Plover Bay Technologies Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1523

Annual Report 2019

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

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 54, Hopewell Centre
183 Queen’s Road East
Hong Kong

STOCK CODE

1523

WEBSITE

www.ploverbay.com

Chairman's Statement

During the year of 2019, our sales and net profit recorded year-on-year increases of 10% and 14%, respectively. The mild growth has been the result of some changes we have made to our operations to improve the efficiency, resilience and long-term sustainability of our business.

The first change we made in 2019 was to establish regional warehouses in our key markets. With these regional warehouses, we are able to ship products to the end customers with a shorter turnaround time and lower shipping cost. This approach helps our distribution partners to focus more on channel recruitment and business development. Together with our warehouse in Hong Kong and our e-commerce systems, we can grow and scale our channel partners in a very efficient way and ship products around the clock with much more flexibility.

On the R&D and engineering side, we have invested time and effort to set up a new team in Lithuania with embedded software engineers, cloud software engineers, hardware engineers and technical support engineers. Together with our two R&D teams in Hong Kong and Taiwan, we are expanding the width and the depth of our technical capabilities as well as diversifying our country risks.

On the product side, we placed a stronger focus on a multi-purpose, volume-based SD-WAN router model during the year. This product is very competitively priced and it was distributed on a volume based pricing model. The customers of this model are very diverse, from large retail chains to machineries that require remote connectivity. These volume-based models have a very strong competitive advantage in large scale deployments and they will generate recurring subscription revenue from the advanced software features. When customers are facing a choice between a US$150K upgrade versus a US$300K upgrade, the choice is obvious.

Making changes requires effort and courage. We constantly review our business approach, product and service offerings for being more competitive, better efficiency and resilience. This is the culture of Plover Bay. The "learn, experiment and review" cycle is in our DNA. We have the courage to change for good and not stay within the comfort zone.

APPRECIATION

We would like to give our thanks to all of our staff and management for their long-term contribution. We also wish to express sincere gratitude towards our shareholders, customers and business partners for their unwavering support. Going forward, we will continue to refine and optimize our business in order to further enhance the long-term value of the company.

Chan Wing Hong Alex
Chairman

Hong Kong, 27 February 2020

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 is as follows:

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**45,910**	41,806	37,132	28,358	21,859
Profit for the year attributable to owners of the parent	**12,089**	10,620	8,754	5,240	3,357
Adjusted by:					
Listing expenses	**–**	–	–	1,252	1,001
Equity-settled share-based payments	**530**	761	764	407	–
Core net profit	**12,619**	11,381	9,518	6,899	4,358
Earnings per share – basic (US cents)	**1.17**	1.04	0.87	0.60	0.45
Core net profit per share – basic (US cents)	**1.22**	1.12	0.95	0.80	0.58

Financial Summary

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
Assets					
Total non-current assets	**5,520**	3,391	2,678	1,183	833
Total current assets	**44,558**	41,904	37,881	31,315	14,516
Total assets	**50,078**	45,295	40,559	32,498	15,349
Liabilities					
Total current liabilities	**12,906**	10,559	10,529	7,342	7,460
Total non-current liabilities	**3,058**	2,018	1,280	910	776
Total liabilities	**15,964**	12,577	11,809	8,252	8,236
Equity					
Equity attributable to owners of the parent	**34,114**	32,718	28,750	24,246	7,113

The summary of the consolidated results of the Group for the year ended 31 December 2015 and of the assets, liabilities and equity as at 31 December 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 2019, 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 2019, revenue of the Group was approximately US$45,910,000, representing a year-on-year increase of approximately 9.8%. During the year, wireless SD-WAN segment grew 10.9% year-on-year, primarily driven by strong sales and shipment growth of volume-based wireless SD-WAN routers. Sales from the wired SD-WAN segment decreased approximately 3.9% year-on-year as the Company's new product launched mainly focused on wireless SD-WAN products. Sales from Support and Warranty Services increased by 18.3% year-on-year as it follows the growth momentum of our SD-WAN routers. Software licenses increased by 14.2% year-on-year, driven by licensing sales for add-on features of our SD-WAN routers.

The table below sets out our revenue by product/service category for the years ended 31 December 2018 and 31 December 2019:

	For the year ended 31 December			
	2019		2018	
	Revenue US$'000	**% of total %**	Revenue US$'000	% of total %
SD-WAN routers:				
Wired	**7,853**	**17.1**	8,170	19.6
Wireless	**24,666**	**53.7**	22,251	53.2
Warranty and support services	**11,282**	**24.6**	9,539	22.8
Software licences	**2,109**	**4.6**	1,846	4.4
Total	**45,910**	**100.0**	41,806	100.0

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 2019

	Sale of SD-WAN routers Wired routers US$'000	 Wireless routers US$'000	Software licences and warranty and support services US$'000	Total US$'000
External sales and segment revenue	**7,853**	**24,666**	**13,391**	**45,910**
Segment profit	**3,581**	**7,150**	**10,305**	**21,036**
Other income				**484**
Selling and distribution expenses				**(2,411)**
Unallocated administrative expenses				**(5,020)**
Finance costs				**(95)**
Profit before tax				**13,994**

Year ended 31 December 2018

	Sale of SD-WAN routers Wired routers US$'000	 Wireless routers US$'000	Software licences and warranty and support services US$'000	Total US$'000
External sales and segment revenue	8,170	22,251	11,385	41,806
Segment profit	3,986	6,054	8,462	18,502
Other income				295
Selling and distribution expenses				(2,107)
Unallocated administrative expenses				(4,445)
Finance costs				(32)
Profit before tax				12,213

Management Discussion and Analysis

We divide our sales into the following geographical regions: North America, EMEA (including Europe, Middle East and Africa), Asia and Other regions. During the year ended 31 December 2019, sales to North America increased to approximately US$27,627,000, representing year-on-year growth of approximately 13.4%. Sales to EMEA rose to approximately US$10,826,000, representing a year-on-year growth of approximately 5.2%. Sales to Asia increased approximately 5.2% to approximately US$6,628,000 while other regions decreased approximately 2.5% year-on-year.

The table below sets out the breakdown of revenue by location of customers in terms of absolute amount and as a percentage of total revenue for the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	Revenue US$'000	**% of total %**	Revenue US$'000	% of total %
North America	**27,627**	**60.2**	24,368	58.3
EMEA	**10,826**	**23.6**	10,290	24.6
Asia	**6,628**	**14.4**	6,298	15.1
Others	**829**	**1.8**	850	2.0
Total	**45,910**	**100.0**	41,806	100.0

Gross profit and gross profit margin

For the year ended 31 December 2019, our gross profit was approximately US$28,774,000, a year-on-year increase of approximately 9.9%. Our gross profit margin was approximately 62.7%, compared to approximately 62.6% for the year ended 31 December 2018. During the year, the gross margin of each individual product was largely stable. Overall change in gross margin in each segment was highly driven by product mix changes.

Management Discussion and Analysis

The table below sets out our Group's gross profit and gross profit margin by product/service category for the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	Gross profit US$'000	**Gross profit margin %**	Gross profit US$'000	Gross profit margin %
SD-WAN routers:				
Wired	**4,841**	**61.6**	5,427	66.4
Wireless	**11,441**	**46.4**	10,254	46.1
Warranty and support services	**10,392**	**92.1**	8,662	90.8
Software licences	**2,100**	**99.6**	1,846	100.0
Total	**28,774**	**62.7**	26,189	62.6

Other income

Other income mainly represented interest income. For the year ended 31 December 2019, other income was approximately US$484,000, representing a year-on-year increase of approximately 64.1%.

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 2019 was approximately US$2,411,000, a year-on-year increase of approximately 14.4%. During the year, the increase in selling and distribution expenses was mainly due to increases in headcount and salary of our marketing and business development teams and increased support and incentives to channel partners' marketing activities.

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, lease expenses and other office expenses.

Administrative expenses for the years ended 31 December 2019 was approximately US$5,537,000, representing a year-on-year increase of approximately 15.0%. The increase in administrative expense is due to higher headcount and salary, growth in amortisation of intangible assets and increase in lease expenses being recognised as depreciation of rights-of-use assets after the newly adopted HKFRS 16.

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 2019 was approximately US$7,221,000, representing a year-on-year decrease of approximately 1.3%. During the year, headcount and salaries of the R&D team and external R&D consultants slightly increased, while cost incurred for R&D materials and samples decreased due to improvements in sourcing and procurement.

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, employees and consultants which are expensed on a straight-line basis over the vesting period since the grant date.

During the year, share options of the Group were granted on 10 May 2019 and 31 December 2019. Equity-settled share-based payment expense for the year ended 31 December 2019 was approximately US$530,000 (year ended 31 December 2018: approximately US$761,000). Details of share options granted by the Group are set out below under the heading "Share Option Scheme" of this annual report.

Total operating expenses

Total operating expenses during the year ended 31 December 2019, which includes selling and distribution expenses, administrative expenses and research and development expenses from the above, amounted to approximately US$15,169,000, representing a year-on-year increase of approximately 6.5%. Total staff cost (including equity-settled share-based expenses and executive directors' remunerations) remains the largest component of our operating expenses and amounted to approximately US$8,135,000 during the year, a year-on-year increase of approximately 5.0%.

Finance costs

Finance costs mainly represented interests on bank borrowings and the interest portion of lease liabilities.

Finance costs for the year ended 31 December 2019 was approximately US$95,000, representing a year-on-year increase of approximately 196.9%. The increase is mainly due to recognition of interest portion of lease liabilities as required by the newly adopted HKFRS 16.

Management Discussion and Analysis

Income tax expense

During the year, we provided for Hong Kong profits tax at a rate of 16.5% on our estimated assessable profits arising in Hong Kong, except for one subsidiary which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/19. Taking into consideration the effects of potential deductions from qualified R&D expenses implemented by the HKSAR Government, the effective tax rate during the year was approximately 13.6%.

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2019 was approximately US$12,089,000, representing an increase of approximately 13.8% year-on-year.

Impact of the recent coronavirus situation

Up to the date of this annual report, management has not been aware of any cases of COVID-19 infection among our staff and the outbreak did not pose any significant impact to the Group's operations. We currently have an appropriate response plan in place. We will continue to monitor and assess the ongoing development and respond accordingly.

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;

— Global trade policy uncertainties, which may affect the economics of the purchasing decisions of our end customers;

— 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

As mobile network operators are launching 5G networks, the focus won't be just for the consumer 5G smartphone market. Enterprise and industrial applications have different requirements other than just speed. Repeatable performance, ability to connect to multiple operator networks, simplified global deployment and management are more important elements.

Our vision has always been about providing user-friendly and reliable connectivity solutions over any forms of WAN, including 5G. In the coming year, besides broadening the catalogue of our 5G-capable routers, our focus will be to further enhance the adoption of our products and create further potential for future recurring revenues.

First, we will launch a new technology called FusionSIM, which enables zero-touch management and instant injection of mobile SIM cards through the cloud. Not only will this reduce the complexity of multi-region deployment, it will also allow enterprise users to dynamically manage their wireless connections to respond to the constantly changing mobile network conditions, effectively helping customers maximize network coverage and uptime in any location. This will also open up the possibility of new business models in the longer horizon, such as serviced mobile data with built-in SpeedFusion capabilities.

Furthermore, we will expand our subscription packages to include everything from wireless router equipment, software licenses for cloud management and SpeedFusion, and warranty and support service. These subscriptions lower the capex barrier to adopt our products, while also boosting our recurring revenue stream in the long run.

On the operation side, we will be enhancing our partnership with a few selected manufacturing partners who can work closely with us to capture the 5G mega opportunity. These partners have the strength in manufacturing high quality networking products on a large scale.

Together with our SpeedFusion ecosystem, we can drive the adoption of our proprietary technologies into all markets that require unbreakable connectivity, no matter the customer prefers a one-time perpetual model or a multi-year subscription.

Lastly, our new products and solutions will be well supported by our recently expanded global teams and reformed sales channel. Plover Bay is well-positioned for the coming wave of 5G-driven opportunities in the enterprise and industrial wireless networking market.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, our bank borrowings amounted to approximately US$393,000 (as at 31 December 2018: approximately US$1,306,000) which are secured by mortgages over the Group's buildings with aggregate carrying value at the end of the period of approximately US$1,102,000 (2018: approximately US$1,143,000).

As at 31 December 2019, the gearing ratio (which is defined as total borrowings over total equity) of our Group was approximately 1.2% (2018: approximately 4.0%). 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 2019.

AGEING ANALYSIS OF TRADE RECEIVABLES AND TRADE PAYABLES

For details of our ageing analysis of trade receivables and trade payables, please refer to note 17 and note 20 to the consolidated financial information, 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 2019, the Group had 159 full-time employees. The total amount of staff costs of the Group for the year was approximately US$8,135,000.

The Company also adopted a share option scheme approved on 21 June 2016 for the purpose of, among other things, recognition of employees' contribution to the Company's continued growth. During the year, the Company issued share options on 10 May 2019 and 31 December 2019. Details have been set out in the section headed "Share Option Scheme" elsewhere in 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.

Management Discussion and Analysis

RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contribution per employee is HK$1,500 per month. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. The expenses arising from the provident fund of the Group for the year ended 31 December 2019 were approximately US$207,000 (2018: approximately US$208,000).

The employees in the Group's subsidiary in Malaysia are members of the state-managed retirement benefit scheme, the Employees Provident Fund (the "EPF Scheme") operated by the Malaysia government. The subsidiary is required to contribute a certain percentage of payroll costs to the EPF Scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions. The retirement benefit scheme contribution arising from the EPF Scheme charged to profit or loss and other comprehensive income for the year ended 31 December 2019 were approximately US$32,000 (2018: approximately US$31,000).

The employees in the Group's subsidiary in Taiwan chose to participate in a defined contribution scheme governed by the Labour Pension Act of Taiwan. This subsidiary contributes at 6% of the total salaries of participating employees who have chosen to participate in the defined contribution scheme, deposited into individual pension accounts at the Bureau of Labour Insurance of Taiwan. The expenses arising from the defined contribution scheme for the year ended 31 December 2019 were approximately US$21,000 (2018: Nil).

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLAN FOR MATERIAL INVESTMENT

As at 31 December 2019, the Group had no significant investment held and material investment plan.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2019, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

COMMITMENTS

As at 31 December 2019, the Group had no capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements (2018: Nil).

Management Discussion and Analysis

PLEDGE OF ASSETS

The Group's bank loans are secured by mortgages over the Group's buildings, which had an aggregate carrying value at the end of the reporting period of approximately US$1,102,000 (2018: US$1,143,000).

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 2019 amounted to approximately HK$24.4 million (equivalent to approximately US$3.1 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 issued on 30 June 2016 (the "Prospectus").

As at 31 December 2019, the Group has utilised the Net Proceeds as follows:

	Percentage of total amount	**Net proceeds**	**Utilised amount**	**Unutilised amount**
		US$ million	US$ million	US$ million
Strengthen our R&D capabilities:				
Expansion of R&D team	22%	3.12	3.12	—
Upgrade R&D facilities	13%	1.74	0.23	1.51
Establishment of a R&D centre	13%	1.75	1.23	0.52
Promotional and marketing activities	15%	2.10	1.73	0.37
Improving marketing capabilities	13%	1.87	1.59	0.28
Improve brand awareness	3%	0.48	0.16	0.32
Install an enterprise resource planning system	1%	0.12	0.12	—
Strengthen patent portfolio	10%	1.40	1.26	0.14
Working capital and general corporate purposes	10%	1.40	1.40	—
	100%	13.98	10.84	3.14

Management Discussion and Analysis

DECLARATION OF DIVIDENDS AND THE CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to declare a second interim dividend of HK4.64 cents per share and a special dividend of HK2.98 cents per share for the year ended 31 December 2019. For the purpose of determining the entitlement to the 2019 second interim dividend and special dividend (together, the "Dividends"), the register of members of the Company will be closed on Friday, 13 March 2020. The record date for entitlement to receive the Dividends is Friday, 13 March 2020. In order to be qualified for the Dividends, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 12 March 2020. The cheques for payment of the Dividends are expected to be sent on Friday, 27 March 2020.

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 2019.

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 2019.

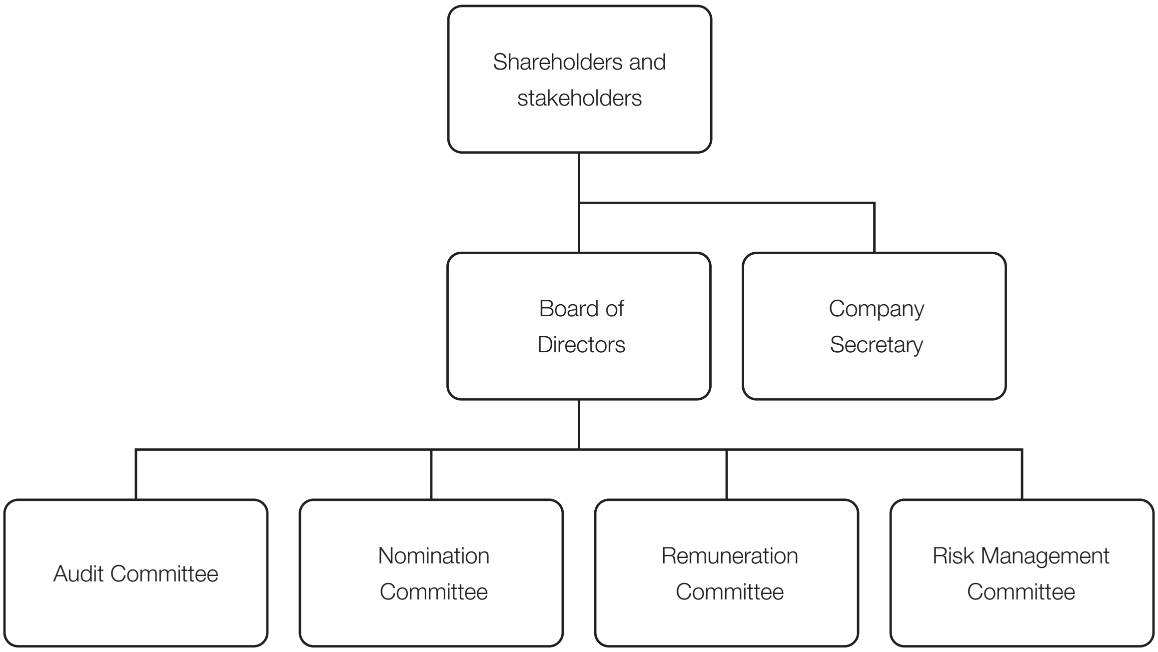
The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

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 2019.

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.

Corporate Governance Report

BOARD MEETINGS AND BOARD PRACTICES

The Board holds regular meetings at appropriate intervals during a year. The Board will also meet on other occasions when a board-level decision on a particular matter is required. During the year ended 31 December 2019, the Board held 4 regular meetings. The attendance records of the Directors to these regular board meetings are set out in the table on page 24 of this annual report.

All minutes of the meetings, record in sufficient detail the matters considered and decisions reached, are kept by the Company Secretary and are 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.

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. 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.

Corporate Governance Report

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 2019, the Audit Committee held two meetings to review the annual results of the Group for the year ended 31 December 2018, and to review the interim results of the Group for the six months ended 30 June 2019. 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 2019. 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 2019, the Remuneration Committee held one meeting to review and recommend the remuneration packages of the Directors to the Board, assess the performance of relevant Directors and other related matters.

Nomination Committee

We have established a Nomination Committee pursuant to a resolution of our Directors passed on 21 June 2016. Our Company has written terms of reference in compliance with the CG Code. The primary functions of the Nomination Committee of our Company are to review the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and make recommendation to our Board on any proposed changes to our Board to complement our Company's corporate strategy; identify individuals suitably qualified as potential board members and select or make recommendations to our Board on the selection of individuals nominated for directorships; to assess the independence of our independent non-executive Directors; and make recommendations to our Board on the appointment or reappointment of Directors and succession planning of Directors, in particular that of our Chairman and our Chief Executive Officer. At present, the Nomination Committee consists of three members: one executive Director, being Mr. Chan Wing Hong Alex, who 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 2019 is set out below:

Remuneration bands	Number of person(s)
Nil to US$250,000	5
US$250,001 to US$550,000	1

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

During the year ended 31 December 2019, 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.

Corporate Governance Report

For the year ended 31 December 2019, 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 2019, 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	4/4	–	1/1	1/1	1/1
Mr. Chau Kit Wai	4/4	–	–	–	1/1
Mr. Yip Kai Kut Kenneth	3/4	–	–	–	1/1
Mr. Chong Ming Pui	4/4	–	–	–	–
Mr. Yeung Yu	4/4	–	–	–	–
Independent non-executive Directors					
Dr. Yu Kin Tim	2/4	1/2	1/1	1/1	–
Mr. Ho Chi Lam	4/4	2/2	–	–	–
Mr. Wan Sze Chung	4/4	2/2	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.

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 52 to 57 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 2019, 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. The Group has adopted 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. During the year, we are not aware of any breach to the Code of Conduct.

COMPANY SECRETARY

Mr. Yip Kai Kut Kenneth is the Company Secretary of the Company. During the year, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

Corporate Governance Report

DIVIDEND POLICY

The board of directors of the Company has approved and adopted a dividend policy (the "Dividend Policy") effective from 28 February 2019. The Company endeavours to maintain sufficient working capital to develop and operate the business of the Group and to provide stable and sustainable returns to the shareholders of the Company ("Shareholders"). During the year ended 31 December 2019, there has been no change to the Dividend Policy.

In determining the dividend for distribution to Shareholders, the Board will measure the capital needs in future years based on the future capital budget plan of the Company and consider factors such as profitability and financial structure and liquidity of the Company comprehensively.

The declaration and payment of dividend by the Company is subject to any restrictions under the Companies Law of the Cayman Islands and the Company's articles of association and any other applicable laws and regulations. The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Group in respect of its future dividend and/or in no way obligate the Group to declare a dividend at any time or from time to time.

AUDITOR'S REMUNERATION

Ernst & Young is the external independent auditor of the Group. During the year ended 31 December 2019, 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	172
Non-audit services	3
Total	175

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 was audited by Ernst & Young, who were appointed as the auditor of the Company on 8 November 2017 to fill the casual vacancy arising from the resignation of Deloitte Touche Tohmatsu on 4 October 2017.

Save as disclosed above, there has been no other change of auditors for the preceding 3 years.

Corporate Governance Report

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.

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 regular press releases, newsletters, updates to our website, and active participation in meetings and road shows.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, 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 52, 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 30 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 45, 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 20 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 45, is our executive Director, patent counsel and company secretary. Mr. Yip was appointed as executive Director on 27 November 2015. Mr. Yip has over 18 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 42, is our executive Director and director of hardware engineering. Mr. Chong was appointed as executive Director on 27 November 2015. Mr. Chong has over 14 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.

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 44, is our executive Director and director of software engineering. Mr. Yeung was appointed as executive Director on 27 November 2015. Mr. Yeung has over 19 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 62, 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.

Profile of Directors, Senior Management and Company Secretary

Mr. Ho Chi Lam (何志霖) ("Mr. Ho"), aged 61, 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-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 from April 2010 to March 2018.

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 (温思聰) ("Mr. Wan"), aged 45, 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.

Profile of Directors, Senior Management and Company Secretary

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.

SENIOR MANAGEMENT

Mr. Wong Shiu Kau (黃紹裘) ("Mr. Wong"), aged 48, 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 2019.

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 page 3 and Management Discussion and Analysis on pages 6 to 16 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 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58 of this annual report.

An interim dividend of HK3.49 cents (2018: HK2.92 cents) per ordinary share was paid on 26 August 2019.

The Board has resolved to declare a second interim dividend of HK4.64 cents per share and a special dividend of HK2.98 cents per share for the year ended 31 December 2019, in an aggregate amount of approximately US$10,189,000. The Dividends will be paid on 27 March 2020 to shareholders on the register of members on 13 March 2020.

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 2019 is set out on pages 4 to 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 2019, calculated under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands, amounted to approximately US$18.3 million (2018: 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 24 and 25 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 2019.

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. Chan Wing Hong Alex and Mr. Chau Kit Wai as executive Directors and Dr. Yu Kin Tim as an independent non-executive Director, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS', 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 28 to 31 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 2019.

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

At 31 December 2019, 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 of the Company held under Share Option Scheme	Approximate percentage of shareholding
				%
Chan Wing Hong Alex	Beneficial owner	754,496,000	1,504,000	72.2
Chau Kit Wai	Beneficial owner	4,496,000	1,504,000	0.6
Yip Kai Kut Kenneth	Beneficial owner	3,400,000	2,600,000	0.6
Chong Ming Pui	Beneficial owner	4,496,000	1,504,000	0.6
Yeung Yu	Beneficial owner	4,496,000	1,504,000	0.6
		771,384,000	8,616,000	74.6

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

Directors' Report

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" below, at no time during the year ended 31 December 2019 was the Group a party to any arrangements to enable the Directors, supervisors or chief executives of the Company, to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SHARE OPTION SCHEME

A share option scheme was conditionally adopted by the Company on 21 June 2016, and became effective on the Listing Date (the "Share Option Scheme"). Details of movements of the share options granted under the Share Option Scheme for the year ended 31 December 2019 are as follows:

					Movement of share options during the year				
Grantee	Date of grant	Exercise price per share (HK$)	Exercise period	Note	At 1 January 2019	Granted	Exercised	Lapsed/ cancelled	At 31 December 2019
Directors									
Chan Wing Hong, Alex	20/7/2016	0.483	20/7/2017–19/7/2021	(1), (2)	6,000,000	–	(4,496,000)	–	1,504,000
Chau Kit Wai	20/7/2016	0.483	20/7/2017-19/7/2021	(2)	3,000,000	–	(1,496,000)	–	1,504,000
Yip Kai Kut Kenneth	20/7/2016	0.483	20/7/2017-19/7/2021	(2)	3,000,000	–	(400,000)	–	2,600,000
Chong Ming Pui	20/7/2016	0.483	20/7/2017-19/7/2021	(2)	3,000,000	–	(1,496,000)	–	1,504,000
Yeung Yu	20/7/2016	0.483	20/7/2017-19/7/2021	(2)	3,000,000	–	(1,496,000)	–	1,504,000
Consultants	20/7/2016	0.483	20/7/2017–19/7/2021	(2)	1,224,000	–	(544,000)	(104,000)	576,000
	10/10/2017	1.872	10/10/2019–9/10/2022	(4)	3,300,000	–	–	(700,000)	2,600,000
	14/3/2018	1.934	14/3/2019–13/3/2023	(5)	3,384,000	–	–	(84,000)	3,300,000
	14/9/2018	1.02	14/9/2019–13/9/2023	(6)	2,216,000	–	–	(16,000)	2,200,000
	10/5/2019	1.18	10/5/2021–9/5/2024	(7)	–	100,000	–	–	100,000

Grantee	Date of grant	Exercise price per share (HK$)	Exercise period	Note	At 1 January 2019	Granted	Exercised	Lapsed/ cancelled	At 31 December 2019
					Movement of share options during the year				
Employees	20/7/2016	0.483	20/7/2017– 19/7/2021	(2)	26,496,000	–	(6,870,000)	–	19,626,000
	5/4/2017	0.72	5/4/2018– 4/4/2022	(3)	8,512,000	–	(1,141,000)	(52,000)	7,319,000
	10/10/2017	1.872	10/10/2019– 9/10/2022	(4)	2,940,000	–	–	–	2,940,000
	14/3/2018	1.934	14/3/2019– 13/3/2023	(5)	6,516,000	–	–	(3,316,000)	3,200,000
	14/9/2018	1.02	14/9/2019– 13/9/2023	(6)	9,648,000	–	(21,000)	(400,000)	9,227,000
	10/5/2019	1.18	10/5/2021– 9/5/2024	(7)	–	3,072,000	–	(100,000)	2,972,000
	31/12/2019	1.12	31/12/2021– 30/12/2024	(8)	–	1,100,000	–	–	1,100,000
					82,236,000	**4,272,000**	**(17,960,000)**	**(4,772,000)**	**63,776,000**

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. The closing price of the Share immediately before the date on which the options were granted was HK$0.46.

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 a further 25% 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 25% will become exercisable in each subsequent year. The closing price of the Share immediately before the date on which the options were granted was HK$0.69.

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 a further 25% of the total options will become exercisable in each subsequent year. The closing price of the Share immediately before the date on which the options were granted was HK$1.79.

5. For the 13,500,000 share options granted on 14 March 2018, 25% of the 9,900,000 options can be exercised 1 year after the date of grant, and 25% will become exercisable in each subsequent year. For the remaining 3,600,000 options, 50% can be exercised 2 years after the date of grant, and 25% will become exercisable in each subsequent year. The closing price of the Share immediately before the date on which the options were granted was HK$1.90.

6. For the 12,264,000 share options granted on 14 September 2018, 25% of 10,864,000 options can be exercised 1 year after the date of grant, and 25% will become exercisable in each subsequent year. For the remaining 1,400,000 options, 50% can be exercised 2 years after the date of grant, and 25% will become exercisable in each subsequent year. The closing price of the Share immediately before the date on which the options were granted was HK$0.93.

7. For all share options granted on 10 May 2019, the first 50% of the total options can be exercised 2 years after the date of grant, and a further 25% of the total options will become exercisable in each subsequent year. The closing price of the Share immediately before the date on which the options were granted was HK$1.12.

8. For all share options granted on 31 December 2019, the first 50% of the total options can be exercised 2 years after the date of grant, and a further 25% of the total options will become exercisable in each subsequent year. The closing price of the Share immediately before the date on which the options were granted was HK$1.10.

Directors' Report

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.

NON-COMPETITION UNDERTAKINGS

Mr. Chan Wing Hong Alex (the "Covenantor") has confirmed to the Company of his compliance with the terms of the Deed of Non-Competition during the year ended 31 December 2019.

Our independent non-executive Directors have reviewed compliance of the Deed of Non-Competition and were satisfied that the terms of the Deed of Non-Competition had been duly complied with and enforced during the year ended 31 December 2019.

As at 31 December 2019, in 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 2019, the Group's five largest customers in aggregate accounted for approximately 53.7% of the Group's total revenue (2018: approximately 45.0%) and the largest customer accounted for approximately 30.0% of the Group's total revenue (2018: approximately 24.9%).

During the year ended 31 December 2019, the Group's five largest suppliers in aggregate accounted for approximately 63.1% of the Group's total purchase (2018: approximately 70.9%) and the largest supplier accounted for approximately 18.8% of the Group's total purchase (2018: approximately 25.6%).

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 2019 set out in note 30 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 2019, 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 transactions	Landlord	Location	Gross Area	Term	Annual lease payments	Purpose of property	Lease payments during the year ended 31 December 2019
20 December 2018	Open Gain Limited	Unit A2, 5/F, Hong Kong Spinners Industrial Buildings, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Hong Kong	1,276 sq.ft	1 January 2019 to 31 December 2021	2019: HK$280,212 2020: HK$291,540 2021: HK$303,180	Product development	HK$280,212
20 December 2018	PBS Ventures Limited	Unit A5, 5/F, Hong Kong Spinners Industrial Buildings, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Hong Kong	2,953 sq.ft	1 January 2019 to 31 December 2021	2019: HK$648,480 2020: HK$674,700 2021: HK$701,628	Office and product development	HK$648,480
20 December 2018	Nice Achieve Limited	Unit A6, 5/F, Hong Kong Spinners Industrial Buildings, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Hong Kong	1,844 sq.ft	1 January 2019 to 31 December 2021	2019: HK$404,940 2020: HK$421,320 2021: HK$438,132	Office and product development	HK$404,940
20 December 2018	Perfect Giant Limited	Unit A7, 5/F, Hong Kong Spinners Industrial Buildings, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Hong Kong	2,083 sq.ft	1 January 2019 to 31 December 2021	2019: HK$457,428 2020: HK$475,920 2021: HK$494,916	Office and product development	HK$457,428

Directors' Report

Date of transactions	Landlord	Location	Gross Area	Term	Annual lease payments	Purpose of property	Lease payments during the year ended 31 December 2019
20 December 2018	Talent Trend International Limited	Unit A8, 5/F, Hong Kong Spinners Industrial Buildings, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Hong Kong	2,083 sq.ft	1 January 2019 to 31 December 2021	2019: HK$457,428 2020: HK$475,920 2021: HK$494,916	Office and product development	HK$457,428
20 December 2018	Advance Action Limited	Unit A9, 5/F, Hong Kong Spinners Industrial Buildings, Phase 6, 481 Castle Peak Road, Cheung Sha Wan, Hong Kong	2,083 sq.ft	1 January 2019 to 31 December 2021	2019: HK$457,428 2020: HK$475,920 2021: HK$494,916	Office	HK$457,428
20 December 2018	Plan Smart Limited	Unit B, 5/F, Dragon Industrial Building, 93 King Lam Street Cheung Sha Wan, Hong Kong	7,323 sq.ft	1 January 2019 to 31 December 2021	2019: HK$1,493,892 2020: HK$1,553,652 2021: HK$1,615,788	Office and warehouse	HK$1,493,892
20 December 2018	Rise Gold Limited	Unit A, 5/F, Dragon Industrial Building, 93 King Lam Street Cheung Sha Wan, Hong Kong	7,012 sq.ft	1 January 2019 to 31 December 2021	2019: HK$1,430,448 2020: HK$1,487,664 2021: HK$1,547,172	Office and warehouse	HK$1,430,448
20 December 2018	Real Energy Limited	Unit A1, 5/F, Hong Kong Spinners Industrial Buildings, Phase 6, 481 Castle Peak Road Cheung Sha Wan, Hong Kong	1,077 sq.ft	1 January 2019 to 31 December 2021	2019: HK$236,508 2020: HK$246,072 2021: HK$255,900	Office and warehouse	HK$236,508
20 December 2018	Conficiency Limited	Unit 8, 7/F, W668, 668/680 Castle Peak Road Cheung Sha Wan, , Hong Kong	1,035 sq.ft	1 January 2019 to 31 December 2021	2019: HK$310,500 2020: HK$326,028 2021: HK$342,168	Office	HK$310,500

Directors' Report

Open Gain Limited, PBS Ventures Limited, Nice Achieve Limited, Perfect Giant Limited, Talent Trend International Limited, Advance Action Limited, Plan Smart Limited, Rise Gold Limited, Conficiency 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 39 to 40 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the independent assurance report has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

Directors' Report

PERMITTED INDEMNITY PROVISION

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

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

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "Share Option Scheme", no equity-linked agreements were entered into during the year or subsisted at the end of the year ended 31 December 2019.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 31 December 2019 and up to the date of this annual report.

AUDITORS

Ernst & Young retire and a resolution for the reappointment 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, 27 February 2020

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 2019 to 31 December 2019 (the "year"). For information on our corporate governance, please refer to the "Corporate Governance Report" on pages 17 to 27 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 year 2017, 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 was 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. Then, through a questionnaire carried out by the consultant, views and expectations of stakeholders on the Group's disclosure of ESG issues were understood, and potential material issues were identified and prioritised accordingly. Upon reviewing the result of the survey, the Group identified 5 most material ESG issues and disclosed relevant information in the corresponding sections.

Environmental, Social and Governance Report

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 from the materiality assessment formed the basis for the Group to map out long-term strategies for sustainable development. After an evaluation on the materiality assessment results, we determined that the key material aspects identified in year 2017 are still largely relevant to our ESG framework in year 2019. We will 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.

During the year, the Group continued to make improvements in the intensity of resources used in Energy Conservation, Use of Packaging Materials, Waste Management, and Green Operation.

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 set up program to automatically switch off lights and air conditioners in the conference rooms after office hour 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 363 MWh, in which each square meter of the floor area used 0.12 MWh during the year 2019.

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 34 cubic meters, which each square meter of the storage facility's floor area used 0.05 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 cardboard paper and plastic, and the usage amount are 18,489 kg and 1,966 kg respectively. The weight of packaging material used per thousand US dollars of revenue is 0.45 kg. During the year, a total of 1,950 kg of cardboard paper was also recycled.

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.

Environmental, Social and Governance Report

After the implementation of the above measures, non-hazardous waste generated includes general waste, metal and paper, which amounted to 9.9 tons in total, with per thousand US dollars of revenue generating 0.22 kg of non-hazardous waste in the year. The following table shows the non-hazardous waste generated by the Group during the year ended 31 December 2019:

Non-hazardous Waste generated by the Group during the year

	Non-hazardous Waste Generated (tons)		
Waste Type	Total Amount	Amount sent to Landfill	Recycled Amount
General Waste	3.4	3.4	–
Metal	5.9	–	5.9
Paper	0.6	–	0.6
Sum of Non-hazardous waste generated	9.9	3.4	6.5

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 359 tons, while 12 tons GHG emission was avoided by recycling of paper. Thus, the net GHG emission in total was 347 tons. Average GHG emission from each square meter of total floor area was 0.12 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. In 2018, we were also awarded the "Good Employer Charter" by the Labour Department of the Hong Kong Special Administrative Region as a recognition of our employee-oriented and progressive good human resources management practices.

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 labour.

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. Due to the nature of our industry, a majority of staff are male but female is also welcomed to the Group.

As at 31 December 2019, the total number of employees of the Group is 164.

Employee Number of the Group (by 31 December 2019)

2019	Number
By Gender	
Male	114
Female	50
By Employment Type	
Full-time	159
Part-time	5
By Age	
< 30	23
30–50	129
> 50	12

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 and share options. Our share option scheme is open to all of our employees. We believe such share option scheme would keep our employees motivated and encourage them to grow together with the Group in the long run. 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.

Environmental, Social and Governance Report

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. We also regularly change water purifiers in the office to maintain drinking water safety. 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 fruits are provided on a weekly basis to encourage our employees to have a healthy diet.

As at 31 December 2019, the number of work-related death was zero, while the total working day affected by work-related injury was zero. We practice work flexibility in response to events and unexpected situations such as typhoon and large-scale traffic disruptions. We allow employees to work from home and leave office earlier if personal safety was a concern. 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.

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.

Environmental, Social and Governance Report

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 2019, 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 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 2019, 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 toy and books to Caritas Hong Kong Youth and Community Services — Green Baby Garden, 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

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 58 to 133, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 from contracts with customers	
During the year, the Group recognised certain revenue from bundled transactions under contracts with customers including the sale of both products and services. The revenue recognition of such transactions involved significant management judgements and estimates including the determination of performance obligations and identification of product and service elements in the contracts, and the 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. The 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 the relative fair value. Apart from the above, we 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$7,387,000 as at 31 December 2019. The Group performs regular review of the carrying amount of inventories to determine if any write-down of inventories to net realisable value is required after considering the ageing analyses of inventories and the 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 value of inventories declined below its carrying amount. 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 its net realisable value might decline below its carrying amount; evaluating the methodologies, inputs and assumptions used by the Group in determining the net realisable value of inventories; and assessing the write-down of inventories required by testing the ageing 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.

Independent Auditor's Report (continued)

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants

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

27 February 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
REVENUE	5	**45,910**	41,806
Cost of sales and services		**(17,136)**	(15,617)
Gross profit		**28,774**	26,189
Other income	5	**484**	295
Selling and distribution expenses		**(2,411)**	(2,107)
Administrative expenses		**(5,537)**	(4,814)
Research and development expenses		**(7,221)**	(7,318)
Finance costs	7	**(95)**	(32)
PROFIT BEFORE TAX	6	**13,994**	12,213
Income tax expense	10	**(1,905)**	(1,593)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**12,089**	10,620
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(6)**	1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**12,083**	10,621

		2019 US cents	2018 US cents
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**1.17**	1.04
Diluted		**1.14**	1.00

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 US$'000	2018 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,403**	2,470
Intangible assets	15	**1,087**	891
Deferred tax assets	23	**30**	30
Total non-current assets		**5,520**	3,391
CURRENT ASSETS			
Inventories	16	**7,387**	8,372
Trade receivables	17	**6,223**	4,922
Prepayments, deposits and other receivables	18	**2,022**	1,491
Tax recoverable		**—**	269
Cash and cash equivalents	19	**28,926**	26,850
Total current assets		**44,558**	41,904
CURRENT LIABILITIES			
Trade payables, other payables and accruals	20	**2,614**	2,274
Lease liabilities	14	**999**	—
Contract liabilities	21	**7,061**	6,763
Tax payable		**1,839**	216
Interest-bearing bank borrowings	22	**393**	1,306
Total current liabilities		**12,906**	10,559
NET CURRENT ASSETS		**31,652**	31,345
TOTAL ASSETS LESS CURRENT LIABILITIES		**37,172**	34,736
NON-CURRENT LIABILITIES			
Deferred tax liabilities	23	**133**	109
Lease liabilities	14	**1,095**	—
Contract liabilities	21	**1,830**	1,909
Total non-current liabilities		**3,058**	2,018
Net assets		**34,114**	32,718
EQUITY			
Equity attributable to owners of the parent			
Issued capital	24	**1,349**	1,326
Reserves	26	**32,765**	31,392
Total equity		**34,114**	32,718

Chan Wing Hong Alex
Director

Chau Kit Wai
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

		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 2018		1,307	14,596	855	—	11,992	28,750
Profit for the year		—	—	—	—	10,620	10,620
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations		—	—	—	1	—	1
Total comprehensive income for the year		—	—	—	1	10,620	10,621
Issue of shares upon exercise of share options	24(a)	19	1,236	(318)	—	—	937
Equity-settled share option arrangements	25	—	—	761	—	—	761
Second interim 2017 dividend		—	—	—	—	(4,534)	(4,534)
Interim 2018 dividend		—	—	—	—	(3,817)	(3,817)
At 31 December 2018		1,326	15,832	1,298	1	14,261	32,718
At 1 January 2019		**1,326**	**15,832**	**1,298**	**1**	**14,261**	**32,718**
Profit for the year		**—**	**—**	**—**	**—**	**12,089**	**12,089**
Other comprehensive loss for the year:							
Exchange differences on translation of foreign operations		**—**	**—**	**—**	**(6)**	**—**	**(6)**
Total comprehensive income/(loss) for the year		**—**	**—**	**—**	**(6)**	**12,089**	**12,083**
Issue of shares upon exercise of share options	24(b)	**23**	**1,518**	**(398)**	**—**	**—**	**1,143**
Equity-settled share option arrangements	25	**—**	**—**	**530**	**—**	**—**	**530**
Transfer of share option reserve upon the forfeiture of share options		**—**	**—**	**(17)**	**—**	**17**	**—**
Second interim 2018 dividend		**—**	**—**	**—**	**—**	**(5,724)**	**(5,724)**
Special dividend		**—**	**—**	**—**	**—**	**(1,997)**	**(1,997)**
Interim 2019 dividend		**—**	**—**	**—**	**—**	**(4,639)**	**(4,639)**
At 31 December 2019		**1,349**	**17,350***	**1,413***	**(5)***	**14,007***	**34,114**

* These reserve accounts comprise the consolidated reserves of US$32,765,000 (2018: US$31,392,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**13,994**	12,213
Adjustments for:			
Finance costs	7	**95**	32
Interest income	5	**(443)**	(243)
Write-down of inventories to net realisable value	6	**339**	48
Loss on disposal of items of property, plant and equipment	6	**—**	1
Depreciation	6	**1,536**	461
Impairment of trade receivables	6	**17**	2
Amortisation of intangible assets	6	**518**	368
Equity-settled share option expenses	25	**530**	761
		16,586	13,643
Decrease in inventories		**646**	3,209
Decrease/(increase) in trade receivables		**(1,318)**	2,839
Decrease/(increase) in prepayments, deposits and other receivables		**(605)**	222
Increase/(decrease) in trade payables, other payables and accruals		**340**	(356)
Increase in contract liabilities		**219**	2,460
Cash generated from operations		**15,868**	22,017
Hong Kong profits tax refunded/(paid)		**9**	(2,526)
Net cash flows from operating activities		**15,877**	19,491
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**443**	243
Purchase of items of property, plant and equipment		**(506)**	(939)
Additions to intangible assets		**(714)**	(598)
Proceeds from disposal of items of property, plant and equipment		**—**	1
Decrease in non-pledged bank deposits with original maturity of more than three months when acquired		**—**	7,115
Net cash flows from/(used in) investing activities		**(777)**	5,822

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**1,143**	937
Dividends paid		**(12,360)**	(8,351)
New bank loans		**—**	895
Repayment of bank loans		**(910)**	(1,527)
Interest paid		**(28)**	(32)
Principal portion of lease payments	27	**(798)**	—
Interest portion of lease payments	27	**(67)**	—
Net cash flows used in financing activities		**(13,020)**	(8,078)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,080**	17,235
Cash and cash equivalents at beginning of year		**26,850**	9,632
Effect of foreign exchange rate changes, net		**(4)**	(17)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**28,926**	26,850
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**28,926**	26,850

Notes to Financial Statements

31 December 2019

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		Principal activities
			2019	2018	
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

Notes to Financial Statements (continued)

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name	Place of incorporation and business	Issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Peplink 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
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
Pismo Technology Asia Limited	Hong Kong	Ordinary HK$1	**100**	100	Investment holding
Pismo Tech Limited#	Taiwan	Ordinary NT$1,000,000	**100**	100	Development of SD-WAN routers
Pismo Technology International Limited	British Virgin Islands	Ordinary US$1	**100**	—	Investment holding
Peplink Pepwave UAB#	Lithuania	Ordinary EUR2,500	**100**	—	Development of SD-WAN routers

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

Note:

RM — Malaysian ringgits
NT$ — New Taiwan dollars
EUR — Euro

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 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 2019. 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.

Notes to Financial Statements (continued)

31 December 2019

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 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 all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify all leases using the same classification principle as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

Notes to Financial Statements (continued)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for certain office properties and warehouses. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and separately presented in the statement of financial position. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets in the property, plant and equipment in the statement of financial position.

Notes to Financial Statements (continued)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impact on transition (continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) US$'000
Assets	
Increase in property, plant and equipment	2,739
Decrease in prepayments, deposits and other receivables	(68)
Increase in total assets	2,671
Liabilities	
Increase in lease liabilities	2,671

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	US$'000
Operating lease commitments as at 31 December 2018	2,850
Weighted average incremental borrowing rate as at 1 January 2019	2.94%
Discounted operating lease commitments and lease liabilities as at 1 January 2019	2,671

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) HK(IFRIC)-Int 23 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. The Group determined that the interpretation did not have any impact on the financial position or performance of the Group.

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 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 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.

Notes to Financial Statements (continued)

31 December 2019

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements (continued)

31 December 2019

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, deferred tax assets 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

Notes to Financial Statements (continued)

31 December 2019

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;

(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 2019

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:

Buildings	Over the shorter of lease terms and $3\frac{1}{3}$%
Furniture and fixtures	20%
Computer equipment	$33\frac{1}{3}$%
Office equipment	$33\frac{1}{3}$%
Machine and equipment	$33\frac{1}{3}$%

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.

Notes to Financial Statements (continued)

31 December 2019

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 (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease terms.

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. 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.

Notes to Financial Statements (continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable before 1 January 2019) (continued)

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 are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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.

Notes to Financial Statements (continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to Financial Statements (continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, financial liabilities included in accruals, lease liabilities and interest-bearing bank borrowings.

Notes to Financial Statements (continued)

31 December 2019

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to Financial Statements (continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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, and the carry forward 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 carry forward 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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 from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

(a) Sale of routers and software licences

Revenue from the sale of routers and stand-alone software licences is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the routers and software.

(b) Provision of licence services

Revenue from the provision of licence services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(c) Provision of warranty and support services

Revenue from the provision of warranty and support services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Interest income is recognised 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 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

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 25 to the financial statements.

Notes to Financial Statements (continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

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.

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.

Notes to Financial Statements (continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Malaysian 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 employees in the Group's subsidiary in Taiwan chose to participate in a defined contribution scheme governed by the Labour Pension Act of Taiwan. This subsidiary contributes at 6% of the total salaries of participating employees who have chosen to participate in the defined contribution scheme, deposited into individual pension accounts at the Bureau of Labour Insurance of Taiwan.

Borrowing costs

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries 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.

Notes to Financial Statements (continued)

31 December 2019

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.

Allocation of revenue for bundled transactions with customers

The Group has bundled transactions with customers including the sale 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 performance obligations from the product element and service element. Significant management judgement is required to determine the performance obligations and identify the elements in the contracts and allocate the transaction price to each performance 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Allocation of revenue for bundled transactions with customers (continued)

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.

The Group applied judgement on revenue recognition of warranty and support services. The Group has determined, based on the terms and arrangements of the services, whether the warranty and support services provided are service-type or assurance-type warranty. The revenue from the provision of warranty and support services was derived from (i) the embedded warranty provided with the sale of SD-WAN routers; and (ii) the extended service-type warranty. For embedded warranty, it provides customers services such as after-sales services and updates, which is beyond fixing existing defects in the products and thus, embedded warranty represents a separate performance obligation and is considered as a service-type warranty. For other extended services-type warranty, it is sold separately and represented a separate performance obligation. The Group concluded that revenue from warranty and support services is to be recognised over time because they represented a separate performance obligation and the customer simultaneously receives and consumes the benefits provided by the Group.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the financial statements.

Notes to Financial Statements (continued)

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

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

(a) the sale of SD-WAN routers segment that primarily engages in sale 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, selling and distribution expenses, unallocated administrative expenses and finance costs are excluded from such measurement.

Notes to Financial Statements (continued)

31 December 2019

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

(a) Operating segments

	Sale of SD-WAN routers				Software licences and warranty and support services		Total	
	Wired routers		Wireless routers					
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000
Segment revenue: (note 5)								
Sales to external customers	**7,853**	8,170	**24,666**	22,251	**13,391**	11,385	**45,910**	41,806
Segment results	**3,581**	3,986	**7,150**	6,054	**10,305**	8,462	**21,036**	18,502
Reconciliation:								
Other income							**484**	295
Selling and distribution expenses							**(2,411)**	(2,107)
Unallocated administrative expenses							**(5,020)**	(4,445)
Finance costs							**(95)**	(32)
Profit before tax							**13,994**	12,213

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

	Sale of SD-WAN routers				Software licences and warranty and support services		Total	
	Wired routers		Wireless routers					
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000
Other segment information:								
Amortisation of intangible assets	**25**	11	**412**	305	**81**	52	**518**	368
Write-down of inventories to net realisable value	**82**	13	**257**	35	**—**	—	**339**	48

Notes to Financial Statements (continued)

31 December 2019

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(b) Geographical information

(i) Revenue from external customers

	2019	2018
	US$'000	US$'000
North America	**27,627**	24,368
EMEA (Europe, Middle East and Africa)	**10,826**	10,290
Asia	**6,628**	6,298
Others	**829**	850
	45,910	41,806

(ii) Non-current assets

	2019	2018
	US$'000	US$'000
Hong Kong	**4,947**	3,340
Taiwan	**203**	16
Malaysia	**57**	5
Lithuania	**283**	—
	5,490	3,361

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

(c) Information about major customers

For the year ended 31 December 2019, revenue of approximately US$13,761,000 from a major customer was derived from the sale of SD-WAN routers segment and software licences and warranty and support services segment.

For the year ended 31 December 2018, revenue of approximately US$10,420,000 from a major customer was derived from the sale of SD-WAN routers segment and software licences and warranty and support services segment.

5. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	2019 US$'000	2018 US$'000
Revenue from contracts with customers	**45,910**	41,806

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Sale of SD-WAN routers US$'000	Software licences and warranty and support services US$'000	Total US$'000
Type of goods or services			
Sale of SD-WAN routers			
— Wired	**7,853**	**—**	**7,853**
— Wireless	**24,666**	**—**	**24,666**
Provision of warranty and support services	**—**	**11,282**	**11,282**
Sale of software and licence fee income	**—**	**2,109**	**2,109**
Total revenue from contracts with customers	**32,519**	**13,391**	**45,910**
Geographical markets			
North America	**19,959**	**7,668**	**27,627**
EMEA (Europe, Middle East and Africa)	**7,431**	**3,395**	**10,826**
Asia	**4,565**	**2,063**	**6,628**
Others	**564**	**265**	**829**
Total revenue from contracts with customers	**32,519**	**13,391**	**45,910**
Timing of revenue recognition			
Goods transferred at a point in time	**32,519**	**1,348**	**33,867**
Services transferred over time	**—**	**12,043**	**12,043**
Total revenue from contracts with customers	**32,519**	**13,391**	**45,910**

Notes to Financial Statements (continued)

31 December 2019

5. REVENUE AND OTHER INCOME (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	**Sale of SD-WAN routers**	**Software licences and warranty and support services**	**Total**
	US$'000	US$'000	US$'000
Type of goods or services			
Sale of SD-WAN routers			
— Wired	8,170	—	8,170
— Wireless	22,251	—	22,251
Provision of warranty and support services	—	9,539	9,539
Sale of software and licence fee income	—	1,846	1,846
Total revenue from contracts with customers	30,421	11,385	41,806
Geographical markets			
North America	17,949	6,419	24,368
EMEA (Europe, Middle East and Africa)	7,572	2,718	10,290
Asia	4,296	2,002	6,298
Others	604	246	850
Total revenue from contracts with customers	30,421	11,385	41,806
Timing of revenue recognition			
Goods transferred at a point in time	30,421	1,597	32,018
Services transferred over time	—	9,788	9,788
Total revenue from contracts with customers	30,421	11,385	41,806

5. REVENUE AND OTHER INCOME (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 US$'000	2018 US$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Provision of warranty and support services	**6,361**	4,834
Sale of software and licence fee income	**402**	202
	6,763	5,036

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of SD-WAN routers and software

The performance obligation is satisfied upon delivery of the routers and software and payment is generally due within 60 days from delivery.

Warranty and support services

The revenue from the provision of warranty and support services was derived from (i) the embedded warranty provided with the sale of SD-WAN routers; and (ii) the extended service-type warranty. For embedded warranty, it provides customers services such as after-sales services and updates, which is beyond fixing existing defects in the products and thus, embedded warranty represents a separate performance obligation and is considered as a service-type warranty. For other extended services-type warranty, it is sold separately and represented a separate performance obligation. The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services.

Licence services

The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services.

Notes to Financial Statements (continued)

31 December 2019

5. REVENUE AND OTHER INCOME (CONTINUED)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 US$'000	2018 US$'000
Amounts expected to be recognised as revenue:		
Within one year	**7,061**	6,763
After one year	**1,830**	1,909
	8,891	8,672

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to licence services and warranty and support services, of which the performance obligations are to be satisfied within three years.

	2019 US$'000	2018 US$'000
Other income		
Sale of parts	**34**	52
Bank interest income	**443**	243
Others	**7**	—
	484	295

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2019 US$'000	2018 US$'000
Cost of inventories sold		**16,248**	14,740
Cost of services provided		**888**	877
Depreciation[a&b]	13	**1,536**	461
Amortisation of intangible assets[c]	15	**518**	368
Loss on disposal of items of property, plant and equipment		**—**	1
Minimum lease payments under operating leases		**—**	775
Lease payments not included in the measurement of lease liabilities	14(b)	**18**	—
Auditor's remuneration		**175**	159
Employee benefit expense (excluding directors' remuneration — note 8)[d]:			
Wages, salaries and allowances		**6,173**	5,580
Equity-settled share-based payment expense		**308**	466
Retirement benefit scheme contributions (defined contribution schemes)		**250**	229
		6,731	6,275
Equity-settled share-based payment expense for consultants		**147**	150
Impairment of financial assets:			
Impairment of trade receivables	17	**17**	2
Write-down of inventories to net realisable value		**339**	48
Foreign exchange differences, net		**168**	149

(a) Depreciation for the year of US$272,000 (2018: US$227,000) is included in "Cost of sales and services" on the face of the consolidated statement of profit or loss and other comprehensive income.

(b) The total amount of depreciation includes the depreciation of right-of-use assets of US$933,000 (2018: Nil).

(c) Amortisation of intangible assets for the year of US$518,000 (2018: US$368,000) is included in "Administrative expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

(d) Employee benefit expense of US$4,816,000 (2018: US$4,818,000) 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 2019

7. FINANCE COSTS

	2019 US$'000	2018 US$'000
Interest on bank borrowings	**28**	32
Interest on lease liabilities	**67**	—
	95	32

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:

	2019 US$'000	2018 US$'000
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**45**	45
	45	45
Other emoluments:		
Salaries and allowances	**1,319**	1,319
Equity-settled share-based payment expense#	**75**	145
Retirement benefit scheme contributions (defined contribution schemes)	**10**	10
	1,404	1,474
	1,449	1,519

During the year and 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 25 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.

Notes to Financial Statements (continued)

31 December 2019

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

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

	2019 **US$'000**	2018 US$'000
Independent non-executive directors:		
Yu Kin Tim	**15**	15
Ho Chi Lam	**15**	15
Wan Sze Chung	**15**	15
	45	45

Save as disclosed above, there were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

Notes to Financial Statements (continued)

31 December 2019

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

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

	Salaries and allowances	Equity-settled share-based payment expense	Retirement benefit scheme contributions	Total remuneration
	US$'000	US$'000	US$'000	US$'000
2019				
Executive directors:				
Mr. Chan	501	15	2	518
Chau Kit Wai	216	15	2	233
Yip Kai Kut	170	15	2	187
Yeung Yu	216	15	2	233
Chong Ming Pui	216	15	2	233
	1,319	75	10	1,404
2018				
Executive directors:				
Mr. Chan	501	29	2	532
Chau Kit Wai	216	29	2	247
Yip Kai Kut	170	29	2	201
Yeung Yu	216	29	2	247
Chong Ming Pui	216	29	2	247
	1,319	145	10	1,474

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

Notes to Financial Statements (continued)

31 December 2019

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2018: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2018: one employee) highest paid employee who is not a director of the Company are as follows:

	2019 US$'000	2018 US$'000
Salaries and allowances	**216**	201
Equity-settled share-based payment expense	**68**	86
Retirement benefit scheme contributions	**2**	2
	286	289

The number of non-director highest paid employee whose remuneration fell within the following band is as follows:

	Number of employee	
	2019	2018
HK$2,000,001 to HK$2,500,000	**1**	1

During the year and in prior years, share options were granted to a non-director highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 25 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 non-director highest paid employee's remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first US$255,000 (2018: US$255,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Notes to Financial Statements (continued)

31 December 2019

10. INCOME TAX (CONTINUED)

	2019 US$'000	2018 US$'000
Current — Hong Kong		
Charge for the year	**1,849**	1,578
Underprovision in prior years	**25**	8
Current — Elsewhere		
Charge for the year	**7**	—
Deferred (note 23)	**24**	7
Total tax charge for the year	**1,905**	1,593

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 operate/are domiciled to the tax charge at the effective tax rate is as follows:

	2019 US$'000	2018 US$'000
Profit before tax	**13,994**	12,213
Tax at the Hong Kong statutory tax rate of 16.5% (2018: 16.5%)	**2,309**	2,015
Adjustments in respect of current tax of previous periods	**25**	8
Income not subject to tax	**(76)**	(99)
Expenses not deductible for tax	**179**	221
Tax losses not recognised	**12**	11
Tax losses utilised from previous periods	**(12)**	—
Effect of additional tax deduction enacted by tax authority	**(528)**	(527)
Others	**(4)**	(36)
Tax charge at the Group's effective tax rate	**1,905**	1,593

Notes to Financial Statements (continued)

31 December 2019

11. DIVIDENDS

	Notes	2019 US$'000	2018 US$'000
Dividends declared:			
Interim — HK3.49 cents (2018: HK2.92 cents) per ordinary share		**4,639**	3,817
Second interim — HK4.64 cents (2018: HK4.36 cents) per ordinary share	(a)	**6,204**	5,736
Special dividend — HK2.98 cents (2018: HK1.52 cents) per ordinary share	(b)	**3,985**	2,000
		14,828	11,553

Notes:

(a) Subsequent to the end of the reporting period, a second interim dividend in respect of the year ended 31 December 2019 of HK4.64 cents (2018: second interim dividend of HK4.36 cents) per ordinary share, in an aggregate amount of approximately US$6,204,000 (2018: approximately US$5,736,000) has been declared by the directors of the Company.

(b) In addition, the directors of the Company have declared a special dividend for the year ended 31 December 2019 of HK2.98 cents (2018: HK1.52 cents) per ordinary share, in an aggregate amount of approximately US$3,985,000 (2018: approximately US$2,000,000) subsequent to the end of the reporting period.

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 1,036,681,885 (2018: 1,020,193,468) in issue during the year.

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.

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

Earnings

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

Notes to Financial Statements (continued)

31 December 2019

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

Shares

	Number of shares	
	2019	2018
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,036,681,885**	1,020,193,468
Effect of dilution — weighted average number of ordinary shares:		
Share options	**25,137,627**	38,600,698
	1,061,819,512	1,058,794,166

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Furniture and fixtures US$'000	Computer equipment US$'000	Office equipment US$'000	Machine and equipment US$'000	Right-of-use assets — Buildings US$'000	Total US$'000
31 December 2019							
At 1 January 2019 (restated):							
Cost	1,218	960	551	286	1,238	2,739	6,992
Accumulated depreciation	(75)	(473)	(318)	(182)	(735)	—	(1,783)
Net carrying amount	1,143	487	233	104	503	2,739	5,209
At 31 December 2018, net of accumulated depreciation	1,143	487	233	104	503	—	2,470
Effect of adoption of HKFRS 16	—	—	—	—	—	2,739	2,739
At 1 January 2019 (restated)	1,143	487	233	104	503	2,739	5,209
Additions	—	87	144	13	262	216	722
Depreciation provided during the year	(40)	(137)	(106)	(48)	(272)	(933)	(1,536)
Exchange realignment	(1)	(1)	(1)	—	—	11	8
At 31 December 2019, net of accumulated depreciation	1,102	436	270	69	493	2,033	4,403
At 31 December 2019:							
Cost	1,217	1,046	694	299	1,500	2,966	7,722
Accumulated depreciation	(115)	(610)	(424)	(230)	(1,007)	(933)	(3,319)
Net carrying amount	1,102	436	270	69	493	2,033	4,403
31 December 2018							
At 1 January 2018:							
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
At 1 January 2018, net of accumulated depreciation	1,185	239	116	94	361	—	1,995
Additions	—	331	182	57	369	—	939
Disposals	—	(1)	(1)	—	—	—	(2)
Depreciation provided during the year	(40)	(83)	(64)	(47)	(227)	—	(461)
Exchange realignment	(2)	1	—	—	—	—	(1)
At 31 December 2018, net of accumulated depreciation	1,143	487	233	104	503	—	2,470
At 31 December 2018:							
Cost	1,218	960	551	286	1,238	—	4,253
Accumulated depreciation	(75)	(473)	(318)	(182)	(735)	—	(1,783)
Net carrying amount	1,143	487	233	104	503	—	2,470

Notes to Financial Statements (continued)

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2019, the Group's buildings with an aggregate net carrying amount of approximately US$1,102,000 (2018: US$1,143,000) situated in Hong Kong were pledged to secure general banking facilities and mortgages granted to the Group (note 22).

14. LEASE LIABILITIES

The Group as a lessee

The Group leases certain of its office properties and warehouses used in its operations. Leases for these assets generally have lease terms between one and three years.

(a) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 US$'000
Carrying amount at 1 January	**2,671**
New leases	**216**
Accretion of interest recognised during the year	**67**
Payments	**(865)**
Exchange realignment	**5**
Carrying amount at 31 December	**2,094**
Analysed into:	
Current portion	**999**
Non-current portion	**1,095**

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

(b) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 US$'000
Interest on lease liabilities	**67**
Depreciation charge of right-of-use assets	**933**
Expenses relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	**18**
Total amount recognised in profit or loss	**1,018**

Notes to Financial Statements (continued)

31 December 2019

15. INTANGIBLE ASSETS

	Licences	Patents	Trademarks	Total
	US$'000	US$'000	US$'000	US$'000
31 December 2019				
Cost at 1 January 2019, net of accumulated amortisation	710	167	14	891
Additions	554	160	—	714
Amortisation provided during the year	(437)	(78)	(3)	(518)
At 31 December 2019	827	249	11	1,087
At 31 December 2019:				
Cost	2,122	450	26	2,598
Accumulated amortisation	(1,295)	(201)	(15)	(1,511)
Net carrying amount	827	249	11	1,087
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation	535	110	16	661
Additions	484	113	1	598
Amortisation provided during the year	(309)	(56)	(3)	(368)
At 31 December 2018	710	167	14	891
At 31 December 2018 and at 1 January 2019:				
Cost	1,568	290	26	1,884
Accumulated amortisation	(858)	(123)	(12)	(993)
Net carrying amount	710	167	14	891

During the year, additions of intangible assets of US$714,000 (2018: US$598,000) were acquired separately.

Notes to Financial Statements (continued)

31 December 2019

16. INVENTORIES

	2019 US$'000	2018 US$'000
Raw materials and consumables	**5,006**	6,033
Finished goods	**2,381**	2,339
	7,387	8,372

17. TRADE RECEIVABLES

	2019 US$'000	2018 US$'000
Trade receivables	**6,335**	5,016
Impairment	**(112)**	(94)
	6,223	4,922

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

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

	2019 US$'000	2018 US$'000
Within 1 month	**4,323**	3,650
1 to 2 months	**1,857**	960
2 to 3 months	**—**	297
Over 3 months	**43**	15
	6,223	4,922

17. TRADE RECEIVABLES (CONTINUED)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 **US$'000**	2018 US$'000
At beginning of year	**94**	93
Impairment losses (note 6)	**17**	2
Exchange realignment	**1**	(1)
At end of year	**112**	94

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due. The calculation reflects reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

			Past due			
	Default	**Current**	**Less than 1 month**	**1 to 3 months**	**4 months to 1 year**	**Total**
Expected credit loss rate	**100%**	**0.1%**	**0.1%**	**0.1%**	**3.8%**	**1.8%**
Gross carrying amount (US$'000)	**112**	**4,722**	**1,474**	**26**	**1**	**6,335**
Expected credit losses (US$'000)	**112**	**—***	**—***	**—***	**—***	**112**

As at 31 December 2018

			Past due			
	Default	Current	Less than 1 month	1 to 3 months	4 months to 1 year	Total
Expected credit loss rate	100%	0.1%	0.1%	0.1%	3.4%	1.9%
Gross carrying amount (US$'000)	94	3,911	735	274	2	5,016
Expected credit losses (US$'000)	94	—*	—*	—*	—*	94

* Based on management's assessment, the expected credit losses for non-defaulted debtors were minimal.

Notes to Financial Statements (continued)

31 December 2019

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**31 December 2019 US$'000**	1 January 2019 US$'000	31 December 2018 US$'000
Prepayments	(a)	**744**	524	592
Deposits and other receivables		**1,278**	899	899
		2,022	1,423	1,491

The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default and past due amounts. The Group has thereby concluded that the expected credit loss rates for trade receivables are a reasonable approximation of the rates for the deposits and other receivables. Since the deposits and other receivables are related to receivables which are still in current and the payment is not due, the expected credit loss rates of deposits and other receivables are assessed to be minimal as at 31 December 2019 and 2018.

Note:

(a) As a result of the initial application of HKFRS 16, prepaid lease payments of US$68,000 previously included in "Prepayments" were adjusted to the property, plant and equipment recognised at 1 January 2019 (refer to note 2.2 for further details).

19. CASH AND CASH EQUIVALENTS

	2019 US$'000	2018 US$'000
Cash and bank balances	**28,926**	26,850

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 are deposited with creditworthy banks with no recent history of default.

20. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2019 US$'000	2018 US$'000
Trade payables	**735**	930
Deposits received	**512**	189
Other payables	**27**	6
Accruals	**1,340**	1,149
	2,614	2,274

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

	2019 US$'000	2018 US$'000
Within 1 month	**672**	910
1 to 2 months	**61**	19
2 to 3 months	**—**	—
Over 3 months	**2**	1
	735	930

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

21. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2019 US$'000	31 December 2018 US$'000	1 January 2018 US$'000
Provision of warranty and support services	**7,965**	8,197	5,983
Licence fee income	**926**	475	238
Total contract liabilities	**8,891**	8,672	6,221

Notes to Financial Statements (continued)

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21. CONTRACT LIABILITIES (CONTINUED)

Contract liabilities include advances received to render warranty and support services and licence services. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in advances received from customers in relation to the provision of warranty and support services and licence services at the end of the year.

22. INTEREST-BEARING BANK BORROWINGS

		2019			2018		
	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") +1.6	On demand	**—**	Hong Kong Interbank Offered Rate ("HIBOR") +1.6	On demand	895
Long term bank loans — secured (note 33)	(b)	Hong Kong Dollar Prime Rate-2.5	On demand	**393**	Hong Kong Dollar Prime Rate-2.5	On demand	411
				393			1,306
Analysed into:							
Loans repayable within one year or on demand				**393**			1,306

Notes:

(a) The Group's bank facilities amounting to US$3,023,000 (2018: US$2,842,000), of which nil amount (2018: US$895,000) had been utilised as at the end of the reporting period, are secured by the pledge of the Group's buildings amounting to US$1,102,000 (2018: US$1,143,000).

(b) The Group's bank loans are secured by mortgages over the Group's buildings, which had an aggregate carrying value at the end of the reporting period of approximately US$1,102,000 (2018: US$1,143,000). Further details of the bank loans are included in note 33 to the financial statements.

Notes to Financial Statements (continued)

31 December 2019

23. 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	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000
At 1 January	**72**	43	**145**	107	**217**	150
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 10)	**(34)**	29	**34**	39	**—**	68
Exchange realignment	**—**	—	**(1)**	(1)	**(1)**	(1)
Gross deferred tax liabilities at 31 December	**38**	72	**178**	145	**216**	217

Deferred tax assets

	Provision for paid leave carried forward		Losses available for offsetting against future taxable profits		Depreciation in excess of related depreciation allowance		Total	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000
At 1 January	**33**	—	**78**	55	**27**	22	**138**	77
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	**—**	33	**(24)**	23	**—**	5	**(24)**	61
Exchange realignment	**—**	—	**(1)**	—	**—**	—	**(1)**	—
Gross deferred tax assets at 31 December	**33**	33	**53**	78	**27**	27	**113**	138

Notes to Financial Statements (continued)

31 December 2019

23. DEFERRED TAX (CONTINUED)

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:

	2019 US$'000	2018 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**30**	30
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(133)**	(109)
	(103)	(79)

The Group has estimated tax losses arising in Hong Kong of US$329,000 (2018: US$474,000), 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 and Taiwan of US$417,000 (2018: US$346,000) and US$49,000 (2018: US$46,000) for offsetting against future taxable profits arising in Malaysia and Taiwan, respectively.

As at 31 December 2019, the tax losses of subsidiaries incorporated in Hong Kong of US$324,000 (2018: US$472,000) were recognised as deferred tax assets as the subsidiaries have 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 subsidiaries. Deferred tax assets have not been recognised in respect of the remaining tax 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 tax losses arising in Malaysia and Taiwan 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.

24. ISSUED CAPITAL

Shares

	2019 US$'000	2018 US$'000
Authorised:		
4,000,000,000 (2018: 4,000,000,000) ordinary shares of HK$0.01 each	**5,152**	5,152
Issued and fully paid:		
1,046,792,000 (2018: 1,028,832,000) ordinary shares of HK$0.01 each	**1,349**	1,326

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 2018		1,014,336,000	10,143	1,307
Share options exercised	(a)	14,496,000	145	19
At 31 December 2018 and 1 January 2019		1,028,832,000	10,288	1,326
Share options exercised	(b)	17,960,000	180	23
At 31 December 2019		1,046,792,000	10,468	1,349

Notes:

(a) The subscription rights attaching to 14,496,000 share options were exercised at the weighted average subscription price of HK$0.507 per share (note 25), resulting in the issue of 14,496,000 ordinary shares for a total cash consideration, before expenses, of approximately US$937,000. An amount of approximately US$318,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

(b) The subscription rights attaching to 17,960,000 share options were exercised at the weighted average subscription price of HK$0.499 per share (note 25), resulting in the issue of 17,960,000 ordinary shares for a total cash consideration, before expenses, of approximately US$1,143,000. An amount of approximately US$398,000 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 25 to the financial statements.

Notes to Financial Statements (continued)

31 December 2019

25. 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.

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.

25. SHARE OPTION SCHEME (CONTINUED)

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

	2019		2018	
	Weighted average exercise price per share HK$	**Number of options**	Weighted average exercise price per share HK$	Number of options
At 1 January	**0.865**	**82,236,000**	0.647	77,960,000
Granted during the year	**1.165**	**4,272,000**	1.499	25,764,000
Forfeited during the year	**1.785**	**(4,772,000)**	1.509	(6,992,000)
Exercised during the year	**0.499**	**(17,960,000)**	0.507	(14,496,000)
At 31 December	**0.920**	**63,776,000**	0.865	82,236,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.152 per share (2018: HK$1.235 per share).

Notes to Financial Statements (continued)

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25. 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:

2019

Number of options ’000	Exercise price per share HK$	Exercise period
1,440	0.483	20-7-2017 to 19-7-2021
2,413	0.483	20-7-2018 to 19-7-2021
6,865	0.483	20-7-2019 to 19-7-2021
18,100	0.483	20-7-2020 to 19-7-2021
12	0.720	5-4-2018 to 4-4-2022
2,357	0.720	5-4-2019 to 4-4-2022
2,475	0.720	5-4-2020 to 4-4-2022
2,475	0.720	5-4-2021 to 4-4-2022
2,770	1.872	10-10-2019 to 9-10-2022
1,385	1.872	10-10-2020 to 9-10-2022
1,385	1.872	10-10-2021 to 9-10-2022
925	1.934	14-3-2019 to 13-3-2023
2,325	1.934	14-3-2020 to 13-3-2023
1,625	1.934	14-3-2021 to 13-3-2023
1,625	1.934	14-3-2022 to 13-3-2023
2,641	1.020	14-9-2019 to 13-9-2023
3,062	1.020	14-9-2020 to 13-9-2023
2,862	1.020	14-9-2021 to 13-9-2023
2,862	1.020	14-9-2022 to 13-9-2023
1,536	1.180	10-5-2021 to 9-5-2024
768	1.180	10-5-2022 to 9-5-2024
768	1.180	10-5-2023 to 9-5-2024
550	1.120	31-12-2021 to 30-12-2024
275	1.120	31-12-2022 to 30-12-2024
275	1.120	31-12-2023 to 30-12-2024
63,776		

25. SHARE OPTION SCHEME (CONTINUED)

2018

Number of options '000	Exercise price per share HK$	Exercise period
2,988	0.483	20-7-2017 to 19-7-2021
6,432	0.483	20-7-2018 to 19-7-2021
18,150	0.483	20-7-2019 to 19-7-2021
18,150	0.483	20-7-2020 to 19-7-2021
612	0.720	5-4-2018 to 4-4-2022
2,900	0.720	5-4-2019 to 4-4-2022
2,500	0.720	5-4-2020 to 4-4-2022
2,500	0.720	5-4-2021 to 4-4-2022
3,120	1.872	10-10-2019 to 9-10-2022
1,560	1.872	10-10-2020 to 9-10-2022
1,560	1.872	10-10-2021 to 9-10-2022
1,675	1.934	14-3-2019 to 13-3-2023
3,275	1.934	14-3-2020 to 13-3-2023
2,475	1.934	14-3-2021 to 13-3-2023
2,475	1.934	14-3-2022 to 13-3-2023
2,716	1.020	14-9-2019 to 13-9-2023
3,216	1.020	14-9-2020 to 13-9-2023
2,966	1.020	14-9-2021 to 13-9-2023
2,966	1.020	14-9-2022 to 13-9-2023
82,236		

The fair value of the share options granted during the year was US$116,000 (US$0.03 each) (2018: US$1,073,000 (US$0.04 each)). The Group recognised a share option expense of US$530,000 (2018: US$761,000) during the year ended 31 December 2019.

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:

	2019	2018
Dividend yield (%)	**6.30–6.85**	4.02–5.33
Expected volatility (%)	**36.52–37.23**	35.44–35.61
Risk-free interest rate (%)	**1.69–1.83**	2.47–2.87
Expected life of options (year)	**5.00**	5.00
Weighted average share price (HK$ per share)	**1.12–1.15**	1.02–1.92

Notes to Financial Statements (continued)

31 December 2019

25. SHARE OPTION SCHEME (CONTINUED)

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 17,960,000 share options exercised during the year resulted in the issue of 17,960,000 ordinary shares of the Company and new share capital of approximately US$23,000, as further detailed in note 24 to the financial statements.

At the end of the reporting period, the Company had 63,776,000 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 63,776,000 additional ordinary shares of the Company and additional share capital and share premium of approximately US$81,000 and US$7,414,000 (before expenses), respectively.

At the date of approval of these financial statements, the Company had 60,392,000 share options outstanding under the Scheme, which represented approximately 5.8% of the Company's shares in issue as at that date.

26. 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 60 of the financial statements.

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of US$216,000 and US$216,000, respectively, in respect of lease arrangements for buildings (2018: Nil).

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

	2019 Lease liabilities US$'000	2019 Interest-bearing bank borrowings US$'000
At 31 December 2018	—	1,306
Effect of adoption of HKFRS 16	2,671	—
At 1 January 2019 (restated)	2,671	1,306
Changes from financing cash flows	(865)	(910)
New leases	216	—
Interest expenses	67	—
Foreign exchange movement	5	(3)
At 31 December 2019	2,094	393

	2018 Lease liabilities US$'000	2018 Interest-bearing bank borrowings US$'000
At 1 January 2018	—	1,944
Changes from financing cash flows	—	(632)
Foreign exchange movement	—	(6)
At 31 December 2018	—	1,306

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 US$'000
Within financing activities	865

Notes to Financial Statements (continued)

31 December 2019

28. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 22 to the financial statements.

29. COMMITMENTS

Operating lease commitments as at 31 December 2018

The Group leased certain of its office properties and warehouses under operating lease arrangements. Leases for properties were negotiated for terms ranging from one to three years. At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 US$'000
Within one year	925
In the second to fifth years, inclusive	1,925
	2,850

30. 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	**2019** **US$'000**	2018 US$'000
Rental expenses paid to related companies#	(i)	**—**	696
Lease payments paid to related companies^	(i)	**788**	—

\# The rental expenses of US$670,000 included in these related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

^ The lease payments of US$788,000 included in these related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Note:

(i) The rental expenses and lease payments 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.

30. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2019 US$'000	2018 US$'000
Short term employee benefits	**1,319**	1,319
Equity-settled share-based payment expense	**75**	145
Post-employment benefits	**10**	10
Total compensation paid to key management	**1,404**	1,474

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

31. 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

	Financial assets at amortised cost	
	2019 US$'000	2018 US$'000
Trade receivables	**6,223**	4,922
Deposits and other receivables	**1,278**	899
Cash and cash equivalents	**28,926**	26,850
	36,427	32,671

Notes to Financial Statements (continued)

31 December 2019

31. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	Financial liabilities at amortised cost	
	2019	2018
	US$'000	US$'000
Trade payables	**735**	930
Other payables	**27**	6
Financial liabilities included in accruals	**249**	266
Lease liabilities	**2,094**	—
Interest-bearing bank borrowings	**393**	1,306
	3,498	2,508

32. 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, 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.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include 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, financial liabilities included in accruals and lease liabilities, 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.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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
2019		
Hong Kong dollar	**(50)**	**2**
Hong Kong dollar	**50**	**(2)**
2018		
Hong Kong dollar	(50)	7
Hong Kong dollar	50	(7)

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

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.

Notes to Financial Statements (continued)

31 December 2019

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

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

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax US$'000
2019		
If the United States dollar weakens against EUR	**5**	**106**
If the United States dollar strengthens against EUR	**(5)**	**(106)**
If the United States dollar weakens against RMB	**5**	**1**
If the United States dollar strengthens against RMB	**(5)**	**(1)**
If the United States dollar weakens against GBP	**5**	**6**
If the United States dollar strengthens against GBP	**(5)**	**(6)**
2018		
If the United States dollar weakens against EUR	5	59
If the United States dollar strengthens against EUR	(5)	(59)
If the United States dollar weakens against RMB	5	2
If the United States dollar strengthens against RMB	(5)	(2)
If the United States dollar weakens against RM	5	2
If the United States dollar strengthens against RM	(5)	(2)
If the United States dollar weakens against GBP	5	7
If the United States dollar strengthens against GBP	(5)	(7)

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

33. 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.

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 US$'000	Stage 2 US$'000	Stage 3 US$'000	Simplified approach US$'000	Total US$'000
Trade receivables*	—	—	—	6,335	6,335
Financial assets included in prepayments, deposits and other receivables — Normal**	1,278	—	—	—	1,278
Cash and cash equivalents — Not yet past due	28,926	—	—	—	28,926
	30,204	—	—	6,335	36,539

Notes to Financial Statements (continued)

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 US$'000	Stage 2 US$'000	Stage 3 US$'000	Simplified approach US$'000	Total US$'000
Trade receivables*	—	—	—	5,016	5,016
Financial assets included in prepayments, deposits and other receivables — Normal**	899	—	—	—	899
Cash and cash equivalents — Not yet past due	26,850	—	—	—	26,850
	27,749	—	—	5,016	32,765

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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 concentrations of credit risk as 16% (2018: 27%) and 63% (2018: 75%) of the Group's trade receivables were due from the Group's largest customer and 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 17 to the financial statements.

Notes to Financial Statements (continued)

31 December 2019

33. 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:

	2019				
	On demand US$'000	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Total US$'000
Trade payables	—	735	—	—	735
Other payables	—	27	—	—	27
Financial liabilities included in accruals	16	233	—	—	249
Lease liabilities	—	174	868	1,109	2,151
Interest-bearing bank borrowing (note 22)	393	—	—	—	393
	409	1,169	868	1,109	3,555

Notes to Financial Statements (continued)

31 December 2019

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

	2018				
	On demand US$'000	Less than 3 months US$'000	3 to less than 12 months US$'000	1 to 5 years US$'000	Total US$'000
Trade payables	—	930	—	—	930
Other payables	—	6	—	—	6
Financial liabilities included in accruals	—	266	—	—	266
Lease liabilities	—	—	—	—	—
Interest-bearing bank borrowing (note 22)	1,306	—	—	—	1,306
	1,306	1,202	—	—	2,508

Note:

Included in the above interest-bearing bank borrowings of the Group are certain term loans with an aggregate carrying amount of US$393,000 (2018: US$1,306,000). 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 2019	29	115	349	493
As at 31 December 2018	943	116	382	1,441

33. 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 2019 and 2018.

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:

	2019 **US$'000**	2018 US$'000
Interest-bearing bank borrowings and total debt	**393**	1,306
Total equity	**34,114**	32,718
Gearing ratio	**1.2%**	4.0%

34. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

Notes to Financial Statements (continued)

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35. 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:

	2019 US$'000	2018 US$'000
NON-CURRENT ASSET		
Investment in a subsidiary	**7**	7
CURRENT ASSETS		
Prepayments, deposits and other receivables	**104**	88
Amounts due from subsidiaries	**38,035**	20,380
Cash and cash equivalents	**19,749**	18,951
Total current assets	**57,888**	39,419
CURRENT LIABILITIES		
Other payables and accruals	**54**	54
Amounts due to subsidiaries	**36,812**	20,722
Total current liabilities	**36,866**	20,776
NET CURRENT ASSETS	**21,022**	18,643
Net assets	**21,029**	18,650
EQUITY		
Issued capital	**1,349**	1,326
Reserves (note)	**19,680**	17,324
Total equity	**21,029**	18,650

Notes to Financial Statements (continued)

31 December 2019

35. 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 US$'000	Total US$'000
At 1 January 2018	14,596	855	4,689	20,140
Profit for the year	—	—	3,856	3,856
Issue of shares upon exercise of share options	1,236	(318)	—	918
Equity-settled share option arrangements	—	761	—	761
Second interim 2017 dividend	—	—	(4,534)	(4,534)
Interim 2018 dividend	—	—	(3,817)	(3,817)
At 31 December 2018 and at 1 January 2019	15,832	1,298	194	17,324
Profit for the year	—	—	13,066	13,066
Issue of shares upon exercise of share options	1,518	(398)	—	1,120
Equity-settled share option arrangements	—	530	—	530
Transfer of share option reserve upon the forfeiture of share options	—	(17)	17	—
Second interim 2018 dividend	—	—	(5,724)	(5,724)
Special dividend	—	—	(1,997)	(1,997)
Interim 2019 dividend	—	—	(4,639)	(4,639)
At 31 December 2019	17,350	1,413	917	19,680

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 February 2020.

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				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
REVENUE	**45,910**	41,806	37,132	28,358	21,859
PROFIT BEFORE TAX	**13,994**	12,213	10,629	6,675	4,140
Income tax expense	**(1,905)**	(1,593)	(1,875)	(1,435)	(783)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**12,089**	10,620	8,754	5,240	3,357

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
TOTAL ASSETS	**50,078**	45,295	40,559	32,498	15,349
TOTAL LIABILITIES	**(15,964)**	(12,577)	(11,809)	(8,252)	(8,236)

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