Plover Bay Technologies Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1523

Annual Report 2017

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

Mr. Yip Kai Kut Kenneth

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

Li & Partners

COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited

AUDITOR

Ernst & Young

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,

I am pleased to announce our annual report for the year ended 31 December 2017 ("period under review"). We had another excellent year in 2017 with revenue and net profit growing approximately 30.9% and approximately 67.1% over last year, reaching approximately US$37.1 million and approximately US$8.8 million, respectively.

The driver behind our overall growth was the wireless SD-WAN segment, whose revenue surged approximately 49.6% over the previous year. Wireless SD-WAN technology continued to gain traction among industrial networking verticals in North America, Asia and EMEA markets. Meanwhile, the operations of our Company remain highly efficient and highly focused in the research and development of SD-WAN technologies and products. Our efficient business model has allowed our operating profit to increase by approximately 34.0% over the past year.

DIVIDEND

The board of directors have determined that a second interim dividend of HK3.50 cents per share for the year ended 31 December 2017 be payable on 27 March 2018 to the shareholders whose name appear in the register of members of the Company on 15 March 2018. Together with a first interim dividend of HK2.58 cents per share paid for the six months ended 30 June 2017, the total dividend for the year will be HK6.08 cents per share, representing a dividend payout ratio of approximately 90%.

PROSPECTS

The networking industry is full of opportunities. Demand for reliable and fast Internet access is constantly on the rise, while end users now have a staggering number of mobile connectivity options to consider. In the future, advances in IoT, cloud computing and industrial automation will drive an exponential growth in the number of connected devices, in turn driving the demand for fast, flexible and reliable mobile connectivity, and SD-WAN technology that is capable to connect and bond any networks together is the ideal answer to these challenges.

With the ability to combine different networks together, Plover Bay's proprietary SpeedFusion technology and wide variety of SD-WAN products enable network system builders to deliver tailor-made and truly flexible network solutions for their clients from specialised industrial verticals. Our technology enables applications that were not possible or financially not viable in the past, such as mobile high-definition livestream for surveillance and broadcasting, and rapidly deployed networks in enterprise branches and remote sites.

Looking ahead, we will continue to invest in R&D to continue our leadership in global SD-WAN technologies, to expand our addressable market into broadcasting and IoT, and to create high value-add connectivity solutions to further solidify our SD-WAN ecosystem. With our innovative but practical R&D approach, solid balance sheet and highly efficient operations, we are confident to achieve our goal to be a technology leader with a thriving SD-WAN ecosystem.

Chairman's Statement

APPRECIATION

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

Chan Wing Hong Alex
Chairman

Hong Kong, 28 February 2018

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 five years ended 31 December 2017 is as follows:

RESULTS

	Year ended 31 December				
	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Revenue	**37,132**	28,358	21,859	17,946	13,306
Profit for the year attributable to owners of the parent	**8,754**	5,240	3,357	3,743	2,565
Adjusted by:					
Listing expenses	**–**	1,252	1,001	–	–
Equity-settled share-based payments	**764**	407	–	–	–
Core net profit	**9,518**	6,899	4,358	3,743	2,565
Earning per share – basic (US cents)	**0.87**	0.60	0.45	N/A	N/A
Core net profit per share – basic (US cents)	**0.95**	0.80	0.58	N/A	N/A

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Assets					
Total non-current assets	**2,678**	1,183	833	685	502
Total current assets	**37,881**	31,315	14,516	11,491	10,247
Total assets	**40,559**	32,498	15,349	12,176	10,749
Liabilities					
Total current liabilities	**10,529**	7,342	7,460	4,464	3,418
Total non-current liabilities	**1,280**	910	776	1,116	754
Total liabilities	**11,809**	8,252	8,236	5,580	4,172
Equity					
Equity attributable to owners of the parent	**28,750**	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 2013, 2014 and 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 2017, we generated revenue mainly from the sale of SD-WAN routers and the grant of software licences, including SpeedFusion and InControl cloud service for managing our devices, and the provision of warranty and support services in connection with our products. Our revenue represents the net invoiced value of (i) the products sold, after deducting allowances for returns and trade discounts; and (ii) services rendered.

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

For the year ended 31 December 2017, revenue of the Group was approximately US$37,132,000, representing an increase of approximately US$8,774,000 or 30.9% from approximately US$28,358,000 for the year ended 31 December 2016.

The table below sets out our revenue by product/service category for the year ended 31 December 2017:

	For the year ended 31 December			
	2017		2016	
	Revenue	**% of total**	Revenue	% of total
	US$'000	**%**	US$'000	%
SD-WAN routers:				
Wired	**7,932**	**21.4**	7,687	27.1
Wireless	**21,373**	**57.6**	14,291	50.4
Warranty and support services	**6,652**	**17.9**	5,189	18.3
Software licences	**1,175**	**3.1**	1,191	4.2
Total	**37,132**	**100.0**	28,358	100.0

During the year ended 31 December 2017, revenue from wireless SD-WAN routers surged approximately 49.6% compared to the same period in 2016. Wireless SD-WAN gained traction among multiple industrial verticals for applications that require high-performance and stable mobile connectivity, which drove the demand for our high-performance wireless SD-WAN products. Meanwhile, revenue derived from wired SD-WAN routers grew approximately 3.2%. Revenue from warranty and support services and software licences maintained a stable growth of approximately 22.7% during the year.

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 2017

	Sales of SD-WAN routers		Software licences and warranty and support services	
	Wired routers US$'000	Wireless routers US$'000	US$'000	Total US$'000
External sales and segment revenue	**7,932**	**21,373**	**7,827**	**37,132**
Segment results	**3,873**	**6,200**	**5,459**	**15,532**
Other income and gains, net				**463**
Selling and distribution expenses				**(1,636)**
Unallocated administrative expenses				**(3,704)**
Finance costs				**(26)**
Profit before tax				**10,629**

Year ended 31 December 2016

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

Management Discussion and Analysis

Our products are mainly sold to customers in North America. During the year, sales to North America grew rapidly to approximately US$21,305,000, representing a growth of approximately 42.4% from approximately US$14,960,000 for the year ended 31 December 2016. Sales to Asia and EMEA (including Europe, Middle East and Africa) grew approximately 25.5% and 10.2%, respectively. We expect the North American market will continue to account for a major part of our revenue in the foreseeable future.

The table below sets out the breakdown of revenue by location of customers in terms of absolute amount and as a percentage of total revenue for the two years ended 31 December 2016 and 2017:

	For the year ended 31 December			
	2017		2016	
	Revenue US$'000	**% of total %**	Revenue US$'000	% of total %
North America	**21,305**	**57.4**	14,960	52.8
EMEA	**7,652**	**20.6**	6,945	24.5
Asia	**7,224**	**19.4**	5,758	20.3
Others	**951**	**2.6**	695	2.4
Total	**37,132**	**100.0**	28,358	100.0

Gross profit and gross profit margin

For the year ended 31 December 2017, our gross profit was approximately US$22,975,000, with gross profit margin of approximately 61.9%, while the gross profit and gross profit margin for the year ended 31 December 2016 were approximately US$17,945,000 and 63.3%, respectively, representing a decrease of approximately 1.4 percentage points in gross profit margin.

The table below sets out our Group's gross profit and gross profit margin by product/service category for the two years ended 31 December 2016 and 2017:

	For the year ended 31 December			
	2017		2016	
	Gross profit US$'000	**Gross profit margin %**	Gross profit US$'000	Gross profit margin %
SD-WAN routers:				
Wired	**5,404**	**68.1**	5,189	67.5
Wireless	**10,508**	**49.2**	7,056	49.4
Warranty and support services	**5,780**	**88.3**	4,509	86.9
Software licences	**1,283**	**100.0**	1,191	100.0
Total	**22,975**	**61.9**	17,945	63.3

Management Discussion and Analysis

Gross profit margin in the year ended 31 December 2017 decreased by approximately 1.4 percentage point to 61.9%. The slight decrease in gross profit margin was due to a lower product mix in wired SD-WAN routers, which in general has higher profitability than wireless models. Gross profit margin on each product in both wired and wireless SD-WAN segments were largely stable compared to the previous financial year, while that of warranty and support services and software licenses also remained stable during the year.

Other income and gains, net

Other income and gains, net mainly represented net gain on sales of parts to our contract manufacturers, interest income and foreign currency exchange gain. For the year ended 31 December 2017, other income and gains, net was approximately US$463,000, representing an increase of approximately 345.2%, from approximately US$104,000 for the year ended 31 December 2016. The increase was mainly due to (i) higher bank interest income, as the Group placed IPO proceeds that has not yet been utilised into interest-bearing short-term time-deposits within Hong Kong licensed banking corporations; and (ii) foreign currency exchange gains in the current reporting period compared to a loss in the past reporting period.

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.

Selling and distribution expenses for the year ended 31 December 2017 and year ended 31 December 2016 was approximately US$1,636,000 and US$1,697,000, respectively, representing a decrease of approximately US$61,000 or 3.6%. During the previous reporting period, the Group incurred certain IPO related non-recurring marketing activities, such as public relations consultants and other marketing expenses. The Group no longer incurred such expenses during the current financial year, leading to a decrease in overall selling and distribution expenses.

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 2017 and year ended 31 December 2016 was approximately US$3,958,000 and US$3,412,000, respectively, representing an increase of approximately US$546,000 or 16.0%. This is mainly due to (i) increases in staff headcount, average wages and salaries, and share-based payments of our administrative, finance and other supporting functions; (ii) increase in legal fees and compliance expenses during the year pursuant to the Group's listing in July 2016; (iii) increase in amortisation charges as a result of additions in intangible assets; and (iv) increase in cloud services and other computer related expenses.

Management Discussion and Analysis

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 2017 and year ended 31 December 2016 was approximately US$7,189,000 and US$4,990,000, respectively, representing an increase of approximately US$2,199,000 or 44.1%. The increase is mainly due to (i) expansion of our research and development team, increase in average salaries, wages and share-based payments of our R&D staff; and (ii) an increase in product development related expenses, such as engineering sample and tooling fees when compared to the year ended 31 December 2016.

Equity-settled share-based payment expenses

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

Share options of the Company were granted on 20 July 2016, 5 April 2017 and 10 October 2017. Equity-settled share-based payment expenses for the year ended 31 December 2017 was approximately US$764,000 (year ended 31 December 2016: approximately US$407,000). Details of share options granted by the Company are set out below in the Directors' Report under the heading "Share Option Scheme" of this annual report.

Total operating expenses

Total operating expenses, which includes selling and distribution expenses, administrative expenses and research and development expenses, during the years ended 31 December 2017 and 31 December 2016 amounted to approximately US$12,783,000 and US$10,099,000, respectively and represents an increase of approximately US$2,684,000 or 26.6% due to factors discussed above.

Finance costs

Finance costs mainly represented interests on bank borrowings.

Finance costs for the year ended 31 December 2017 and year ended 31 December 2016 were approximately US$26,000 and US$23,000, respectively, representing an increase of approximately US$3,000. The increase in finance cost was due to the increase in bank borrowings in the current reporting period over the period ended 31 December 2016.

Management Discussion and Analysis

Income tax expense

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 expense corresponded to the increase of revenue and assessable profits during the year ended 31 December 2017.

Profit attributable to owners of the parent

Profit attributable to owners of the parent for the year ended 31 December 2017 was approximately US$8,754,000 compared to approximately US$5,240,000 for the year ended 31 December 2016, representing an increase of approximately US$3,514,000 or 67.1%. The increase was a combination of (i) increase in revenue driven by the strong growth in wireless SD-WAN product sales; (ii) operating leverage leading to enhanced operating margin; and (iii) absence of non-recurring listing-related expenses during the year (2016: approximately US$1,252,000).

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 be exposed to credit risk of our customers, affecting the collectability of trade receivables and adversely affecting our cash flow.

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.

Management Discussion and Analysis

BUSINESS OUTLOOK

The SD-WAN market is full of opportunities as connectivity becomes more and more important in our daily lives. Besides being a reliable and cost saving alternative to expensive leased lines, Plover Bay's SD-WAN technology grants mobility to existing applications and enables new use cases in a number of specialised industrial verticals, such as broadcasting, construction, retail branches, events and Internet of Things (IoT). These applications were technically not possible or financially difficult to justify in the past using legacy network infrastructures.

Going forward, IoT, cloud computing and industrial automation will exponentially increase the number of communication end-points and data consumption, and many of these will be mission-critical. These factors put a strain on the ageing networks of many enterprises and industrial organisations, which are often built before the recent innovations in the way we use the Internet. This presents high growth opportunities for SD-WAN technologies because of its reliability, speed, ease of use and scalability.

Through our R&D efforts over the past years, we have accumulated a wide portfolio of wired and wireless SD-WAN technologies and products, including our proprietary SpeedFusion technology. We will continue to invest in R&D in the coming years to provide innovative solutions and groundbreaking experiences to industrial and business end users.

In 2018, we will launch multiple new products to maintain our technology leadership in the SD-WAN market. These products range from the SD-WAN industry's fastest and most robust SD-WAN modular platform that could be rapidly deployed anywhere, to the industry's smallest SD-WAN device to deliver SpeedFusion technology and unbreakable connectivity to small form factor IoT devices. Besides SD-WAN routers, we will also release new products aimed at the IoT market. These products will leverage the strengths of our SD-WAN routers and our cloud management platform to bring entirely new and highly streamlined experiences to traditional applications. To further leverage the strength of our SpeedFusion technology, we will explore new business models such as high value-add mobile data connectivity and management solutions. These efforts will help us enter new geographic markets and industrial verticals, which will drive our growth in the coming years.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, our bank borrowings amounted to approximately US$1,944,000 (as at 31 December 2016: approximately US$318,000). During the year ended 31 December 2017, the Group obtained new bank borrowings amounting to approximately US$2,638,000, of which US$1,185,000 is secured by mortgages over the Group's leasehold land and buildings.

As at 31 December 2017, the gearing ratio (which is defined as total borrowings over total equity) of our Group was approximately 6.8% (2016: approximately 1.3%). The Directors confirm that the Group financed its operations principally from cash generated from its business operations and expect that this will continue to be the case in the coming year. We did not experience any liquidity problem during the year ended 31 December 2017.

AGEING ANALYSIS OF TRADE RECEIVABLES AND TRADE PAYABLES

For details of our ageing analysis of trade receivables and trade payables, please refer to note 16 and note 19 to the consolidated financial statements, respectively.

FOREIGN CURRENCY EXPOSURE

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

EMPLOYEE AND SALARY POLICIES

The Directors consider the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers remuneration packages including salary, bonuses and retirement benefits with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 31 December 2017, the Group had 123 full-time employees. The total amount of staff costs of the Group for the year was approximately US$7,361,000 (2016: approximately US$5,517,000). 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. A refreshment of the scheme limit of up to 10% of the issued shares of the Company was approved at the extraordinary general meeting on 17 October 2017. Details have been set out below in the Directors' Report under the heading "Share Option Scheme" of this annual report.

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

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 2017 were approximately US$192,000 (2016: approximately US$150,000).

Management Discussion and Analysis

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 2017 was approximately US$32,000 (2016: approximately US$27,000).

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLAN FOR MATERIAL INVESTMENT

As at 31 December 2017, the Group has no significant investment held and material investment plan.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2017, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

COMMITMENTS

As at 31 December 2017, the Group had no capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the audited consolidated financial statements (2016: US$1,112,000).

PLEDGE OF ASSETS

The Group's bank loans are secured by mortgages over the Group's leasehold land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately US$1,185,000. As at 31 December 2016, the Group's bank loans were secured by pledged bank deposits of approximately US$129,000.

USE OF PROCEEDS FROM THE LISTING

The Company's ordinary shares were listed on the Main Board of Stock Exchange on 13 July 2016 ("Listing Date"). The net proceeds ("Net Proceeds") from the initial public offering amounted to approximately HK$108.4 million (equivalent to approximately US$14.0 million). Unutilised Net Proceeds as at 31 December 2017 amounted to approximately HK$75.4 million (equivalent to approximately US$9.7 million) of which approximately HK$55.4 million (equivalent to approximately US$7.1 million) is deposited into a licensed bank in Hong Kong as short-term fixed term deposits. The Company intends to use the remaining net proceeds in the coming years in accordance with the purposes set out in the Prospectus.

Management Discussion and Analysis

As at 31 December 2017, the Group has utilised the Net Proceeds as follows:

	Percentage of 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	0.91	2.21
Upgrade R&D facilities	13%	1.74	0.12	1.62
Establishment of a R&D centre	13%	1.75	1.23	0.52
Promotional and marketing activities	15%	2.10	0.52	1.58
Improving marketing capabilities	13%	1.87	0.17	1.70
Improve brand awareness	3%	0.48	0.13	0.35
Install an enterprise resource planning system	1%	0.12	0.09	0.03
Strengthen patent portfolio	10%	1.40	0.45	0.95
Working capital and general corporate purposes	10%	1.40	0.70	0.70
	100%	13.98	4.32	9.66

DIVIDEND

The Board has resolved to declare a second interim dividend of HK3.50 cents per share for the year ended 31 December 2017. The interim dividend is expected to be paid on 27 March 2018 to the shareholders whose names appear in the Company's register of members of the Company at the close of business on 15 March 2018.

CLOSURE OF REGISTER OF MEMBERS FOR 2017 SECOND INTERIM DIVIDEND

The register of members of the Company will be closed on Thursday, 15 March 2018 for the purpose of determining the entitlement to the 2017 second interim dividend. The record date for entitlement to receive the 2017 second interim dividend is Thursday, 15 March 2018. In order to be qualified for the 2017 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 Wednesday, 14 March 2018. The cheques for dividend payment will be sent on Tuesday, 27 March 2018.

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 2017.

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 during the year ended 31 December 2017.

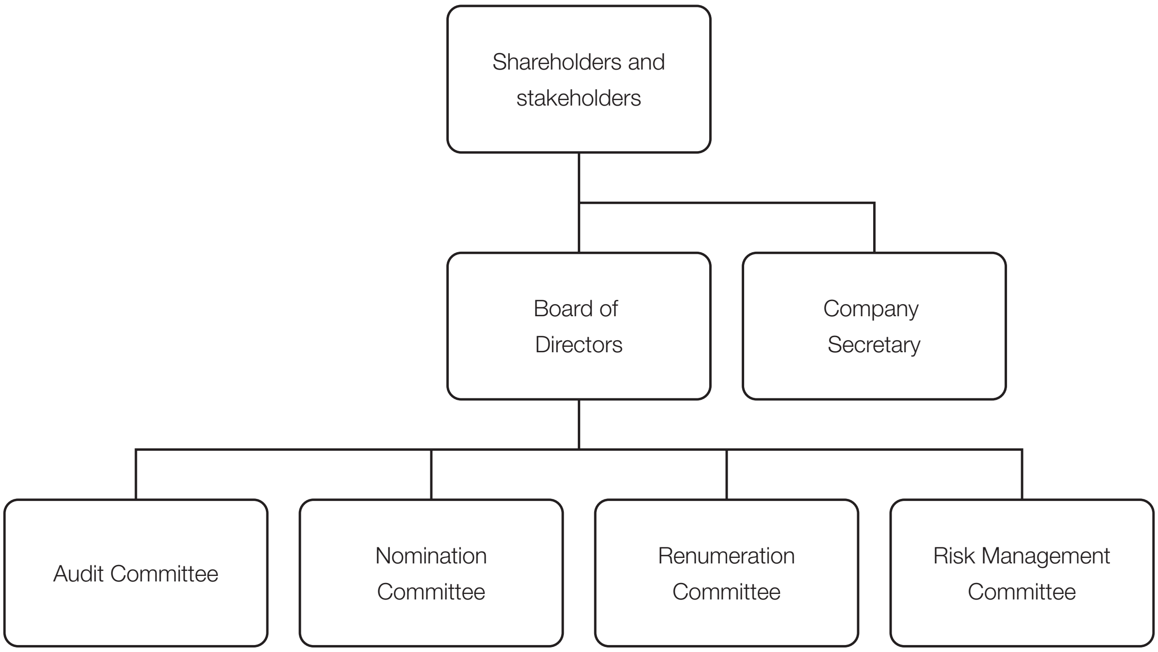
The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

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 during the year ended 31 December 2017.

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

Corporate Governance Report

Independent Non-Executive Directors

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

Biographical information of the Directors and relationship amongst them, if any, are set out in the section headed "Profile of Directors, Senior Management 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.

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. During the year ended 31 December 2017, the Board held 6 regular meetings. The attendance records of the Directors to these regular board meetings are set out in the table on page 23 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 open 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 have 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 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 chief financial officer also attend meetings of Audit Committee by invitation.

During the year ended 31 December 2017, the Audit Committee held three meetings to review the annual results of the Group for the year ended 31 December 2016, to review the interim results of the Group for the six months ended 30 June 2017, and to approve the appointment of Ernst & Young to take up the vacancy upon the resignation of Deloitte Touche Tohmatsu as the Group's external auditor. 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 2017. Other than to review financial reporting, all meetings were also held to assess compliance and internal control procedures.

The external auditors attended the meeting for the review of 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.

During the year ended 31 December 2017, 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

Corporate Governance Report

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.

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 2017 is set out below:

Remuneration bands	Number of person(s)
Nil to US$250,000	2
US$250,001 to US$500,000	4

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.

During the year ended 31 December 2017, 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 serves 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 2017, the Risk Management Committee held one meeting to review and assess the effectiveness of risk management and internal control systems.

ATTENDANCE AT MEETINGS

During the year ended 31 December 2017, 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	6/6	—	1/1	1/1	1/1
Mr. Chau Kit Wai	6/6	—	—	—	1/1
Mr. Yip Kai Kut Kenneth	6/6	—	—	—	1/1
Mr. Chong Ming Pui	6/6	—	—	—	—
Mr. Yeung Yu	6/6	—	—	—	—
Independent non-executive Directors					
Dr. Yu Kin Tim	6/6	3/3	1/1	1/1	—
Mr. Ho Chi Lam	6/6	3/3	—	—	—
Mr. Wan Sze Chung	6/6	3/3	1/1	1/1	—

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. During the year, the Board has reviewed the Company's policies and practices on corporate governance.

DIRECTORS' INDUCTION AND DEVELOPMENT

During the year, 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 topics of Director's duties, Hong Kong Companies Ordinance, Securities and Futures Ordinance and anti-corruption laws.

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 51 to 56 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.

For the year ended 31 December 2017, 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. During the year, the Group also implemented a Code of Conduct which provides comprehensive guidance on best business practices, conflict of interest and financial dealings according to laws and regulation in countries we do business.

AUDITOR'S REMUNERATION

Ernst & Young is the external independent auditor of the Group. During the year ended 31 December 2017, 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	151
Non-audit services	3
Total	154

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 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.

Corporate Governance Report

INVESTOR RELATIONSHIPS

In order to maintain effective communications with the investing communities, the Group participated in a number of investment forums and communicated with analysts and fund management companies through various means. The Group also organised on-site visits and invited investors to trade shows to facilitate investors' understanding of our business.

In the future, the Group will maintain effective communications with investors through roadshows.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, there has been no changes in the articles of association of the Company.

Profile of Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Chan Wing Hong Alex (陳永康) ("Mr. Chan"), aged 50, 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 29 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 43, 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 19 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 43, is our executive Director, patent counsel and company secretary. Mr. Yip was appointed as executive Director on 27 November 2015. Mr. Yip has over 16 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 40, is our executive Director and director of hardware engineering. Mr. Chong was appointed as executive Director on 27 November 2015. Mr. Chong has over 12 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, Senior Management 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 42, is our executive Director and director of software engineering. Mr. Yeung was appointed as executive Director on 27 November 2015. Mr. Yeung has over 17 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 60, 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 59, 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 originally listed on the growth enterprise market of the Stock Exchange which was subsequently transferred to the main board of the Stock Exchange (stock code: 01686) on 22 January 2018, and provides services such as carrier-

Profile of Directors, Senior Management and Company Secretary

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 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 43, was appointed as our independent non-executive Director on 21 June 2016. Mr. Wan is currently a director 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.

Profile of Directors, Senior Management and Company Secretary

SENIOR MANAGEMENT

Mr. Wong Shiu Kau (黃紹裘) ("Mr. Wong"), aged 46, is our e-commerce manager. Mr. Wong joined our Group in March 2014. He is responsible for overall management of online ordering system, information management system and operation system. Mr. Wong was a software developer in Oracle Corporation, a company engaged in software supply for enterprise information management from March 1997 to April 2003. Mr. Wong was a senior system analyst from February 2005 to March 2007, and was promoted to a development manager from April 2007 to February 2008, in YesAsia.com Limited, a company engaged in online store for Asian entertainment products. He then worked as a senior software engineer in TVB.com Limited, a company under the major commercial television station company in Hong Kong from March 2008 to July 2008.

He founded a company named FoodWee Limited, which was engaged in the business of advertising platform, in July 2010, and later he joined as an architect from July 2013 to March 2014 in Asurion Asia Pacific Limited, a company engaged in mobile technology device support.

Mr. Wong graduated with a bachelor of science degree in electrical engineering and obtained a master of science degree in electrical engineering in December 1993 and May 1995, respectively, in University of Wisconsin-Madison. He also obtained a master of science degree in marketing in the Chinese University of Hong Kong in December 2009.

Directors' Report

The Board submits the Directors' Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

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 1 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 pages 3 to 4 and Management Discussion and Analysis on pages 6 to 15 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.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 57 of this annual report.

An interim dividend of HK2.58 cents (2016: HK1.73 cents) per ordinary share was paid on 24 August 2017.

The Board has determined that a second interim dividend of HK3.50 cents per ordinary share for the year ended 31 December 2017, in an aggregate amount of approximately US$4,570,000 to be payable on 27 March 2018 to the shareholders whose names appear in the Company's register of members on 15 March 2018.

Closure of register of members for 2017 second interim dividend

The register of members of the Company will be closed on Thursday, 15 March 2018 for the purpose of determining the entitlement to the 2017 second interim dividend. The record date for entitlement to receive the 2017 second interim dividend is Thursday, 15 March 2018. In order to be qualified for the 2017 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 Wednesday, 14 March 2018. The cheques for dividend payment will be sent on Tuesday, 27 March 2018.

Directors' Report

FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and equity of the Group for each of the five years ended 31 December 2017 is set out on page 5 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 2017, calculated under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands, amounted to approximately US$19.3 million (2016: approximately US$16.0 million).

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the years are set out in notes 22 and 23 to the audited consolidated financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the 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 2017.

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
Mr. Ho Chi Lam
Mr. Wan Sze Chung

Directors' Report

In accordance with articles 108 and 109 of the articles of association of the Company. Mr. Wan Sze Chung, being independent non-executive Director, and Mr. Chong Ming Pui and Mr. Yeung Yu as executive Directors, 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', SENIOR MANAGEMENT'S AND COMPANY SECRETARY'S BIOGRAPHIES

Biographical details of the Directors, senior management and Company Secretary of the Company are set out on pages 27 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' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. In addition, the directors' remuneration is reviewed by the Remuneration Committee annually.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for transactions 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.

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 2017.

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

At 31 December 2017, 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	74.5
Chau Kit Wai	Beneficial owner	1,496,000	4,504,000	0.6
Yip Kai Kut Kenneth	Beneficial owner	720,000	5,280,000	0.6
Chong Ming Pui	Beneficial owner	1,496,000	4,504,000	0.6
Yeung Yu	Beneficial owner	1,440,000	4,560,000	0.6

Save as disclosed above, as of the date of this 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 2017 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 2017 are as follows:

				Number of shares issuable under the share options				
Grantee	Date of grant	Exercise price per share	Exercise period	As at 1 January 2017	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2017
Directors								
Mr. Chan Wing Hong Alex (Note 1)	20/7/2016	HK$0.483	20/7/2017–19/7/2021 (Note 2)	6,000,000	–	–	–	6,000,000
Mr. Chau Kit Wai	20/7/2016	HK$0.483	20/7/2017–19/7/2021 (Note 2)	6,000,000	–	(1,496,000)	–	4,504,000
Mr. Yip Kai Kut Kenneth	20/7/2016	HK$0.483	20/7/2017–19/7/2021 (Note 2)	6,000,000	–	(720,000)	–	5,280,000
Mr. Chong Ming Pui	20/7/2016	HK$0.483	20/7/2017–19/7/2021 (Note 2)	6,000,000	–	(1,496,000)	–	4,504,000
Mr. Yeung Yu	20/7/2016	HK$0.483	20/7/2017–19/7/2021 (Note 2)	6,000,000	–	(1,440,000)	–	4,560,000
Consultants of the Group in aggregate	20/7/2016	HK$0.483	20/7/2017-19/7/2021 (Note 2)	2,700,000	–	(584,000)	(176,000)	1,940,000
	10/10/2017	HK$1.872	10/10/2019-9/10/2022 (Notes 4 & 6)	–	3,500,000	–	–	3,500,000
Employees of the Group in aggregate	20/7/2016	HK$0.483	20/7/2017–19/7/2021 (Note 2)	45,300,000	–	(8,600,000)	(4,428,000)	32,272,000
	5/4/2017	HK$0.72	5/4/2018-4/4/2022 (Notes 3 & 5)	–	13,600,000	–	(1,900,000)	11,700,000
	10/10/2017	HK$1.872	10/10/2019-9/10/2022 (Notes 4 & 6)	–	4,200,000	–	(500,000)	3,700,000
			Total:	78,000,000	21,300,000	(14,336,000)	(7,004,000)	77,960,000

Directors' Report

Notes:

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

2. For all share options granted on 20 July 2016, the first 25% of the total options can be exercised 1 year after the date of grant, and each 25% of the total options will become exercisable in each subsequent year.

3. A total of 13,600,000 share options are granted on 5 April 2017. Among that, 25% of 8,400,000 can be exercised 1 year after the date of grant, and each 25% of the total options will become exercisable in each subsequent year. For the remaining 5,200,000 options, 50% of the options can be exercised 2 years after the date of grant, and each 25% of the total options will become exercisable in each subsequent year.

4. For all share options granted on 10 October 2017, the first 50% of the total options can be exercised 2 years after the date of grant, and each 25% of the total options will become exercisable in each subsequent year.

5. The closing price of the Share immediately before the date on which the options were granted was HK$0.69.

6. The closing price of the Share immediately before the date on which the options were granted was HK$1.79.

Further details of the Share Option Scheme are set out in note 23 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 2017, 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 2017, the Group's five largest customers in aggregate accounted for approximately 46.7% of the Group's total revenue (2016: approximately 39.5%) and the largest customer accounted for approximately 21.8% of the Group's total revenue (2016: approximately 23.8%).

Directors' Report

During the year ended 31 December 2017, the Group's five largest suppliers in aggregate accounted for approximately 70.0% of the Group's total purchase (2016: approximately 67.5%) and the largest supplier accounted for approximately 24.8% of the Group's total purchase (2016: approximately 22.9%).

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 2017 set out in note 28 to the audited 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 2017, 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 2017
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$264,000
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$580,800

Directors' Report

Date of Transaction	Landlord	Location	Gross area	Term	Annual rent payable	Purpose of property	Rental paid during the year ended 31 December 2017
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$369,600
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$409,200
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$409,200
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$409,200
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$1,082,400
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$1,036,800
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$211,200

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 on 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 16 to 26 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 2017.

EVENTS AFTER THE REPORTING PERIOD

There is no other material subsequent event undertaken by the Company or by the Group after 31 December 2017 and up to the date of this annual report.

AUDITORS

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chan Wing Hong Alex
Chairman

Hong Kong, 28 February 2018

Environmental, Social and Governance Report

OVERVIEW

The board of directors of Plover Bay Technologies Limited (the “Company”) and its subsidiaries (collectively the “Group” or “we”) is pleased to present this Environmental, Social and Governance (“ESG”) Report. The ESG report elaborates on the various work of the Group in fully implementing the principle of sustainable development and its performance of social and governance from 1 January 2017 to 31 December 2017 (the “year”). For information on our corporate governance, please refer to the “Corporate Governance Report” on pages 16 to 26 of this annual report.

SCOPE OF ESG REPORT

The ESG report presents the Group’s sustainability approach and performance in the environmental and social aspects of its business in Hong Kong during the year. The Group will continue to strengthen its efforts to collect information in order to enhance its performance in the environmental and social areas.

REPORTING GUIDELINES

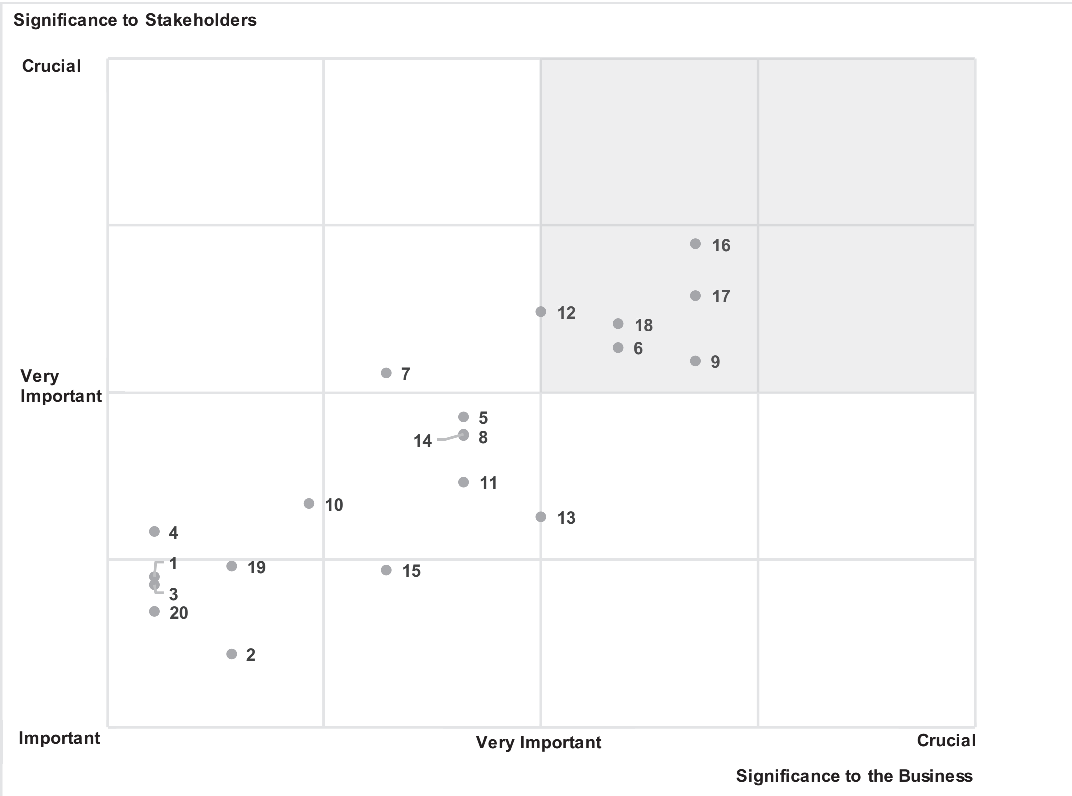
The ESG report has been prepared in accordance with the “Environmental, Social and Governance Reporting Guide” as set out in Appendix 27 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

STAKEHOLDER ENGAGEMENT

The Group values the views of our stakeholders, including not only employees, management and Directors but also customers, suppliers and communities. We communicate with our stakeholders on an ongoing basis through channels and platforms such as the online Community Forum, annual reports, surveys, regular dialogue and meetings. During the preparation of the ESG report, we commissioned an independent third-party consultant to assist the Group in conducting a materiality analysis in a fair and equitable way.

Our materiality assessment has been implemented with three main phases. We started by identifying each of material issues in respect of environment, society and governance that might affect our business or stakeholders. The potential material issues are then prioritised through conducting questionnaire to understand the views and expectations of stakeholders on the Group’s response to and disclosure of ESG issues. The consultant has retrieved a total of 52 valid questionnaires to get a panorama of stakeholders’ views on the Group’s ESG performance. By reviewing the result of the survey, the Group identifies substantive issues and highlighted them in the ESG report. The following chart shows the result of the questionnaire:

Environmental, Social and Governance Report



Environment		Labour Practices		Operation Practices		Community Investment	
1.	Waste Management	6.	Employees' Remuneration and Benefits	13.	Supply Chain Management	19.	Impact on the Community
2.	Carbon Emission	7.	Employees' Working Hour and Rest Period	14.	Customer Health and Safety	20.	Direct Economic Value Generated for Community
3.	Energy Management	8.	Diversity and Equal Opportunity	15.	Marketing and Labeling		
4.	Use of Raw Material and Packaging Materials	9.	Occupational Health and Safety	16.	Customer Privacy		
5.	Environmental Compliance	10.	Training and Education	17.	Anti-corruption		
		11.	Child Labor and Forced Labor	18.	Compliance with Laws and Regulations Relating to the Provision and Use of Products and Services		
		12.	Compliance with Labor Laws and Regulations				

Environmental, Social and Governance Report

Through the assessment process, we identified 5 most material ESG issues and disclosed relevant information in the corresponding sections.

Material Aspects		Corresponding Section
1. Customer Privacy	—	Commitment to Clients and Suppliers — Data Confidentiality
2. Anti-corruption	—	Commitment to Clients and Suppliers — Anti-corruption
3. Occupational Health and Safety	—	Establishment of an Excellent Team — Occupational Health and Safety
4. Compliance with Laws and Regulations Relating to the Provision and Use of Products and Services	—	Commitment to Clients and Suppliers — Supply Chain Management and Customer Focus
5. Employees' Remuneration and Benefits	—	Establishment of an Excellent Team — Employees' Benefit

The data collected not only highlights the Group's sustainable initiatives during the year, but also forms the basis for the Group to map out long-term strategies for sustainable development. We would continue to deepen the breadth and depth of communication with stakeholder in the future.

ENVIRONMENTAL MANAGEMENT

As a responsible corporate citizen, the Group is committed to protecting natural resources and the global environment. Our commitment to emission reduction, energy and resources conservation encompasses every aspect of our operation, and we have complied with laws and regulation related to environmental protection. In light of our business nature, the operation of the Group does not generate air, water or land pollutions or raise any significant environmental issues.

Energy Conservation

The Group recognises the importance of maintaining environmental sustainability in its daily operation. As part of the Group's initiatives to reduce energy consumption, we switch off unnecessary lights and electronic equipment and divide the office area into different zones using independent lighting switches. Meanwhile, a series of measures are taken to enhance the energy efficiency, such as allowing employees to dress in casual attire in office, adopting energy-efficient equipment and clean light fixtures and air conditioner regularly. In the year, the energy used by the Group was electricity. The energy consumption totaled 336 MWh, in which each square meter of the floor area used 0.12 MWh in the year.

Environmental, Social and Governance Report

Water Management

Water is a precious natural resource. Everyone shares the universal responsibility to promote sustainable use of water resources on the Earth. Our business operation generates mainly domestic sewage. The water supply and discharge of the leased office in Hong Kong are solely controlled by the building management, and thus the water consumption in the office cannot be collected. In the year, total water consumption in the company's storage facility was 59 cubic meters, which each square meter of the storage facility's floor area used 0.09 cubic meters in average. We encourage employees to use resources properly in order to save water resource.

Use of Packaging Material

The Group is committed to reduce the use of packaging material to minimise the impact on environment and natural resources. We reused packaging materials for product after repair or replacement products. In the year, packaging materials used by the Group are mainly paper and plastic, and the usage amount are 14,457 kg and 1,502 kg respectively. The weight of packaging material used per thousand US dollars of revenue is 0.43kg.

Waste Management

Since the Group's business does not involve manufacturing activities, solid waste is mainly generated in daily office operations without generation of hazardous waste. We have adopted the "3Rs" principle, being reduce, reuse and recycle, as our waste management strategy. We implement the policy of double-sided printing and copying and disseminate information by electronic means whenever possible to reduce paper consumption. To further reduce our paper consumption, Office Automation ("OA") system is applied to substitute the traditional paper-based office administration system. We also reduce the use of paper by distributing newsletters electronically through our online forum, emails, and regular updates on our website rather than using paper marketing materials. Our employees are encouraged to use reusable products instead of non-refillable stationeries and office supplies. The waste paper and waste iron casing are recycled and transferred to qualified recycling companies. We also carry out stock checking regularly to prevent overstock.

After the implementation of the above measures, non-hazardous waste generated includes general waste, metal and paper, which amounted to 10 tons in total, with per thousand US dollars of revenue generating 0.27kg of non-hazardous waste in the year. In the year, we recycled the documents accumulated for more than 7 years without classified information. The following table shows the non-hazardous waste generated by the Group during the year ended 31 December 2017:

Non-hazardous Waste generated by the Group during the year

Waste Type	Non-hazardous Waste Generated (tonnes) Total Amount	Amount sent to Landfill	Recycled Amount
General Waste	5	5	—
Metal	4	—	4
Paper	1	—	1
Sum of Non-hazardous waste generated	10	5	5

Green Operation

In consideration of the potential threats of climate change to the communities, the Group has made steady progress in reducing its carbon footprints across its businesses. Emissions of greenhouse gases ("GHG") by the Group were mainly contributed by the consumption of purchased electricity and outsourced logistic activities. Apart from the launch of many initiatives mentioned in "Energy Conservation", we employ multiple ways to reduce GHG emission. In terms of transportation, telephone conference is held where possible to avoid any unnecessary overseas business travel while direct flights are chosen to reduce carbon emission caused by any inevitable business travel. We have also chosen logistics companies with proven track record on sustainable development to reduce our GHG emission.

In the year, the GHG emission for the operation was 241 tons, while 5 tons GHG emission was avoided by recycling of paper. Thus, the net GHG emission in total was 236 tons. Average emission from each square meter of total floor area was 0.09 tons in the year.

ESTABLISHMENT OF AN EXCELLENT TEAM

The Group believes that employees are our valuable asset. The Group firmly upholds the principle of treating each employee fairly and consistently in all matters and enforces its employment policies in accordance with the regulations of the *Employment Ordinance*. During the year, we strictly complied with laws and regulations relating to employment and occupational health and safety. To attract and retain the best talent, we offer comprehensive range of benefits, training and development opportunity, as well as conducive and engaging working environment free of safety and health hazards.

Employment

Effective recruitment process is one of the critical factors of successful talent management. Our recruitment process consists of age verification and identification examination to avoid child labor. Prior to commencement of employment, employees are provided with key information, such as the job duties and working hour of the position concerned, and the employment is in accordance with labor contract to prevent any forced labor.

Environmental, Social and Governance Report

As an equal opportunity employer, we are committed to providing employees with a discrimination-free workplace. Our human resources policies adhere to the principle of fairness. We hire diverse human resources, regardless of their disability, sex, family status and race. In light of our business nature, a majority of staff are male but female is also welcomed to the Group.

During the year, the total number of employees of the Group is 127.

Employee Number of the Group (by 31 December 2017)

	Number
By Gender	
Male	94
Female	33
By Employment Type	
Full-time	123
Part-time	4
By Age	
< 30	28
30–50	88
> 50	11

Employees' Benefit

The Group recognises the importance of each employee and values their benefit. Employees' remuneration package is reviewed with reference to the comparable market level, employees' performance and our financial performance annually to ensure retention and attraction of high caliber employees. Apart from basic salary, we also offer guaranteed bonus. As a family-friendly employer, we have implemented flexible working hours since 2010 to promote the concept of work-life balance to our employees. Employees could have more flexibility in balancing their family obligations and work duties. Our employees are eligible for different types of leaves, such as annual leave, maternity leave, paternity leave and special occasion paid leave. Employee compensation insurance is provided according to the law, while other entitlements including medical insurance and travel insurance are also provided. Upon receipt of a letter of resignation, an exit interview would be arranged to understand the reason of leaving and to improve the Group's operation. The payment of outstanding wages will be made on time.

Occupational Health and Safety

Work safety is the cornerstone of the sustainable development of the Group. We seek to create a pleasant and comfortable workplace for our employees by carrying out preventive and corrective measures, including provision of adjustable seats, provision of footstep for easier reaching upward and regular maintenance of office equipment. We also provide sufficient tools upon employees request to safely complete their duties. Employees are expected to report accidents, injuries and unsafe equipment or practices to the management promptly. Emergency exits are well maintained to ensure the accessibility of our employees. In addition, we install air purifiers in the workplace to remove harmful particles like allergens, fine dust, and virus with sufficient air flow rate. In order to strengthen the protection to our employees, the coverage of medical insurance policies is broadened. News and tips regarding to occupational health and safety are provided to employees to raise their awareness on health and safety. Fresh fruit are provided on a weekly basis to encourage our employees to have a healthy diet.

As at 31 December 2017, the number of work-related death was zero, while the total working day affected by work-related injury was zero. The Group is committed to preventing any work-related injury to its employees, and has complied with relevant laws and regulations to provide a safe working environment and protecting employees from occupational hazards.

Development and Training

In order to establish an excellent team to accommodate the rapid development of the Group, our employees are required to receive performance evaluation which thoroughly assesses the employees' attributes, personal ability and performance at work. Annual appraisal serves not only as a process to document the performance of our employees, but also a precious opportunity to assist our employees to set their three-to-five year career plans. We believe two-way communication is crucial to employee engagement that drives job satisfaction and high productivity. We have provided a platform for quality communication between employees and management. Our promotion is executed on a fair and open basis and any form of discrimination is not tolerated. Competent employees will be considered for internal promotion in recognition of their efforts and contribution when there is a job vacancy.

The Group considers employees as the foundation of its achievements and provides career advancement opportunities to help employees reaching their full potential. To help new staff fit into our culture and get familiar with the new working environment, all new staff undergo an orientation which covers the topics relating to the Group's background, professional ethics and basic business protocol and professional knowledge and skills for the 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 enrich their knowledge in discharging their duties.

Environmental, Social and Governance Report

COMMITMENT TO CLIENTS AND SUPPLIERS

The Group is committed to maintaining a mutually beneficial good relationship with our clients and suppliers. To live up to this commitment, we strive to improve every aspects of our operation to create greater values for clients and the supply chain.

Supply Chain Management

Behind our continuous development and smooth business operation is the stability in the supply of materials. Our major suppliers comprise contract manufacturers and raw material suppliers. A supplier approval process is formulated to select supplier. We request the samples of the raw materials and development kit corresponding to the raw material from the potential suppliers and perform quality control tests on the sample to prevent the use of unqualified materials and ensure its quality. In order to evaluate the performance of potential contracted manufacturers, we visit their respective manufacturing facilities to assure the production scale and manufacturing capabilities. All contracted manufacturers are required to be accredited with ISO 14001 Environmental Management System and ISO 9001 Quality Management System Certification. Before entering into cooperation with the contracted manufacturers, product samples are ordered to ensure its quality meet our requirement. A balanced judgment is made after considering the suppliers' reputation, performance, test result, environmental and social factors. After supplier selection, we continuously evaluate the Group's suppliers. We also take green purchasing principle into consideration. The usage of material is constantly evaluated to avoid overstocking and squandering resources.

Customer Focus

With the aim to assure the product safety and provide the best quality products and service that meets and exceeds our customers' expectation, stringent systematic quality controls are executed at every production stages, from procurement of component to the postsale software improvement. With clients in Hong Kong and various parts of the world, we strictly comply with the applicable regulations and laws related to product health and safety, advertising and labeling in the designated location, such as the *Consumer Goods Safety Ordinance*, *Sale of Goods Ordinance* and *Trade Marks Ordinance* in Hong Kong and the *Food and Drug Administration's Regulations and Federal Communication Regulations* in the U.S., the *Communications and Multimedia (Technical Standards) Regulations 2000* in Malaysia. Prior to mass production of our products, we develop sample prototypes and perform quality control test and functional test to ensure the target specification is met and the products comply with the standards or regulations relating to product health and safety. The golden sample which has passed the specified reliability test and regulation compliance test would be transferred to our contracted manufacturers for mass production. Concerning our product safety obligations, the suppliers responsible for safety concerned part is required to be certified with international safety approval. The test cases along with product specifications is developed for us and contract manufacturers testing the hardware and software of our products to ensure the final products and the software developed conform to the product specifications. While our contract manufacturers test each product and component manufactured, our quality control team also perform test for final products in random before shipping to customers.

In order to strengthen customer communications, an online system is established to collect customer opinion, and thereby, improve customer satisfaction. Meanwhile, our customers can avail themselves of various channels to file a complaint regarding our products and services. A designated department would investigate customer complaints and map out solution to cater for customer demands. For defective products, customers are allowed to return for repair and replacement within warranty period. We strive to provide accurate information on our marketing material and forbid any false, misleading or inaccurate statement in any form of our marketing activities. We have numerous moderators who moderate and review reported problems in forum postings and assess the accuracy of advice provided by members of our online platform.

Data Confidentiality

We are fully aware of the importance of our proprietary technologies and our duty in maintaining the confidentiality of data from customers and business partners under laws and regulations, such as the *Personal Data (Privacy) Ordinance*, the Group spared no effort to protect their information and our intellectual property right. Every employee is required to enter into a labour contract which strictly forbids the disclosure of confidential or proprietary information outside the Group, either during or after employment, without the Group's authorisation. Intellectual property rights associated with the technological achievements developed by our employees during the course of their employment with the Group belong to us. Access to confidential information or document is restricted and granted on a need-to-know basis.

To step up protection of privacy for our customers, privacy and personal data that is collected, stored and transmitted by our products are safeguarded. Our SD-WAN routers are supported by our proprietary SpeedFusion technology which is capable of providing secured connections by using encryption to carry confidential data using public WAN connection. If our customers have different branch offices, our Balance series routers can keep the information transmitted confidential across the public internet. Our technology ensures a highly secured system to protect customers' privacy, which can be seen that we strive to and value the importance of maintaining the confidentiality of data. Besides security measures, we respect the choice of our customers on the use of their information, if they do not want us to use their information to make further contact with them. As at year ended 31 December 2017, we were not aware of any breach relating to the confidentiality provision by our employees.

In addition, the confidential information, including our intellectual property, shared with our suppliers, contract manufacturers and distributor is protected by confidentiality agreements. If our business partners violate the terms of using our confidential information or trademark, we reserve the right to terminate the distribution agreement.

Environmental, Social and Governance Report

Anti-corruption

With integrity being a core part of the Group's business ethics, we strictly comply with the laws and regulations regarding bribery, extortion, fraud and money laundering, such as the *Presentation of Bribery Ordinance*. To maintain high standards of corporate governance, we fulfill our commitment through abiding by anti-corruption policies and guidelines, such as acceptance of gifts and conflicts of interest. To live up to our anti-corruption commitment, whistleblowing policy is also formulated. Our employees are encouraged to report any suspected misconduct and violation of rules. Investigation work for whistleblowing reports is handled with strict confidentiality under all circumstances to preserve anonymity. Related procedures and guidelines are available in our code of conduct. If any employee does not know how to deal with a situation in a manner that complies with the code of conduct, they are encouraged to seek further advice.

We also invited Hong Kong Independent Commission Against Corruption ("ICAC") to conduct seminars to enhance employees' awareness of anti-corruption. We keep a close tab on various expenses to deter corruption and malpractice. Prior to the commencement of business relation with suppliers, we conduct assessment for the qualification, reputation and financial strength of the suppliers to guard ourselves against the involvement of money-laundering activities. As at 31 December 2017, the Group did not receive any complaint or incompliance or any case of corruption and bribery committed by our employees.

COMMUNITY INVESTMENT

Apart from our pursuit of the business development, the Group spared no efforts in making commitment on the local community and our industry. During the year, we donated clothing and toys to the Salvation Army, benefiting the people in need. In order to nourish an innovative environment and stay ahead of the latest trends and developments in the industry, an online Community Forum is established for everyone to seek information and share knowledge about our industry. Any person may obtain free membership of our online Community Forum. Furthermore, the online Community Forum is a discussion channel to exchange their new ideas. In addition to the online Community Forum, our distributors are invited to attend exhibitions and events in order to share our industry knowledge. As an enterprise with strong social conscience, we will continue to step up our philanthropic effort and drive employee involvement in serving the community and constructing an innovative society.

Independent Auditor's Report

EY安永

To the shareholders of Plover Bay Technologies Limited
(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 (the "Group") set out on pages 57 to 123, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report (continued)

Key audit matters (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group recognised certain revenue from bundled transactions under contracts with customers including sales of both products and services. The revenue recognition of such transactions involved significant management judgements and estimates including determination of obligations and identification of product and service elements in the contracts, and allocation of the transaction price to each element with reference to its relative fair value (i.e., stand-alone selling price). Where management is unable to determine the stand-alone selling price, management uses the residual value method. Under this method, management estimates the stand-alone selling price by making reference to the total contract consideration less the sum of the observable stand-alone selling prices of other elements. Relevant disclosures of the significant judgements and estimates are included in note 3 to the financial statements.	Our procedures included understanding, assessing and testing the Group's processes and key controls over recognising revenue from bundled transactions, the identification of product and service elements and the calculation of relative fair value. Apart from the above, we have assessed the significant judgements and estimates made by management, through obtaining the list of stand-alone selling prices prepared by management and assessing the validity of the list of stand-alone selling prices with reference to the observable stand-alone selling prices of each of the respective elements.

Independent Auditor's Report (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Write-down of inventories to net realisable value	
The Group had inventories with a total carrying amount of approximately US$11,629,000 as at 31 December 2017. The Group performs regular review of the carrying amounts of inventories to determine if any write-down of inventories to net realisable value is required after considering the aged analyses of inventories and relevant historical sales and usage reports. The determination of net realisable value requires management to make significant judgements and estimates that affect the reported amount of inventories and related disclosures. The significant judgements and estimates are included in note 3 to the financial statements.	We evaluated management's assessment of whether the estimated net realisable values of inventories declined below their carrying amounts. Our procedures included understanding, assessing and testing the Group's processes and key controls over identifying and valuing obsolete, damaged, slow-moving, excessive and other potentially impaired inventory items for which their net realisable values might decline below their carrying amounts; evaluating the methodologies, inputs and assumptions used by the Group in determining the net realisable values of inventories; and assessing the write-down of inventories required by testing the aged analyses of inventories, sales made and materials used subsequent to the end of the reporting period and historical sales and usage reports.

Independent Auditor's Report (continued)

Other information included in the Annual Report

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

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

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

Responsibilities of the directors 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report (continued)

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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Yat Kin.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

28 February 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
REVENUE	5	**37,132**	28,358
Cost of sales and services		**(14,157)**	(10,413)
Gross profit		**22,975**	17,945
Other income and gains, net	5	**463**	104
Selling and distribution expenses		**(1,636)**	(1,697)
Administrative expenses		**(3,958)**	(3,412)
Research and development expenses		**(7,189)**	(4,990)
Listing expenses		**–**	(1,252)
Finance costs	7	**(26)**	(23)
PROFIT BEFORE TAX	6	**10,629**	6,675
Income tax expense	10	**(1,875)**	(1,435)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**8,754**	5,240
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(77)**	13
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**8,677**	5,253
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic (US cents)		**0.87**	0.6
Diluted (US cents)		**0.84**	0.6

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 US$'000	2016 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,995**	694
Intangible assets	14	**661**	383
Deferred tax assets	21	**22**	—
Deposits paid for purchase of items of property, plant and equipment		**–**	106
Total non-current assets		**2,678**	1,183
CURRENT ASSETS			
Inventories	15	**11,629**	6,678
Trade receivables	16	**7,763**	3,947
Prepayments, deposits and other receivables	17	**1,713**	1,368
Tax recoverable		**29**	—
Pledged bank deposit	18	**–**	129
Cash and cash equivalents	18	**16,747**	19,193
Total current assets		**37,881**	31,315
CURRENT LIABILITIES			
Trade payables, other payables and accruals	19	**2,630**	1,884
Deferred revenue		**5,036**	3,551
Tax payable		**919**	1,589
Interest-bearing bank borrowings	20	**1,944**	318
Total current liabilities		**10,529**	7,342
NET CURRENT ASSETS		**27,352**	23,973
TOTAL ASSETS LESS CURRENT LIABILITIES		**30,030**	25,156
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	**95**	56
Deferred revenue		**1,185**	854
Total non-current liabilities		**1,280**	910
Net assets		**28,750**	24,246
EQUITY			
Equity attributable to owners of the parent			
Issued capital	22	**1,307**	1,288
Reserves	24	**27,443**	22,958
Total equity		**28,750**	24,246

CHAN WING HONG ALEX
Director

CHAU KIT WAI
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners of the parent					
	Notes	Issued capital US$'000	Share premium account US$'000	Share option reserve US$'000	Exchange fluctuation reserve US$'000	Retained profits US$'000	Total equity US$'000
At 1 January 2016		–	–	–	64	7,049	7,113
Profit for the year		–	–	–	–	5,240	5,240
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations		–	–	–	13	–	13
Total comprehensive income for the year		–	–	–	13	5,240	5,253
Capitalisation issue	22(b)	966	(966)	–	–	–	–
Issue of shares in an initial public offering	22(c)	322	15,789	–	–	–	16,111
Share issue expenses		–	(1,410)	–	–	–	(1,410)
Equity-settled share option arrangements	23	–	–	407	–	–	407
Distribution of dividend	11	–	–	–	–	(998)	(998)
Interim 2016 dividend	11	–	–	–	–	(2,230)	(2,230)
At 31 December 2016		1,288	13,413	407	77	9,061	24,246
At 1 January 2017		**1,288**	**13,413**	**407**	**77**	**9,061**	**24,246**
Profit for the year		**–**	**–**	**–**	**–**	**8,754**	**8,754**
Other comprehensive loss for the year:							
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**(77)**	**–**	**(77)**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**(77)**	**8,754**	**8,677**
Issue of shares upon exercise of share options	22(d)	**19**	**1,183**	**(315)**	**–**	**–**	**887**
Equity-settled share option arrangements	23	**–**	**–**	**764**	**–**	**–**	**764**
Transfer of share option reserve upon the forfeiture of share options		**–**	**–**	**(1)**	**–**	**1**	**–**
Second interim 2016 dividend	11	**–**	**–**	**–**	**–**	**(2,484)**	**(2,484)**
Interim dividend 2017	11	**–**	**–**	**–**	**–**	**(3,340)**	**(3,340)**
At 31 December 2017		**1,307**	**14,596***	**855***	**–***	**11,992***	**28,750**

* These reserve accounts comprise the consolidated reserves of US$27,443,000 (2016: US$22,958,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**10,629**	6,675
Adjustments for:			
Finance costs	7	**26**	23
Interest income	5	**(173)**	(1)
Write-down of inventories to net realisable value	6	**281**	20
Loss on disposal of items of property, plant and equipment	6	**–**	32
Depreciation	6	**385**	292
Impairment of trade receivables	6	**11**	39
Amortisation of intangible assets	6	**254**	153
Equity-settled share option expenses	23	**764**	407
		12,177	7,640
Increase in inventories		**(5,232)**	(2,560)
Increase in trade receivables		**(3,827)**	(1,281)
Increase in prepayments, deposits and other receivables		**(345)**	(216)
Increase in trade payables, and other payables and accruals		**746**	839
Decrease in amounts due to related companies		**–**	(474)
Increase in deferred revenue		**1,837**	817
Cash generated from operations		**5,356**	4,765
Hong Kong profits tax paid		**(2,547)**	(346)
Net cash flows from operating activities		**2,809**	4,419
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**173**	1
Purchase of items of property, plant and equipment		**(1,605)**	(462)
Additions to intangible assets		**(535)**	(240)
Deposits paid for purchase of items of property, plant and equipment		**–**	(106)
Decrease/(increase) in a pledged bank deposit		**129**	(129)
Proceeds from disposal of items of property, plant and equipment		**17**	–
Increase in a non-pledged bank deposit with original maturity of more than three months when acquired		**(7,115)**	–
Net cash flows used in investing activities		**(8,936)**	(936)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2017

	Notes	**2017 US$'000**	2016 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**887**	–
Proceeds from issue of shares		**–**	16,111
Share issue expenses		**–**	(1,410)
Dividends paid		**(5,824)**	(3,228)
New bank loans	25	**2,638**	318
Repayment of bank loans	25	**(995)**	(1,238)
Decrease in an amount due to a director		**–**	(1,794)
Increase in amounts due to related companies		**–**	918
Interest paid		**(26)**	(23)
Net cash flows from/(used in) financing activities		**(3,320)**	9,654
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(9,447)**	13,137
Cash and cash equivalents at beginning of year		**19,193**	6,062
Effect of foreign exchange rate changes, net		**(114)**	(6)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**9,632**	19,193
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	**18**	**9,632**	6,325
Non-pledged time deposits	**18**	**7,115**	12,868
Cash and cash equivalents as stated in the statement of financial position		**16,747**	19,193
Non-pledged time deposit not in the nature of cash and cash equivalents for the purpose of the statement of cash flows		**(7,115)**	–
Cash and cash equivalents as stated in the statement of cash flows		**9,632**	19,193

Notes to Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION

Plover Bay Technologies Limited is a limited liability company incorporated in the Cayman Islands. The address of the registered office of the Company is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company is located at Unit B, 5/F, Dragon Industrial Building, 93 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

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

- designing, development and marketing of software defined wide area network (the "SD-WAN") routers; and

- provision of software licences and warranty and support services.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation and business	Issued ordinary share capital	Percentage of equity attributable to the Company 2017	2016	Principal activities
Protean Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100**	100	Investment holding
Pepwave Limited	Hong Kong	Ordinary HK$1	**100**	100	Designing, development and marketing of SD-WAN routers and provision of software licences and warranty and support services
Peplink International Limited	Hong Kong	Ordinary HK$1,000	**100**	100	Designing, development and marketing of SD-WAN routers and provision of software licences and warranty and support services
Pismo Labs Limited	Hong Kong	Ordinary HK$1	**100**	100	Development of SD-WAN routers
Pismo Labs Technology Limited	Hong Kong	Ordinary HK$1	**100**	100	Intellectual property holding
Pismo Research (Malaysia) Sdn. Bhd.#	Malaysia	Ordinary RM350,000	**100**	100	Development of SD-WAN routers
Ultra Land Limited	Hong Kong	Ordinary HK$1	**100**	100	Property holding
Ultra Prosper Limited	Hong Kong	Ordinary HK$1	**100**	100	Property holding

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Except for Protean Holdings Limited, all of the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group or of particular importance to the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of preparation for the year ended 31 December 2016

In preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Company became the holding company of the companies comprising the Group on 15 June 2016. The combined entities and the Company were under common control of Mr. Chan Wing Hong, Alex ("Mr. Chan") before and after that date. Accordingly, the subsidiaries of the Company were consolidated by applying the principal of merge accounting. Their results, changes in equity and cash flows were combined by the Company as if the group structure had been in existence as at 1 January 2016 or since their respective dates of incorporation, where there is a shorter period.

Notes to Financial Statements (continued)

31 December 2017

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

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

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill and other intangible assets) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to Financial Statements (continued)

31 December 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 *included in Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a material impact on the Group's financial performance and positions for the period presented in these financial statements. Disclosure has been made in note 25 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Notes to Financial Statements (continued)

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements to HKFRSs 2014–2016 cycle	*Amendments to* HKFRS 1 and HKAS 28[1]
Annual Improvements to HKFRSs 2015–2017 cycle	Amendments to a number of HKFRSs[2]

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 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

Notes to Financial Statements (continued)

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has expected that the provision for impairment will increase upon the initial adoption of the standard.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During 2017, the Group has performed a preliminary assessment on the impact of the adoption of HKFRS 15.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group's principal activities consist of the designing, development and marketing of SD-WAN routers, and provision of software licences and warranty and support services. The Group does not expect the adoption of HKFRS 15 will have a significant impact on the Group's financial performance and financial position. However, the presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

Notes to Financial Statements (continued)

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 27 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately US$697,000. Upon adoption of HKFRS 16, the amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements (continued)

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Notes to Financial Statements (continued)

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the shorter of the lease terms and $3^1/_3$%
Furniture and fixtures	20%
Computer equipment	$33^1/_3$%
Office equipment	$33^1/_3$%
Machine and equipment	$33^1/_3$%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents, licences and trademarks

Patents, licences and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Research and development expenditures

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as financing lease. Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets of the Group are classified, at initial recognition, as loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is recognised in profit or loss. The loss arising from impairment is recognised in profit or loss.

Notes to Financial Statements (continued)

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to Financial Statements (continued)

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Notes to Financial Statements (continued)

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement of payables, loans and borrowings

After initial recognition, payables, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred revenue

Deferred revenue represents service fees received in advance from the rendering of the corresponding services. Revenue is recognised and deferred revenue is released to profit or loss when the corresponding services have been rendered.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

Notes to Financial Statements (continued)

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of routers and software, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) licence fee income, on the straight-line basis over the terms of the respective contract, or when the relevant services have been rendered;

(c) from the provision of warranty and support services, on a time proportion basis over the terms of the respective contract, or when the relevant services have been rendered; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Notes to Financial Statements (continued)

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group (including directors of the entities comprising the Group) receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 23 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of each reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of each reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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.

Notes to Financial Statements (continued)

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds, and they are expensed in the period in which they are incurred.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grants the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in United States dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currencies of overseas subsidiaries are currencies other than the United States dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into United States dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Income taxes

Significant judgement is involved in determining the provision for income taxes. Determining income tax provision requires management to make estimates and assumptions and involves judgement on the tax treatment of certain transactions, assessment of the probability of tax uncertainties and interpretation of applicable tax rules. These estimates, assumptions, judgements and assessments affect the amounts that are reported in these financial statements and accompanying disclosures. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account any changes in tax legislation and/or underlying assumptions.

Estimation uncertainty

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, are described below.

Notes to Financial Statements (continued)

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Allocation of revenue for bundled transactions with customers

The Group has bundled transactions 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. Significant management judgement is required to determine the obligations and identify the elements in the contracts and allocate the transaction price to each obligation and the elements on the basis of the relative fair value (i.e., stand-alone selling price) of each distinct product or service element included in the contract.

Where management is unable to determine the stand-alone selling price, management uses the residual value method. Under this method, management estimates the stand-alone selling price by making reference to the total contract consideration less the sum of the observable stand-alone selling prices of other elements.

Impairment of trade receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a trade receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on, inter alia, historical loss experience for assets with similar credit risk characteristics and/or other relevant facts and circumstances.

The Group maintains an allowance for estimated impairment of receivables arising from the inability of its debtors to make the required payments or if the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) is less than the financial assets' carrying amount. The Group makes its estimates based on, inter alia, the ageing of its receivable balances, debtors' creditworthiness, past repayment history and historical write-off experience and/or other relevant facts and circumstances. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the estimates of making the allowance. Further details are included in note 16 to the consolidated financial statements.

Net realisable value of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged analyses of the Group's inventories and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

4. OPERATING SEGMENT INFORMATION

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

(a) the sales of SD-WAN routers segment that primarily engages in sales of wired and wireless routers; and

(b) software licences and warranty and support services segment that primarily engages in the provision of software licences and warranty and support services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that other income and gains, net, selling and distribution expenses, unallocated administrative expenses, listing expenses and finance costs are excluded from such measurement.

Notes to Financial Statements (continued)

31 December 2017

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

(a) Operating segments

	Sales of SD-WAN routers				Software licences and warranty and support services		Total	
	Wired routers		Wireless routers					
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
Segment revenue:								
Sales to external customers	**7,932**	7,687	**21,373**	14,291	**7,827**	6,380	**37,132**	28,358
Segment results	**3,873**	3,825	**6,200**	4,405	**5,459**	4,572	**15,532**	12,802
Reconciliation:								
Other income and gains, net							**463**	104
Selling and distribution expenses							**(1,636)**	(1,697)
Unallocated administrative expenses							**(3,704)**	(3,259)
Listing expenses							**–**	(1,252)
Finance costs							**(26)**	(23)
Profit before tax							**10,629**	6,675

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

Notes to Financial Statements (continued)

31 December 2017

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(a) Operating segments (continued)

	Sales of SD-WAN routers				Software licences and warranty and support services		Total	
	Wired routers		Wireless routers					
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
Other segment information:								
Amortisation of intangible assets	**8**	11	**205**	137	**41**	5	**254**	153
Write-down of inventories to net realisable value	**76**	7	**205**	13	**–**	–	**281**	20

(b) Geographical information

(i) Revenue from external customers

	2017 US$'000	2016 US$'000
North America	**21,305**	14,960
EMEA (Europe, Middle East, Africa)	**7,652**	6,945
Asia	**7,224**	5,758
Others	**951**	695
	37,132	28,358

(ii) Non-current assets

	2017 US$'000	2016 US$'000
Hong Kong	**2,651**	1,176
Malaysia	**5**	7
	2,656	1,183

The non-current assets information above is based on the locations of the assets and excludes deferred tax assets.

Notes to Financial Statements (continued)

31 December 2017

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(c) Information about major customers

Revenue from two external customers individually amounting to 10% or more of the Group's total revenue:

For the year ended 31 December 2017, revenue from two major customers of US$8,099,000 (2016: US$6,759,000) and US$4,169,000 (2016: US$377,000), respectively, was derived from the sales of SD-WAN routers segment and software licences and warranty and support services segment.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the aggregate of the invoiced value of goods sold, net of trade discounts, returns and sales related tax, where applicable; and fees earned from the provision of software licences, warranty and support services.

An analysis of revenue, other income and gains, net is as follows:

	2017 US$'000	2016 US$'000
Revenue		
Sales of SD-WAN routers		
— Wired	**7,932**	7,687
— Wireless	**21,373**	14,291
Provision of warranty and support services	**6,652**	5,189
Sales of software and license fee income	**1,175**	1,191
	37,132	28,358
Other income and gains, net		
Sales of parts	**153**	65
Bank interest income	**173**	1
Foreign exchange gains, net	**80**	—
Others	**57**	38
	463	104

Notes to Financial Statements (continued)

31 December 2017

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2017 US$'000**	2016 US$'000
Cost of inventories sold		**12,833**	9,572
Cost of services provided		**1,324**	841
Depreciation	13	**385**	292
Amortisation of intangible assets*	14	**254**	153
Loss on disposal of items of property, plant and equipment		**–**	32
Minimum lease payments under operating leases		**644**	580
Auditor's remuneration		**154**	218
Employee benefit expense (excluding directors' remuneration — note 8)^:			
Wages, salaries and allowances		**5,112**	3,783
Equity-settled share-based payment expense		**449**	233
Retirement benefit scheme contributions (defined contribution schemes)		**214**	167
		5,775	4,183
Equity-settled share-based payment expense for consultants		**40**	14
Impairment of trade receivables	16	**11**	39
Write-down of inventories to net realisable value		**281**	20
Foreign exchange differences, net		**(80)**	96

* Amortisation of intangible assets for the year of US$254,000 (2016: US$153,000) is included in "Administrative expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

^ Employee benefit expense of US$4,739,000 (2016: US$3,279,000) is included in "Research and development expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

Notes to Financial Statements (continued)

31 December 2017

7. FINANCE COSTS

	2017 US$'000	2016 US$'000
Interest on bank borrowings	**26**	23

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 US$'000	2016 US$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**45**	24
	45	24
Other emoluments:		
Salaries and allowances	**1,256**	1,140
Equity-settled share-based payment expense#	**275**	160
Retirement benefit scheme contributions (defined contribution schemes)	**10**	10
	1,541	1,310
	1,586	1,334

\# In the prior years, certain directors were granted share options, subject to certain vesting conditions, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 23 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017 **US$'000**	2016 US$'000
Independent non-executive directors#:		
Yu Kin Tim	**15**	8
Ho Chi Lam	**15**	8
Wan Sze Chung	**15**	8
	45	24

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

Saved as disclosed above, there were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

Notes to Financial Statements (continued)

31 December 2017

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

The fees and other emoluments paid to executive directors during the year were as follows:

	Salaries, allowances and benefits in kind US$'000	Equity-settled share-based payment expense US$'000	Retirement benefit scheme contributions US$'000	Total remuneration US$'000
2017				
Executive directors:				
Mr. Chan	**468**	**55**	**2**	**525**
Chau Kit Wai	**205**	**55**	**2**	**262**
Yip Kai Kut	**173**	**55**	**2**	**230**
Yeung Yu	**205**	**55**	**2**	**262**
Chong Ming Pui	**205**	**55**	**2**	**262**
	1,256	**275**	**10**	**1,541**
2016				
Executive directors:				
Mr. Chan	418	32	2	452
Chau Kit Wai	187	32	2	221
Yip Kai Kut	161	32	2	195
Yeung Yu	187	32	2	221
Chong Ming Pui	187	32	2	221
	1,140	160	10	1,310

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2016: five) directors, details of whose remuneration are set out in note 8 above.

Notes to Financial Statements (continued)

31 December 2017

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2017	2016
	US$'000	US$'000
Current — Hong Kong		
Charge for the year	**1,870**	1,418
Under/(over) provision in prior years	**(12)**	1
Deferred (note 21)	**17**	16
Total tax charge for the year	**1,875**	1,435

A reconciliation of the tax expense applicable to profit before tax at the statutory profits tax rate for Hong Kong in which the Company and the majority of its subsidiaries operating/are domiciled to the tax charge at the effective tax rate is as follows:

	2017	2016
	US$'000	US$'000
Profit before tax	**10,629**	6,675
Tax at the Hong Kong statutory tax rate of 16.5% (2016: 16.5%)	**1,754**	1,101
Higher tax rate for an overseas subsidiary	**(1)**	—
Adjustments in respect of current tax of previous periods	**(12)**	1
Income not subject to tax	**(33)**	(5)
Expenses not deductible for tax	**183**	307
Others	**(16)**	31
Tax charge at the Group's effective tax rate	**1,875**	1,435

Notes to Financial Statements (continued)

31 December 2017

11. DIVIDENDS

	Notes	2017 US$'000	2016 US$'000
Interim — HK2.58 cents (2016: HK1.73 cents) per ordinary share		**3,340**	2,230
Second interim — HK3.50 cents (2016: HK1.93 cents) per ordinary share	(a)	**4,570**	2,484
2015 final dividend	(b)	**—**	998
		7,910	5,712

Notes:

(a) Subsequent to the end of the reporting period, a second interim dividend in respect of the year ended 31 December 2017 of HK3.50 cents (2016: second interim dividend of HK1.93 cents) per ordinary share, in an aggregate amount of approximately US$4,570,000 (2016: US$2,484,000) has been declared by the directors of the Company.

(b) A subsidiary of the Company distributed a final dividend of US$998,000 for the year ended 31 December 2015 to its then shareholder prior to the group reorganisation prepared for the Listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,005,086,005 (2016: 867,486,339) in issue during the year. For the year ended 31 December 2016, the weighted average number of ordinary shares for the purpose of basic earnings per share amount has taken into account the share issued pursuant to a group reorganisation and the capitalisation issue as disclosed in note 22(b) to the financial statements as if it had been effective on 1 January 2016.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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

Earnings

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

Shares

	Number of shares	
	2017	2016
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,005,086,005**	867,486,339
Shares		
Effect of dilution — weighted average number of ordinary shares:		
Share options	**41,343,895**	—
	1,046,429,900	867,486,339

No adjustment had been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding had an antidilutive effect on the basic earnings per share amount presented.

Notes to Financial Statements (continued)

31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Furniture and fixtures US$'000	Computer equipment US$'000	Office equipment US$'000	Machine and equipment US$'000	Total US$'000
31 December 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	–	614	327	181	621	1,743
Accumulated depreciation	–	(284)	(232)	(101)	(432)	(1,049)
Net carrying amount	–	330	95	80	189	694
At 1 January 2017, net of accumulated depreciation	–	330	95	80	189	694
Additions	1,223	30	73	74	311	1,711
Disposals	–	(2)	–	(15)	–	(17)
Depreciation provided during the year	(35)	(117)	(52)	(44)	(137)	(385)
Exchange realignment	(3)	(2)	–	(1)	(2)	(8)
At 31 December 2017, net of accumulated depreciation	1,185	239	116	94	361	1,995
At 31 December 2017:						
Cost	1,220	641	388	229	869	3,347
Accumulated depreciation	(35)	(402)	(272)	(135)	(508)	(1,352)
Net carrying amount	1,185	239	116	94	361	1,995
31 December 2016						
At 1 January 2016:						
Cost	–	410	251	158	517	1,336
Accumulated depreciation	–	(214)	(191)	(55)	(320)	(780)
Net carrying amount	–	196	60	103	197	556
At 1 January 2016, net of accumulated depreciation	–	196	60	103	197	556
Additions	–	259	76	23	104	462
Disposals	–	(32)	–	–	–	(32)
Depreciation provided during the year	–	(93)	(41)	(46)	(112)	(292)
At 31 December 2016, net of accumulated depreciation	–	330	95	80	189	694
At 31 December 2016:						
Cost	–	614	327	181	621	1,743
Accumulated depreciation	–	(284)	(232)	(101)	(432)	(1,049)
Net carrying amount	–	330	95	80	189	694

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2017, the Group's leasehold land and buildings with a net carrying amount of approximately US$1,185,000 (2016: Nil) were pledged to secure general banking facilities and mortgage granted to the Group (note 20).

14. INTANGIBLE ASSETS

	Licences US$'000	**Patents** US$'000	**Trademarks** US$'000	**Total** US$'000
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation	287	79	17	383
Additions	463	70	2	535
Amortisation provided during the year	(212)	(39)	(3)	(254)
Exchange realignment	(3)	—	—	(3)
At 31 December 2017	535	110	16	661
At 31 December 2017:				
Cost	1,084	177	25	1,286
Accumulated amortisation	(549)	(67)	(9)	(625)
Net carrying amount	535	110	16	661
31 December 2016				
At 1 January 2016:				
Cost	425	53	20	498
Accumulated amortisation	(208)	(9)	(4)	(221)
Net carrying amount	217	44	16	277
Cost at 1 January 2016, net of accumulated amortisation	217	44	16	277
Additions	183	54	3	240
Amortisation provided during the year	(132)	(19)	(2)	(153)
Exchange realignment	19	—	—	19
At 31 December 2016	287	79	17	383
At 31 December 2016 and at 1 January 2017:				
Cost	627	107	23	757
Accumulated amortisation	(340)	(28)	(6)	(374)
Net carrying amount	287	79	17	383

During the year, additions of intangible assets of US$535,000 (2016: US$240,000) were acquired separately.

Notes to Financial Statements (continued)

31 December 2017

15. INVENTORIES

	2017	2016
	US$'000	US$'000
Raw materials and consumables	**7,464**	4,143
Finished goods	**4,165**	2,535
	11,629	6,678

16. TRADE RECEIVABLES

	2017	2016
	US$'000	US$'000
Trade receivables	**7,856**	4,026
Impairment	**(93)**	(79)
	7,763	3,947

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

16. TRADE RECEIVABLES (CONTINUED)

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

	2017 US$'000	2016 US$'000
Within 1 month	**5,300**	2,272
1 to 2 months	**1,423**	1,030
2 to 3 months	**538**	494
Over 3 months	**502**	151
	7,763	3,947

The movements in provision for impairment of trade receivables are as follows:

	2017 US$'000	2016 US$'000
At 1 January	**79**	43
Impairment losses recognised (note 6)	**11**	39
Exchange realignment	**3**	(3)
At 31 December	**93**	79

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of US$93,000 (2016: US$79,000) with a carrying amount before provision of US$93,000 (2016: US$79,000).

The individually impaired trade receivables relate to amounts that were long outstanding and/or customers that were in financial difficulties/in default.

Notes to Financial Statements (continued)

31 December 2017

16. TRADE RECEIVABLES (CONTINUED)

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 **US$'000**	2016 US$'000
Neither past due nor impaired	**5,280**	2,086
Less than 1 month past due	**1,606**	1,297
1 to 3 months past due	**547**	471
Over 3 months past due	**330**	93
	7,763	3,947

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good reputation and/or have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 **US$'000**	2016 US$'000
Prepayments	**575**	455
Deposits and other receivables	**1,138**	913
	1,713	1,368

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Notes to Financial Statements (continued)

31 December 2017

18. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSIT

	2017 US$'000	2016 US$'000
Cash and bank balances	**9,632**	6,325
Time deposits	**7,115***	12,997
	16,747	19,322
Less: Pledged time deposit for banking facility granted by a bank	**–**	(129)
Cash and cash equivalents as stated in the consolidated statement of financial position	**16,747**	19,193

* As at 31 December 2017, the Group had a time deposit with original maturity of more than three months when acquired amounted to US$7,115,000.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

19. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2017 US$'000	2016 US$'000
Trade payables	**1,297**	725
Deposits received	**237**	260
Other payables	**7**	64
Accruals	**1,089**	835
	2,630	1,884

Notes to Financial Statements (continued)

31 December 2017

19. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (CONTINUED)

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 US$'000	2016 US$'000
Within 1 month	**1,216**	725
1 to 2 months	**69**	—
2 to 3 months	**—**	—
Over 3 months	**12**	—
	1,297	725

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

20. INTEREST-BEARING BANK BORROWINGS

		2017			2016		
	Notes	Contractual interest rate (%) per annum	Maturity	US$'000	Contractual interest rate (%) per annum	Maturity	US$'000
Current							
Bank loan — secured	(a)	Hong Kong Interbank Offered Rate ("HIBOR")+2	On demand	**107**	London Interbank Offered Rate ("LIBOR")+1.5	On demand	318
Bank loan — secured	(a)	HIBOR+1.85	On demand	**1,408**	—	—	—
Long term bank loans — secured (note 31)	(b)	Hong Kong Dollar Prime Rate −2.5	On demand	**429**	—	—	—
				1,944			318
Analysed into:							
Loans repayable within one year or on demand				**1,944**			318

20. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

Notes:

(a) The Group's bank facilities amounting to US$3,718,000 (2016: US$2,659,000), of which US$1,515,000 (2016: US$318,000) had been utilised as at the end of the reporting period, are secured by the pledge of the Group's leasehold land and buildings amounting to US$1,185,000 (2016: Nil). In the prior year, the bank facilities were secured by a limited guarantee of US$2,658,000 provided by Mr. Chan and the pledge of a time deposit of the Group's amounting to US$129,000.

(b) The Group's bank loans are secured by mortgages over the Group's leasehold land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately US$1,185,000 (2016: Nil). Further details of the bank loans are included in note 31 to the financial statements.

(c) Except for the LIBOR+1.5% secured bank loan in the prior year which was denominated in United States dollars, all interest-bearing bank borrowings are denominated in Hong Kong dollars.

21. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation		Depreciation allowance in excess of related amortisation		Total	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
At 1 January	**46**	24	**63**	46	**109**	70
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10)	**(3)**	22	**44**	17	**41**	39
Gross deferred tax liabilities at 31 December	**43**	46	**107**	63	**150**	109

Notes to Financial Statements (continued)

31 December 2017

21. DEFERRED TAX (CONTINUED)

Deferred tax assets

	Losses available for offsetting against future taxable profits		Depreciation in excess of related depreciation allowance		Total	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
At 1 January	**53**	30	**–**	–	**53**	30
Deferred tax credited to the consolidated statement of profit or loss during the year (note 10)	**2**	23	**22**	–	**24**	23
Gross deferred tax assets at 31 December	**55**	53	**22**	–	**77**	53

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2017 US$'000	2016 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**22**	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(95)**	(56)
	(73)	(56)

The Group has estimated tax losses arising in Hong Kong of US$362,000 (2016: US$322,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has estimated tax losses arising in Malaysia of US$296,000 (2016: US$254,000) for offsetting against future taxable profits arising in Malaysia.

As at 31 December 2017, the tax losses of a subsidiary in Hong Kong of US$334,000 (2016: US$317,000) were recognised as deferred tax assets as the subsidiary has been generating assessable profits in prior years. In the opinion of the directors, it is considered probable that taxable profits will be available against which such tax losses can be utilised based on the estimated future taxable profits of the subsidiary. Deferred tax assets have not been recognised in respect of the remaining losses of the Group arising in Hong Kong as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits would be available against which the tax losses can be utilised. Deferred tax assets have not been recognised in respect of the losses arising in Malaysia as they have arisen in a subsidiary that has been loss-making for some time and it is not considered probable that taxable profits would be available against which the tax losses can be utilised.

22. ISSUED CAPITAL

Shares

	2017 **US$'000**	2016 US$'000
Authorised:		
4,000,000,000 (2016: 4,000,000,000) ordinary shares of HK$0.01 each	**5,152**	5,152
Issued and fully paid:		
1,014,336,000 (2016: 1,000,000,000) ordinary shares of HK$0.01 each	**1,307**	1,288

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

	Notes	**Number of shares in issue**	**Issued capital** HK$'000	**Issued capital** US$'000
At 1 January 2016		1	–	–
Issue of 1 ordinary share of HK$0.01	(a)	1	–	–
Capitalisation issue	(b)	749,999,998	7,500	966
Issue of new shares in an initial public offering	(c)	250,000,000	2,500	322
At 31 December 2016 and 1 January 2017		1,000,000,000	10,000	1,288
Share options exercised	(d)	14,336,000	143	19
At 31 December 2017		1,014,336,000	10,143	1,307

Notes:

(a) 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 Limited to the Company.

(b) 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 of the Company were authorised to capitalise the amount of HK$7,499,999.98 (equivalent to approximately US$966,000) 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 of the Company for allotment and issue to Mr. Chan on 13 July 2016.

Notes to Financial Statements (continued)

31 December 2017

22. ISSUED CAPITAL (CONTINUED)

Notes: (continued)

(c) On 13 July 2016, the Company issued 250,000,000 shares of the Company 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.

(d) The subscription rights attaching to 14,336,000 share options were exercised at the subscription price of HK$0.483 per share (note 23), resulting in the issue of 14,336,000 ordinary shares for a total cash consideration, before expenses, of approximately US$887,000. An amount of approximately US$315,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 23 to the financial statements.

23. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, consultants or advisors of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any other person, at the sole discretion of the directors. The Scheme became effective on 21 June 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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 grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

23. SHARE OPTION SCHEME (CONTINUED)

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, whichever is earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2017		2016	
	Weighted average exercise price per share HK$	**Number of options**	Weighted average exercise price per share HK$	Number of options
At 1 January	**0.483**	**78,000,000**	—	—
Granted during the year	**1.136**	**21,300,000**	0.483	78,700,000
Forfeited during the year	**0.646**	**(7,004,000)**	0.483	(700,000)
Exercised during the year	**0.483**	**(14,336,000)**	—	—
At 31 December	**0.647**	**77,960,000**	0.483	78,000,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.624 per share (2016: No share options were exercised).

Notes to Financial Statements (continued)

31 December 2017

23. SHARE OPTION SCHEME (CONTINUED)

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

2017

Number of options '000	Exercise price HK$ per share	Exercise period
4,235	0.483	20-7-2017 to 19-7-2021
18,275	0.483	20-7-2018 to 19-7-2021
18,275	0.483	20-7-2019 to 19-7-2021
18,275	0.483	20-7-2020 to 19-7-2021
2,100	0.720	5-4-2018 to 4-4-2022
3,750	0.720	5-4-2019 to 4-4-2022
2,925	0.720	5-4-2020 to 4-4-2022
2,925	0.720	5-4-2021 to 4-4-2022
3,600	1.872	10-10-2019 to 9-10-2022
1,800	1.872	10-10-2020 to 9-10-2022
1,800	1.872	10-10-2021 to 9-10-2022
77,960		

2016

Number of options '000	Exercise price HK$ per share	Exercise period
19,500	0.483	20-7-2017 to 19-7-2021
19,500	0.483	20-7-2018 to 19-7-2021
19,500	0.483	20-7-2019 to 19-7-2021
19,500	0.483	20-7-2020 to 19-7-2021
78,000		

23. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the year was US$679,000 (US$0.03 each) (2016: US$1,766,000, US$0.02 each). The Group recognised a share option expense of US$764,000 (2016: US$407,000) during the year which is related to the share options granted in 2017 of US$114,000 and those granted in 2016 of US$650,000 (2016: US$407,000).

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

	2017	2016
Dividend yield (%)	**7.72–7.84**	—
Expected volatility (%)	**41.72–44.35**	43.74
Risk-free interest rate (%)	**1.28–1.83**	0.65
Expected life of options (year)	**5.00**	5.00
Weighted average share price (HK$ per share)	**0.72–1.86**	0.47

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of the Company's comparable companies' share price is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 14,336,000 share options exercised during the year resulted in the issue of 14,336,000 ordinary shares of the Company and new share capital of approximately US$19,000, as further detailed in note 22 of the financial statements.

At the end of the reporting period, the Company had 77,960,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 77,960,000 additional ordinary shares of the Company and additional share capital and share premium of approximately US$100,000 and US$6,358,000 (before expenses), respectively.

At the date of approval of these financial statements, the Company had 76,060,000 share options outstanding under the Scheme, which represented approximately 7.5% of the Company's shares in issue as at that date.

Notes to Financial Statements (continued)

31 December 2017

24. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 59 of the financial statements.

25. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings US$'000
At 1 January 2017	318
Changes from financing cash flows	1,643
Foreign exchange movement	(17)
At 31 December 2017	1,944

26. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 20 to the financial statements.

27. COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to three years (2016： two to three years).

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 US$'000	2016 US$'000
Within one year	**697**	645
In the second to fifth years, inclusive	**–**	699
	697	1,344

(b) Capital commitments

	2017 US$'000	2016 US$'000
Contracted, but not provided for:		
Leasehold land and buildings	**–**	1,112

Notes to Financial Statements (continued)

31 December 2017

28. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions, arrangements and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	**2017 US$'000**	2016 US$'000
Rental expenses paid to related companies#	(i)	**613**	474

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

Note:

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

(b) Compensation of key management personnel of the Group:

	2017 US$'000	2016 US$'000
Short term employee benefits	**1,256**	1,140
Equity-settled share-based payment expense	**275**	160
Post-employment benefits	**10**	10
Total compensation paid to key management	**1,541**	1,310

Further details of directors' emoluments are included in note 8 to the financial statements.

Notes to Financial Statements (continued)

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29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Loans and receivables	
	2017	2016
	US$'000	US$'000
Trade receivables	**7,763**	3,947
Deposits and other receivables	**1,138**	913
Pledged bank deposit	**–**	129
Cash and cash equivalents	**16,747**	19,193
	25,648	24,182

Financial liabilities

	Financial liabilities at amortised costs	
	2017	2016
	US$'000	US$'000
Trade payables	**1,297**	725
Other payables	**7**	64
Financial liabilities included in accruals	**191**	–
Interest-bearing bank borrowings	**1,944**	318
	3,439	1,107

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

At the end of the reporting period, the carrying amounts of the Group's financial assets and liabilities reasonably approximated to their fair values.

Management has assessed that the fair values of cash and cash equivalents, a pledged bank deposit, trade receivables, deposits and other receivables, trade payables, other payables, financial liabilities included in accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

Notes to Financial Statements (continued)

31 December 2017

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include pledged bank deposit, cash and cash equivalents and interest-bearing bank borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables, and financial liabilities included in accruals, which mainly arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on interest-bearing bank borrowings with floating interest rates).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax US$'000
2017		
Hong Kong dollar	**(50)**	**10**
United States dollar	**(50)**	**—**
Hong Kong dollar	**50**	**(10)**
United States dollar	**50**	**—**
2016		
Hong Kong dollar	(50)	—
United States dollar	(50)	2
Hong Kong dollar	50	—
United States dollar	50	(2)

There is no impact on the Group's equity except on the retained profits.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures mainly arise from revenue generated and/or costs and expenses incurred by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro, Renminbi and Malaysia Ringgit ("RM") exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax US$'000
2017		
If the United States dollar weakens against Euro	**5**	**16**
If the United States dollar strengthens against Euro	**(5)**	**(16)**
If the United States dollar weakens against Renminbi	**5**	**1**
If the United States dollar strengthens against Renminbi	**(5)**	**(1)**
If the United States dollar weakens against Malaysia Ringgit	**5**	**4**
If the United States dollar strengthens against Malaysia Ringgit	**(5)**	**(4)**
2016		
If the United States dollar weakens against Euro	5	24
If the United States dollar strengthens against Euro	(5)	(24)
If the United States dollar weakens against Renminbi	5	1
If the United States dollar strengthens against Renminbi	(5)	(1)
If the United States dollar weakens against Malaysia Ringgit	5	1
If the United States dollar strengthens against Malaysia Ringgit	(5)	(1)

There is no impact on the Group's equity except on the retained profits.

Notes to Financial Statements (continued)

31 December 2017

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group primarily trades on credit terms with recognised and creditworthy third parties. It is the Group's policy that most customers who wish to trade on credit terms are to a certain extent subject to certain credit verification procedures. In addition, receivable balances are monitored by the Group's management on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise a pledged bank deposit, cash and cash equivalents, and deposits and other receivables, mainly arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group primarily trades on credit terms with recognised and creditworthy third parties, there is no requirement for collateral.

Concentrations of credit risk are managed by customer/counterparty. At the end of the reporting period, the Group had certain concentration of credit risk as 40% (2016: 21%) and 80% (2016: 57%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 16 to the financial statements.

Notes to Financial Statements (continued)

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to ensure there are adequate funds to meet its contractual payments for financial liabilities in the short and long term. In the management of liquidity risk, the Group monitors and maintains a level of cash and bank balances, and time deposits deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Cash flows of the Group are closely monitored by senior management on an ongoing basis.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017		
	On demand US$'000	Less than 3 months US$'000	Total US$'000
Trade payables	–	1,297	1,297
Other payables	–	7	7
Financial liabilities included in accruals	–	191	191
Interest-bearing bank borrowings (note 20)	1,944	–	1,944
	1,944	1,495	3,439

Notes to Financial Statements (continued)

31 December 2017

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

	2016		
	On demand US$'000	Less than 3 months US$'000	Total US$'000
Trade payables	—	725	725
Other payables	—	64	64
Interest-bearing bank borrowings (note 20)	318	—	318
	318	789	1,107

Note:

Included in the above interest-bearing bank borrowings of the Group are certain term loans with an aggregate carrying amount of US$1,944,000 (2016: US$318,000). The loan agreements of these borrowings contain a repayment on-demand clause giving the banks the unconditional right to call in the loans at any time and therefore, for the purposes of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clause, the directors of the Company do not believe that the loans will be called before their respective maturity dates, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the loans which contain a repayment on-demand clause, the maturity profile of those loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on-demand clause, is as follows:

	Less than 1 year US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
As at 31 December 2017	1,563	115	407	2,085
As at 31 December 2016	320	—	—	320

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

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

The Group regularly reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is total debt to total shareholders' equity. Total debt includes interest-bearing bank borrowings. Total shareholders' equity comprises all components of equity attributable to owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of the reporting periods were as follows:

	2017 **US$'000**	2016 US$'000
Interest-bearing bank borrowings and total debt	**1,944**	318
Total equity	**28,750**	24,246
Gearing ratio	**6.8%**	1.3%

32. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation. The directors consider that such reclassifications allow a more appropriate presentation of the Group's results of operations and/or better reflect the nature of the transactions.

Notes to Financial Statements (continued)

31 December 2017

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 US$'000	2016 US$'000
NON-CURRENT ASSET		
Investment in a subsidiary	**7**	7
CURRENT ASSETS		
Other receivables	**96**	19
Amounts due from subsidiaries	**13,355**	7,734
Cash and cash equivalents	**7,538**	14,116
Total current assets	**20,989**	21,869
CURRENT LIABILITIES		
Other payables and accruals	**61**	65
Amounts due to subsidiaries	**4,226**	4,106
Total current liabilities	**4,287**	4,171
NET CURRENT ASSETS	**16,702**	17,698
Net assets	**16,709**	17,705
EQUITY		
Issued capital	**1,307**	1,288
Reserves (note)	**15,402**	16,417
Total equity	**16,709**	17,705

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account US$'000	Share options reserve US$'000	Retained profits/ (accumulated losses) US$'000	Total US$'000
At 1 January 2016	—	—	(1,002)	(1,002)
Profit for the year	—	—	5,829	5,829
Capitalisation issue	(966)	—	—	(966)
Issue of shares in an initial public offering	15,789	—	—	15,789
Share issue expenses	(1,410)	—	—	(1,410)
Equity-settled share option arrangements	—	407	—	407
Interim 2016 dividend	—	—	(2,230)	(2,230)
At 31 December 2016 and at 1 January 2017	13,413	407	2,597	16,417
Profit for the year	—	—	7,915	7,915
Issue of shares upon exercise of share options	1,183	(315)	—	868
Equity-settled share option arrangements	—	764	—	764
Transfer of share option reserve upon the forfeiture of share options	—	(1)	1	—
Second interim 2016 dividend	—	—	(2,484)	(2,484)
Interim 2017 dividend	—	—	(3,340)	(3,340)
At 31 December 2017	14,596	855	4,689	20,140

Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the share premium in certain circumstances.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 February 2018.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000	US$'000
REVENUE	**37,132**	28,358	21,859	17,946	13,306
PROFIT BEFORE TAX	**10,629**	6,675	4,140	4,285	3,009
Income tax expense	**(1,875)**	(1,435)	(783)	(542)	(444)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**8,754**	5,240	3,357	3,743	2,565

ASSETS AND LIABILITIES

	As at 31 December				
	2017	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000	US$'000
TOTAL ASSETS	**40,559**	32,498	15,349	12,176	10,748
TOTAL LIABILITIES	**(11,809)**	(8,252)	(8,236)	(5,580)	(4,172)

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