20 October 2011	100%	100%	US$1	Inactive
Pegatrack Limited	Hong Kong	Hong Kong	6 February 2015	100%	100%	HK$1	Inactive
Pacific Smart Systems Limited	Hong Kong	Hong Kong	4 September 2015	100%	100%	HK$1	Inactive
Broadview Evolving Limited	Hong Kong	Hong Kong	20 September 2016	100%	–	HK$1	Inactive
Broadview Global Technology Limited	Hong Kong	Hong Kong	20 September 2016	100%	–	HK$1	Inactive
Plover Bay Ventures Limited	Hong Kong	Hong Kong	20 September 2016	100%	–	HK$1	Inactive
Total Trend Limited	Hong Kong	Hong Kong	1 August 2016	100%	–	HK$1	Inactive
Ultra Land Limited	Hong Kong	Hong Kong	1 November 2016	100%	–	HK$1	Property holding
Ultra Prosper Limited	Hong Kong	Hong Kong	16 November 2016	100%	–	HK$1	Property holding

Except for Protean Holdings, all of the above subsidiaries are indirectly held by the Company. All of the above subsidiaries are limited liability companies incorporated in their respective places of incorporation/establishment.

All of the above subsidiaries adopt 31 December as the financial year end date.

None of the subsidiaries had issued any debt securities at the end of each reporting period.

33. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the pledged bank deposit of US$129,000 as at 31 December 2016 was released and replaced by two mortgaged properties in February 2017.