The following discussion of the financial condition and results of operations of the Group should be read in conjunction with the Group's combined financial information, including the notes thereto, as set out in "Appendix I — Accountants' Report" in this document. The combined financial information has been prepared in accordance with the IFRS.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by the Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate under the circumstances. However, the Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the sections headed "Risk Factors" and "Forward-looking Statements", and elsewhere in this document.

The following discussion and analysis also contain certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

OVERVIEW

The Group is a well-established ICT solution provider headquartered in Singapore focusing on the provision of cyber infrastructure and cyber security solutions. Established in 2002, the Group started as a system integration service provider providing services to telecommunications service providers. Having gradually diversified its ICT services, the Group is now a regional provider of cyber infrastructure solutions in Southeast Asia. By working with various technology vendors, the Group acquired the experience and expertise to evolve to an ICT solution provider. Drawing upon its R&D capability, the Group successfully developed its technologies to provide cyber security solutions. The Group derives the majority of its revenue from the provision of project-based cyber infrastructure and cyber security solutions. The Group also derives revenue from the provision of maintenance and support services which is recurring in nature. For an overview of the Group's business, please refer to the section headed "Business — Overview" in this document.

KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Group's results of operation and financial condition have been, and will continue to be, affected by a number of factors, including those set forth in the section headed "Risk Factors" of this document and the following factors, some of which may not be within its control.

The Group's ability to anticipate and respond to changes in technologies or needs

As a technology-focused enterprise committed to developing innovative technology, the Group's R&D capabilities are critical to its success. There is no assurance that any of the Group's R&D activities would produce meaningful results or will lead to the production or creation of revenue-generating products or solutions. The Group's ability to conduct R&D and offer, on a timely basis, new solutions or enhancements of existing solutions that will address the changing needs of the marketplace is critical to its competitiveness. The Group's existing range of solutions may also become obsolete due to rapid technological changes. If the Group does not quickly respond to the rapidly changing and rigorous needs of its customers by conducting R&D activities and making available, on a timely basis, new solutions and enhancements to its existing solutions that can respond to advanced threats and its customers' needs. Even if the Group is able to make available upgrades or new solutions, there is no assurance that these upgrades, new solutions will achieve widespread market acceptance or meet users' expectations. If the Group fails to develop any upgrades or new solutions or they do not receive the expected market acceptance, its competitive position, profitability and business prospects will be adversely affected.

Changes in project mix

Because of the different cost structure in different solutions, the gross operating profit margin may be different depending on the type of the solutions. In general, the supply of the Group's software in its cyber security solutions projects will have a higher gross operating profit margin compared to cyber infrastructure solutions projects that involve sourcing of software and hardware from third party suppliers. In addition, the cost structure of each project may be different depending on the specification of the projects. As such, any change in project mix of the Group during a period may have an impact on its gross operating profit margin and may continue to lead to fluctuations in its overall gross operating profit margin and working capital requirements. There is no assurance that the Group will be able to maintain its current level of gross operating profit margin. Should the Group fail to maintain such high gross operating profit margin, its operating results may be adversely affected.

The Group's ability to secure new contracts

The Group operates in a competitive market where it is difficult to predict when or if it will be awarded contracts. The Group's ability to generate revenue is to a large extent dependent on its ability to secure new contracts as the Group derives its revenue mainly from the provision of project-based cyber infrastructure solutions and the provision of project-based cyber security solutions, which would entail the securing of new contracts. For the years ended 31 December 2014, 2015 and 2016, the Group derived approximately 36.0%, 54.0% and 56.8% of its revenue from the provision of cyber infrastructure solutions, respectively and approximately 62.2%, 42.9% and 36.7% of its revenue from the provision of cyber security solutions, respectively.

However, there is no assurance that the Group will be able to secure new contracts of a similar value or profit margins or in similar sectors to existing ones. If the Group is unable to secure new contracts, its results of operations, profitability and financial condition may be adversely affected.

The Group's ability to retain its key management personnel

The Group's continued success is dependent on the Group's ability to retain its key management personnel, who are responsible for overseeing its business operations, marketing and maintaining its relationships with existing and potential customers as well as formulating and implementing its growth, corporate development and overall business strategies. The loss of service of the Group's key management personnel and qualified personnel without suitable replacements will adversely affect the Group's business operations, profitability and prospects.

Credit risks of the Group's customers

The Group may extend credit terms to customers depending on the creditworthiness of the customers. The Group faces uncertainties over the timeliness of customers' payments and their ability to pay, which may be affected by events or circumstances that are difficult to foresee or anticipate, such as a decline in their business or an economic downturn. In the case of channel partners, their ability to repay the Group may depend on their collection of payment for the relevant projects. If there is any delay in the collection of payment for the projects by the channel partners, it will in turn cause delay in payment by the channel partner to the Group. As at 31 December 2014, 31 December 2015 and 31 December 2016, the Group recorded trade receivables of approximately US$323,000, US$376,000 and US$108,000, respectively which have been past due but not impaired. The trade receivables due from the Group's largest debtor accounted for approximately 33.2%, 22.9% and 42.3% of the Group's total trade receivables as at 31 December 2014, 31 December 2015 and 31 December 2016, respectively. Approximately 94.4%, 77.4% and 86.4% of the Group's total trade receivables as at 31 December 2014, 31 December 2015 and 31 December 2016, respectively, were due from the Group's five largest debtors. Accordingly, the Group had concentration of credit risk. For the years ended 31 December 2014, 31 December 2015 and 2016, the Group's average trade receivables turnover days were approximately 93 days, 120 days and 105 days, respectively. Although no provision for bad debt was incurred by the Group during the Track Record Period, there is no assurance that the Group will be able to collect its trade debts fully or within a reasonable period of time. In such circumstances, the Group may be required to make provisions for doubtful debts or incur write-offs, which may have a material adverse effect on its financial condition and results of operations. During the Track Record Period, the Group did not incur any bad debts.

Availability of tax exemptions

During the Track Record Period, the Group's effective tax rates for the years ended 31 December 2014, 2015 and 2016 were significantly lower than the standard rate of Singapore and Malaysia corporate income tax due to tax incentives under the PIC Scheme launched by the Singapore government and income tax exemption under the "Pioneer Status" in Malaysia. The PIC Scheme will lapse after year of assessment 2018. GET (Malaysia) has been granted with "Pioneer Status" under the Promotion of Investments Act 1986 with income tax exemption on eligible activities and products for an initial period of five years commencing on 18 November 2015 and, subject to GET (Malaysia) submitting a formal request to the Malaysian Investment Development Authority on or prior to 17 October 2020 and upon the Ministry of International Trade and Industry confirming that GET (Malaysia) has been complying with all the applicable conditions as imposed, the tax relief period shall be extended for a further five years after the initial five-year tax relief period ends. There is no assurance that the Group will be granted any tax exemptions at all or with similar benefits. If the Group is not granted any tax exemptions or tax exemptions with similar benefits, there may be a material adverse effect on the Group's business, financial conditions and results of operations. Please refer to the section headed "Regulatory Overview — Singapore Laws and Regulations" in this document for details of the PIC Scheme and the section headed "Regulatory Overview — Malaysian Laws and Regulations" for more information relating to the tax incentives for company with pioneer status in Malaysia.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands under the Cayman Company Law as an exempted company with limited liability on 22 June 2016. Pursuant to the Reorganisation as detailed in the paragraphs headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" of this document, the Company became the holding company of the companies now comprising the Group on 30 June 2016. The companies now comprising the Group were under the common control of the Controlling Shareholder before and after the Reorganisation. Accordingly, for the purpose of the Accountants' Report set forth in Appendix I to this document, the Group's financial information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows include the combined results of operations, cash flows and movements in equity of the companies now comprising the Group (or where the companies were incorporated/established later than 1 January 2015, for the period from the date of establishment to 31 December 2016) have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period or since their respective date of incorporation, where there is a shorter period. The combined statements of financial position of the Group as at 31 December 2014, 31 December 2015 and 31 December 2016 have been prepared to present the combined assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates, taking into account the respective dates of incorporation.

All intra-group balances, transactions, incomes and expenses and profits and losses resulting from intra-group transactions are eliminated in full in preparing the Group's financial information.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group are set forth in detail in note 3 of section B to the Accountants' Report set forth in Appendix I to this document.

The following paragraphs summarise the critical accounting policies that the Group believes are important to the presentation of its combined financial information.

Revenue recognition

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

Revenue from cyber infrastructure solutions and cyber security solutions include hardware, software and/or service components. Generally, engagements of this nature are negotiated, priced and concluded as one integrated solution because the provision of consulting, installation and configuration forms an integral part of completing the engagement and therefore, such revenue is recognised upon the customers' acceptance of the integrated solution when the risks and rewards of the ownership transferred.

Maintenance and support service income is recognised on a straight-line basis over the life of the related agreement.

Intangible assets — Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over a period of 3 years. For intangible assets yet to be available for use, they are stated at cost less any accumulated impairment losses.

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial information, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the financial information. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of property, plant and equipment and intangible assets

The management determines whether the Group's property, plant and equipment and intangible assets are impaired when an indication of impairment exists or when annual impairment testing is required. This requires an estimation of the recoverable amount of the property, plant and equipment and intangible assets, which is equal to the higher of fair value less costs of disposal or the value in use. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the property, plant and equipment and intangible assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Any impairment will be charged to profit or loss.

Impairment of trade and other receivables

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the trade and other receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each debtor. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, allowance will be required.

Please refer to note 3 of section B to the Accountants' Report on Appendix I to this document for details of the Group's significant accounting policies and critical accounting estimates and judgments.

SELECTED FINANCIAL STATEMENT INFORMATION

The following table sets out selected items of the Group's combined statements of profit or loss and other comprehensive income for the periods as indicated, as derived from the Accountants' Report in Appendix I to this document.

	Year ended 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Revenue	2,443	3,715	5,635
Other income	24	13	84
Cost of inventories sold	(495)	(1,423)	(2,122)
Staff costs and related expenses	(273)	(452)	(928)
Depreciation and amortisation	(115)	(212)	(316)
Other operating expenses	(213)	(266)	(428)
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]
Profit before income tax	1,371	1,375	1,411
Income tax expenses	(8)	(25)	(135)
Profit for the year	1,363	1,350	1,276
Other comprehensive income	—	—	—
Total comprehensive income for the year	1,363	1,350	1,276

The following table sets out selected items of the Group's combined statements of financial position for the periods as indicated, as derived from the Accountants' Report in Appendix I to this document.

	As at 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Non-current assets			
Property, plant and equipment	32	148	103
Intangible assets	263	417	471
	295	565	574
Current assets			
Inventories	38	44	63
Trade and other receivables	1,207	1,608	2,389
Due from a related company	—	76	—
Bank balances and cash	790	1,051	3,000
	2,035	2,779	5,452
Current liabilities			
Trade and other payables	277	432	494
Due to an ex-director of a subsidiary	30	—	—
Income tax payables	11	15	71
	318	447	565
Net current assets	1,717	2,332	4,887
Total assets less current liabilities	2,012	2,897	5,461
Non-current liabilities			
Deferred tax liabilities	2	17	82
NET ASSETS	2,010	2,880	5,379
Capital and reserves			
Share capital	—	—	—
Reserves	2,010	2,880	5,379
TOTAL EQUITY	2,010	2,880	5,379

DESCRIPTION OF SELECTED ITEMS FROM THE GROUP'S COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, the Group generated its revenue mainly from the provision of cyber infrastructure solutions and cyber security solutions. The Group also derived revenue from the provision of maintenance and support services which is recurring in nature. The following table sets out a breakdown of the Group's revenue by business during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
Type of business	**Revenue**	**% of total**	**Revenue**	**% of total**	**Revenue**	**% of total**
	US$'000	**%**	**US$'000**	**%**	**US$'000**	**%**
Cyber infrastructure solutions	879	36.0	2,007	54.0	3,199	56.8
Cyber security solutions	1,521	62.2	1,592	42.9	2,068	36.7
Maintenance and support services	43	1.8	116	3.1	368	6.5
Total	2,443	100.0	3,715	100.0	5,635	100.0

The Group's cyber infrastructure solutions projects and cyber security solutions projects can be generally categorised into public sector projects and private sector projects based on end users. Public sector projects refer to projects where the end users are government bodies, while private sector projects refer to projects that the end users are not government bodies. The following table sets out a breakdown of the Group's revenue during the Track Record Period attributable to public and private sector projects based on end users:

	Year ended 31 December					
	2014		2015		2016	
End user segment	**Revenue**	**% of total**	**Revenue**	**% of total**	**Revenue**	**% of total**
	US$'000	**%**	**US$'000**	**%**	**US$'000**	**%**
Public sector	1,521	62.2	1,598	43.0	2,068	36.7
Private sector						
— ISPs and telecommunications	670	27.4	1,408	37.9	2,345	41.6
— Manufacturing	130	5.3	492	13.3	215	3.8
— Construction	—	—	130	3.5	199	3.5
— IT	4	0.2	13	0.3	320	5.7
— Banking and insurance	85	3.5	3	0.1	127	2.3
— Others	33	1.4	71	1.9	361	6.4
	922	37.8	2,117	57.0	3,567	63.3
Total	2,443	100.0	3,715	100.0	5,635	100.0

During the Track Record Period, the percentage of revenue contributed by the Group private sector projects increased significantly from approximately 37.8% in 2014 to approximately 63.3% in 2016. The private sector projects represent mainly cyber infrastructure solutions projects. The Group focused on provision of cyber infrastructure solutions to ISPs and telecommunications sectors during the Track Record Period, these sectors contribute the largest portion of revenue from private sector projects. With respect to public sector, the public sector projects during the Track Record Period represent mainly cyber security solutions projects. As such, the reasons for the fluctuation of the revenue from public sector projects are the same as those for the fluctuation of revenue from cyber security solutions. Please refer to the paragraph headed "Review of historical results of operations" in this section for details.

The Group generated most of its revenue from projects with revenue contribution of US$30,000 or above ("**Major Projects**") during the Track Record Period. The revenue from Major Projects represented approximately 86.8%, 89.6% and 86.7% of the Group's total revenue for the years ended 31 December 2014, 2015 and 2016, respectively. The remaining portion of the revenue were generated from a number of small projects and miscellaneous sales transactions, representing approximately 13.2%, 10.4% and 13.3% of the Group's total revenue for the years ended 31 December 2014, 2015 and 2016, respectively. As such, analysis of revenue contribution from such small projects and miscellaneous sales transactions is not meaningful.

The following table sets out the breakdown of the Group's revenue derived from Major Projects in its cyber infrastructure solutions and cyber security solutions business during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	US$'000	%	US$'000	%	US$'000	%
Cyber infrastructure solutions attributable to project with revenue contribution of — US$30,000 or above	678	27.8	1,765	47.5	2,881	51.1
Cyber security solutions attributable to project with revenue contribution of — US$30,000 or above	1,441	59.0	1,563	42.1	2,005	35.6

The following table sets out the average revenue per Major Project during the Track Record Period for illustrative purpose:

	Year ended 31 December					
	2014		2015		2016	
	Number of Major Projects	Average revenue per Major Project	Number of Major Projects	Average revenue per Major Project	Number of Major Projects	Average revenue per Major Project
		US$'000		US$'000		US$'000
Cyber infrastructure solutions	5	135.6	16	110.3	19	151.6
Cyber security solutions	6	240.2	7	223.3	12	167.1

The decrease in average revenue per Major Project from cyber infrastructure solutions projects from approximately US$135,600 for the year ended 31 December 2014 to approximately US$110,300 for the year ended 31 December 2015 was mainly due to the increase in the number of Major Projects with smaller contract sum in Singapore in various industries, such as manufacturing and construction, in 2015 following the expansion of sale and marketing team. The average revenue per Major Project from cyber security solutions projects decreased slightly from approximately US$240,200 for the year ended 31 December 2014 to approximately US$223,300 for the year ended 31 December 2015.

The increase in average revenue per Major Project from cyber infrastructure solutions projects from approximately US$110,300 for the year ended 31 December 2015 to approximately US$151,600 for the year ended 31 December 2016 was mainly due to completion of two cyber infrastructure solutions projects in Philippines with large contract sum in 2016. The average revenue per Major Project from cyber security solutions projects decreased from approximately US$223,300 for the year ended 31 December 2015 to approximately US$167,100 for the year ended 31 December 2016, mainly due to the fact that more cyber security solutions projects with smaller contract sum were completed in 2016. Those smaller contract sum projects mainly represent the provision of upgrading system solutions to existing customers, who need to upgrade their systems by adding new features to respond to changes in technologies or meet their needs and projects with smaller quantity of solutions involved.

During the Track Record Period, Southeast Asia was the principal market of the Group. The revenue derived from Southeast Asia region accounted for approximately 86.6%, 94.6% and 86.4% of the Group's total revenue for the years ended 31 December 2014, 2015 and 2016, respectively. The following table sets out the breakdown of the Group's revenue by geographical regions of end users of the Group's solutions during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	US$'000	%	US$'000	%	US$'000	%
Geographical locations						
Asia Pacific Region						
Southeast Asia						
— Indonesia	314	12.9	213	5.7	66	1.2
— Laos	224	9.2	30	0.8	20	0.4
— Malaysia	664	27.2	660	17.8	676	12.0
— Myanmar	808	33.1	1,148	30.9	221	3.9
— Philippines	—	—	86	2.3	1,830	32.4
— Singapore	104	4.2	846	22.8	1,280	22.7
— Thailand	—	—	530	14.3	732	13.0
— Vietnam	—	—	—	—	46	0.8
	2,114	86.6	3,513	94.6	4,871	86.4
East Asia						
— Hong Kong	4	0.1	4	0.1	5	0.1
— South Korea	275	11.3	—	—	176	3.1
— Taiwan	—	—	198	5.3	578	10.2
	279	11.4	202	5.4	759	13.4
Other Regions						
— Germany	50	2.0	—	—	—	—
— Romania	—	—	—	—	2	0.1
— US	—	—	—	—	3	0.1
	50	2.0	—	—	5	0.2
Total	2,443	100.0	3,715	100.0	5,635	100.0

Cost of inventories sold

During the Track Record Period, the Group's cost of inventories sold mainly comprised telecommunications equipment, IT hardware and software including laptop, cables, servers, network equipment, network processor platform and various software used for the implementation of its cyber infrastructure solutions and cyber security solutions projects. There were no inventories being consumed for the maintenance and support services, therefore, the cost of inventories sold was only related to the Group's provision of cyber infrastructure solutions and cyber security solutions.

The Group's cost of inventories sold mainly depend on the specification required in the Group's cyber infrastructure solutions and cyber security solutions projects completed during the Track Record Period. The following table sets out a breakdown of the Group's cost of inventories sold during the Track Record Period:

	Year ended 31 December		
	2014	**2015**	**2016**
	US$'000	**US$'000**	**US$'000**
Cyber infrastructure solutions	467	1,094	2,093
Cyber security solutions	28	329	29
Total	495	1,423	2,122

Gross operating profit and gross operating profit margin

The Group presents its expenses in the profit or loss and other comprehensive income by their nature. The Group adopts this presentation method on the basis that (i) the operation scale of the Group is small; (ii) the Group operates under a cross-functional model of which senior management and majority of the staff have cross-functional roles in sales, procurement and project implementation, etc.; and (iii) the Group did not manage its business with reference to the staff utilisation rate by function. Under this presentation method, no gross profit is presented in the profit or loss and other comprehensive income, and no gross profit margin can be determined. The Directors are of the view, and the joint reporting accountants of the Company concur, that such presentation method complies with general accepted accounting principles and is in line with the industry practice.

In order to facilitate the analysis of the Group's profitability during the Track Record Period, gross operating profit is prepared by deducting cost of inventories sold, staff costs, depreciation and amortisation, sub-contracting costs and acquired warranty costs (the "**Operating Costs**") from the Group's revenue. The staff costs include mainly the costs of staff who perform various functions within the Group including sales, procurement and project implementation. During the Track Record Period, the cost of inventories sold and the staff cost are the largest two components of the Operating Costs. The costs of inventories sold accounted for approximately 61.1%, 70.0% and 62.2% of the Group's Operating Costs for the years ended 31 December 2014, 2015 and 2016, respectively. The staff costs accounted for approximately 23.7%, 17.9% and 23.4% of the Group's Operating Costs for the years ended 31 December 2014, 2015 and 2016, respectively.

The Group's gross operating profit and gross operating profit margin was mainly affected by the following factors: (i) the complexity of the work involved; (ii) total costs of procured inventories and services; and (iii) the Group's competitiveness in the market. The following table sets out the gross operating profit and gross operating profit margin of the Group and its business segments during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
The Group			
Revenue	2,443	3,715	5,635
Cost of inventories sold	(495)	(1,423)	(2,122)
Staff costs	(192)	(364)	(797)
Depreciation and amortisation	(115)	(212)	(316)
Subcontracting costs	—	—	(84)
Acquired warranty costs	(8)	(34)	(90)
Gross operating profit	1,633	1,682	2,226
Gross operating profit margin(1)	66.8%	45.3%	39.5%
Cyber Infrastructure Solutions			
Revenue	879	2,007	3,199
Cost of inventories sold	(467)	(1,094)	(2,093)
Staff costs(2)	(33)	(145)	(330)
Depreciation and amortisation	(2)	(4)	(39)
Subcontracting costs	—	—	(84)
Gross operating profit	377	764	653
Gross operating profit margin(1)	42.9%	38.1%	20.4%
Cyber Security Solutions			
Revenue	1,521	1,592	2,068
Cost of inventories sold	(28)	(329)	(29)
Staff costs(2)	(159)	(219)	(467)
Depreciation and amortisation	(113)	(208)	(277)
Gross operating profit	1,221	836	1,295
Gross operating profit margin(1)	80.3%	52.5%	62.6%
Maintenance and Support Services			
Revenue	43	116	368
Acquired warranty costs	(8)	(34)	(90)
Gross operating profit	35	82	278
Gross operating profit margin(1)	81.4%	70.7%	75.5%

Notes:

(1) Gross operating profit margin is derived by dividing the gross operating profit for a financial year by revenue for the financial year, expressed as a percentage.

(2) The Directors allocated, on best effort basis with reference to the staff involvement in the relevant segments, the Group's staff costs to each business segment of the Group for the purpose of determining the gross operating profit and gross operating profit margin of each business segment of the Group.

The gross operating profit margin for the provision of cyber infrastructure solutions decreased slightly from approximately 42.9% for the year ended 31 December 2014 to approximately 38.1% for the year ended 31 December 2015. The gross operating profit margin for the provision of cyber infrastructure solutions decreased from approximately 38.1% for the year ended 31 December 2015 to approximately 20.4% for the year ended 31 December 2016. The decrease was primarily due to (i) the increase in proportion of revenue from cyber infrastructure solutions projects with more hardware component involved and (ii) the subcontracting costs for engaging a local subcontractor to carry out implementation works for a project in the Philippines in 2016. As the project site was located in a distant city in the Philippines, it was considered as more efficient for the Group to engage a local subcontractor to handle the project.

The gross operating profit margin of the Group's cyber security solutions business mainly depends on the customers' requirements and type of cyber security products used in the projects. Such gross operating profit margin decreased from approximately 80.3% for the year ended 31 December 2014 to approximately 52.5% for the year ended 31 December 2015, mainly due to a low margin sale of hardware for 3i System to a customer who purchased only software of 3i System from the Group for installation in its own systems in 2014. Such gross operating profit margin increased from approximately 52.5% for the year ended 31 December 2015 to approximately 62.6% for the year ended 31 December 2016. The lower gross operating profit margin for the year ended 31 December 2015 was mainly contributed by a low margin sale of hardware for 3i System to a customers who previously purchased only software of 3i System from the Group for installation in its own system. In 2016, the Group's sales comprised mainly sale of cyber security solutions with lesser hardware component involved as well as system and software upgrade.

Sensitivity analysis of change in gross operating profit margin, unit cost of inventories sold and unit staff costs

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's gross operating profit margin, unit cost of inventories sold and unit staff costs on its profit before income tax for the Track Record Period. The fluctuations are based on historical changes of the relevant factors for the years ended 31 December 2014, 2015 and 2016, respectively.

	+39 percentage point	+26 percentage point	+13 percentage point	–13 percentage point	–26 percentage point	–39 percentage point
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in gross operating profit margin						
Impact on profit before income tax for the year ended						
31 December 2014	953	635	318	(318)	(635)	(953)
31 December 2015	1,449	966	483	(483)	(966)	(1,449)
31 December 2016	2,198	1,465	733	(733)	(1,465)	(2,198)

	+27 percentage point	+18 percentage point	+9 percentage point	–9 percentage point	–18 percentage point	–27 percentage point
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in unit cost of inventories sold						
Impact on profit before income tax for the year ended						
31 December 2014	(134)	(89)	(45)	45	89	134
31 December 2015	(384)	(256)	(128)	128	256	384
31 December 2016	(573)	(382)	(191)	191	382	573

	+9 percentage point	+6 percentage point	+3 percentage point	–3 percentage point	–6 percentage point	–9 percentage point
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in unit staff costs						
Impact on profit before income tax for the year ended						
31 December 2014	(25)	(16)	(8)	8	16	25
31 December 2015	(41)	(27)	(14)	14	27	41
31 December 2016	(84)	(56)	(28)	28	56	84

Other income

During the Track Record Period, the Group's other income mainly comprised government grants, net exchange gain, interest income and other miscellaneous income. The following table sets out a breakdown of other income of the Group by nature during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Interest income	—	—	3
Government grants	21	11	74
Exchange gain, net	1	—	6
Others	2	2	1
Total	24	13	84

Government grants mainly comprised various one-off government grant from the Singapore government, including the PIC Scheme, the "International Marketing Activities Programme", the "Market Readiness Assistance Grant" and the "Wage Credit Scheme" and "Special Employment Credit". Such government grants vary from year to year, depending on government policy and whether the Group's business in the relevant year qualifies for such available grants and is able to make use of such grants.

Staff costs and related expenses

During the Track Record Period, the Group’s staff costs and related expenses mainly comprised salaries and other benefits as well as the contributions to defined contribution plans incurred by the Group for its employees and Directors. The following table sets out a breakdown of the Group’s staff costs and related expenses during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	US$’000	US$’000	US$’000
Salaries and other benefits	353	681	1,106
Contributions to defined contribution plans	26	59	91
	379	740	1,197
Less: Staff costs capitalised as intangible assets	(106)	(288)	(269)
Total	273	452	928

The staff costs capitalised as intangible assets represent mainly the salaries of the Group’s R&D staff who involved in the development activities of the Group’s cyber security products during the Track Record Period.

Depreciation and amortisation

During the Track Record Period, the Group’s depreciation and amortisation mainly comprised depreciation of property, plant and equipment and amortisation of intangible assets. The following table sets out a breakdown of the Group’s depreciation and amortisation during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	US$’000	US$’000	US$’000
Amortisation of intangible assets	98	188	252
Depreciation of property, plant and equipment	17	24	64
Total	115	212	316

The property, plant and equipment mainly comprised IT equipment used for the Group’s operations which are depreciated on a straight-line basis over a term of three years being the expected useful life of these equipment. The intangible assets mainly comprised the development costs of the Group’s cyber security technologies capitalised which are amortised on a straight-line basis over a period of three years.

Other operating expenses

During the Track Record Period, the Group’s other operating expenses mainly comprised advertising and promotional expenses, subcontracting costs, operating lease payments on premises, and acquired warranty costs and travelling expenses. Subcontracting costs represent the fees paid to a local subcontractor engaged by the Group for the implementation work of a cyber infrastructure solutions project in Philippines during the year ended 31 December 2016. Acquired warranty costs mainly represents the cost of extended product warranties purchased from the suppliers as required by some of the Group's customers upon the lapse of the original product warranties. The following table sets out a breakdown of the Group's other operating expenses by nature during the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Acquired warranty costs	8	34	90
Advertising and promotional expenses	30	37	44
Auditors' remuneration	11	7	16
Entertainment expenses	7	10	26
Legal and professional fee	16	32	7
Office expenses	29	19	25
Operating lease payments on premises	31	31	57
Subcontracting costs	—	—	84
Travelling expenses	64	58	60
Utilities expenses	4	6	7
Others[(1)]	13	32	12
Total	213	266	428

Note:

(1) Others include bank charges, exchange loss, stamp duties and staff recruitment expenses, etc.

Income tax expenses

During the Track Record Period, the Group's income tax expenses comprise Singapore and Malaysia corporate income tax.

Singapore corporate income tax is calculated at 17% of the Group's estimated assessable profits generated from its Singapore operation subject to a tax rebate of 30% which is capped at S$30,000 (equivalent to approximately US$22,000) for the year ended 31 December 2014 and a tax rebate of 50% which is capped at S$20,000 (equivalent to approximately US$15,000) for the years ended 31 December 2015 and 2016. Each of Netsis (Singapore) and Expert Team (Singapore) enjoys 75% tax exemptions on the first S$10,000 (equivalent to approximately US$7,000) of normal chargeable income and a further 50% tax exemption on the next S$290,000 (equivalent to approximately US$212,000) of normal chargeable income during the Track Record Period. Netsis (Singapore) started to receive the tax incentives under the PIC Scheme launched by Singapore government from year of assessment 2013 (in respect of taxable income earned in the basis period from 1 January 2012 to 31 December 2012) and Expert Team (Singapore) started to receive such tax incentives under the PIC Scheme from year of assessment 2014 (in respect of taxable income earned in the basis period from 15 August 2012 to 31 December 2013), and such scheme will lapse after year of assessment 2018 (in respect of taxable income earned in the preceding financial year). Under the PIC Scheme, businesses can enjoy 400% tax deductions/allowances on up to S$400,000 (equivalent to US$292,000) in years of assessment 2013 and 2014 and S$600,000 (equivalent to US$438,000) in years of assessment 2015 to 2018 of their expenditure per year in each of the qualifying activities. Such qualifying activities which are relevant to the Group include acquisition and leasing of PIC information technology (IT) and automation equipment, and research and development activities.

Malaysia corporate income tax is calculated at 25%, 25% and 24% of the estimated assessable profit for the years ended 31 December 2014, 2015 and 2016, respectively. GET (Malaysia) enjoys a tax rate of 20% on the first RM500,000 (equivalent to US$120,000) and the remaining balance of the estimated assessable profits at tax rate of 25% for the years ended 31 December 2014 and 2015 and a tax rate of 19% on the first RM500,000 (equivalent to US$120,000) and the remaining balance of the estimated assessable profits at a tax rate of 24% for the year ended 31 December 2016. On 6 December 2016, GET (Malaysia) has been granted "Pioneer Status" with income tax exemption on eligible activities and products under the Promotion of Investments Act 1986, which include (i) research, development and commercialisation of the Group's web security platform, representing cyber security solutions and software developed by it under its own "3iWeb 2U" brand; and (ii) provision of implementation, maintenance and technical services related to the above mentioned platform for an initial period of five years commencing on 18 November 2015, and subject to GET (Malaysia) submitting a formal request to the Malaysian Investment Development Authority on or prior to 17 October 2020 and upon the Ministry of International Trade and Industry confirming that GET (Malaysia) has been complying with all the applicable conditions as imposed, the tax relief period shall be extended for a further five years after the initial five-year tax relief period ends. GET (Malaysia) was incorporated in February 2015 and obtained its MSC status in June 2015. It started generating revenue in November 2015. Prior to the tax relief period under the "Pioneer Status" which commenced on 18 November 2015, GET (Malaysia) did not receive any taxable income that was subject to assessment for tax. Please refer to the section headed "Regulatory Overview — Malaysian Laws and Regulations" for more information relating to the tax incentives for companies with pioneer status in Malaysia.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in or derived from Hong Kong for the Track Record Period. Members of Group established in the Cayman Islands and the BVI are exempted from income tax.

The effective tax rate was approximately 0.6%, 1.8% and 9.6% for the years ended 31 December 2014, 2015 and 2016, respectively. The Group's effective tax rate for the years ended 31 December 2014, 2015 and 2016 was significantly lower than the standard rate of Singapore and Malaysia corporate income tax due to the tax incentives on research and development expenditure and computer equipment which refers to capital allowance and tax deduction of 400% (comprising a 300% "enhanced allowance", subject to the annual expenditure cap of S$600,000 (equivalent to US$438,000) and a 100% "base allowance") on the Group's capital expenditure incurred on qualifying R&D activities and acquisition of qualifying IT equipment under the PIC Scheme in Singapore and the tax exemption under the "Pioneer Status" in Malaysia. The aggregate amount of the tax incentives received by the Group under the PIC Scheme and the tax exemption under the "Pioneer Status" for each of the three years ended 31 December 2016 were approximately US$228,000, US$255,000 and US$266,000, respectively. Should the relevant tax incentive be not available to the Group, the profit for the year of the Group will be decreased to approximately US$1,135,000, US$1,095,000 and US$1,010,000 for each of the three years ended 31 December 2016, respectively. Save as disclosed above and those available generally to all companies, the Group did not receive any similar tax exemption prior to the Track Record Period. The Directors confirm that the Group has paid all taxes as they fall due and was not subject to any tax-related disputes, administrative enquiries or investigations during the Track Record Period.

During the Track Record Period, the Company, through its subsidiaries in Singapore and Malaysia, provided cyber infrastructure solutions and cyber security solutions to its customers in those jurisdictions with or without tax treaties arrangements with Singapore and Malaysia. The Directors consider that, and concurred by the joint reporting accountants of the Company after consulting their tax team as part of their process in the preparation of the accountants' report, the Group has no significant overseas tax exposure outside Singapore and Malaysia during the Track Record Period on the basis that:

1. *Transactions with the jurisdictions with tax treaties arrangements with Singapore and Malaysia including Myanmar, Philippines, Taiwan, Vietnam, South Korea and Indonesia*

   Under the article on business profits in the relevant tax treaties, the profits of an enterprise of a tax jurisdiction shall be taxable only in that jurisdiction unless the enterprise carries on business in a treaty partner through a permanent establishment situation therein. The Group had no permanent establishment situated in tax jurisdictions with tax treaties arrangements with Singapore and Malaysia. As such, sales to the customers in those jurisdictions was not subject to overseas taxation, including withholding tax.

2. *Transactions with the jurisdictions without tax treaties arrangements with Singapore and/or Malaysia including Laos, Thailand and Hong Kong*

   Tax on business profits in those jurisdictions is based on business profits that are sourced or derived in those jurisdictions which are generally determined with reference to the principal location where the operation is located, contracts are negotiated and conclusion and the contractual obligations are fulfilled, etc. Sale and purchase contracts were negotiated and concluded in Singapore and/or Malaysia, and substantial part of the works for provision of integrated solutions (such as customers requirement analysis, solution design and architect, order and supply of hardware and software, pre-onsite system implementation and integration, etc.) provided to the customers in those jurisdictions were performed in the Group's offices in Singapore and/or Malaysia. Only the hardware implementation and integration works, which forms an insignificant part of the entire project, was supervised and carried out by the Group's technical support engineers in the overseas area designated by its customers. In light of this, the sales to the customers in those jurisdictions was not sourced or derived in those jurisdictions, and was not subject to taxation of those jurisdictions, including withholding tax.

Having considered experience of the qualification and experience of the tax team of the joint reporting accountants of the Company, the Sole Sponsor consider that the Company's joint reporting accountants' concurring view on the Directors' determination is sufficient.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Year ended 31 December 2015 compared to year ended 31 December 2014

Revenue

The Group's revenue increased by approximately US$1,272,000 or 52.1% from approximately US$2,443,000 for the year ended 31 December 2014 to approximately US$3,715,000 for the year ended 31 December 2015. The increase was mainly driven by the Group's cyber infrastructure solutions business. The growth of the Group's cyber infrastructure solutions business was mainly due to the fact that the Group expanded its sales and marketing team which successfully brought in a number of cyber infrastructure solutions projects in the Singapore market. The Group's revenue from its cyber security solutions business remained stable at approximately US$1,521,000 and US$1,592,000 for the years ended 31 December 2014 and 2015, respectively, mainly due to the combined effect of an increase in the supply of the extreme version of the 3i-Tactical System after its launch in the fourth quarter of 2015 which had a substantial higher price than that of the standard version and a decrease in the supply of software for 3i-RS System, 3i-CS System and 3i-Filter System.

Other income

The Group's other income decreased by approximately US$11,000, or 45.8% from approximately US$24,000 for the year ended 31 December 2014 to approximately US$13,000 for the year ended 31 December 2015 was due to the decrease in government grants received which were of an one-off nature.

Cost of inventories sold

The Group's cost of inventories sold increased by approximately US$928,000 or 187.5% from approximately US$495,000 for the year ended 31 December 2014 to approximately US$1,423,000 for the year ended 31 December 2015, due to the increase in cost of inventories sold in both of the Group's cyber infrastructure and cyber security solutions projects in 2015.

Please refer to the paragraph headed "Gross Operating Profit and Gross Operating Profit Margin" in this section for detailed explanation of the fluctuation of the Group's gross operating profit margin.

Staff costs and related expenses

The Group's staff costs and related expenses increased by approximately US$179,000, or 65.6%, from approximately US$273,000 for the year ended 31 December 2014 to approximately US$452,000 for the year ended 31 December 2015. The increase was mainly due to the combined effect of increase in (i) salaries of employees and Directors and (ii) the number of employees of the Group.

Depreciation and amortisation

The Group's depreciation and amortisation increased by approximately US$97,000, or 84.3%, from approximately US$115,000 for the year ended 31 December 2014 to approximately US$212,000 for the year ended 31 December 2015. The increase was mainly due to the increase in amortisation of the Group's intangible assets. This reflected the fact that the Group continued invest in R&D activities for its cyber security solutions and more development cost of the Group's developed cyber security technologies had been capitalised as intangible assets.

Other operating expenses

The Group's other operating expenses increased by approximately US$53,000, or 24.9%, from approximately US$213,000 for the year ended 31 December 2014 to approximately US$266,000 for the year ended 31 December 2015. The increase was mainly due to the increase in (i) acquired warranty costs and (ii) legal and professional fees. The increase in acquired warranty costs was generally in line with the growth of maintenance and support services income. The increase in legal and professional fees was related to set up of the Group's Malaysia office in 2015.

Profit before income tax

As a result of the above, the Group's profit before income tax remained relatively stable at approximately US$1,371,000 and US$1,375,000 for the years ended 31 December 2014 and 2015, respectively.

Income tax expenses

The Group did not record any material income tax expenses for the years ended 31 December 2014 and 2015, mainly due to the tax incentives on research and development expenditures under the PIC Scheme.

Profit for the year

As a combined effect of the above, the Group's profit for the year remained stable at approximately US$1,363,000 and US$1,350,000 for the years ended 31 December 2014 and 2015, respectively. The net profit margin of the Group decreased from approximately 55.8% for the year ended 31 December 2014 to approximately 36.3% for the year ended 31 December 2015.

Year ended 31 December 2016 compared to year ended 31 December 2015

Revenue

The Group's revenue increased by approximately US$1,920,000 or 51.7% from approximately US$3,715,000 for the year ended 31 December 2015 to approximately US$5,635,000 for the year ended 31 December 2016. The increase was mainly due to an increase in the revenue from both of the Group's cyber infrastructure solutions and cyber security solutions business.

The Group's revenue from the provision of cyber infrastructure solutions increased by approximately US$1,192,000 or 59.4% from approximately US$2,007,000 for the year ended 31 December 2015 to approximately US$3,199,000 for the year ended 31 December 2016. The increase was mainly due to completion of two cyber infrastructure solutions projects with large contract sum from a customer in the Philippines ISPs and telecommunications industry.

The Group's revenue from the provision of cyber security solutions increased by approximately US$476,000 or 29.9% from approximately US$1,592,000 for the year ended 31 December 2015 to approximately US$2,068,000 for the year ended 31 December 2016, mainly due to the increase in system and software upgrade projects from existing customers. Those customers need to upgrade their system and software for new features to respond to changes in technologies or meet their needs.

Other income

The Group's other income increased by approximately US$71,000, or 546.2% from approximately US$13,000 for the year ended 31 December 2015 to approximately US$84,000 for the year ended 31 December 2016. This was due to the increase in government grants received which were of an one-off nature.

Cost of inventories sold

The Group's cost of inventories sold increased by approximately US$699,000 or 49.1% from approximately US$1,423,000 for the year ended 31 December 2015 to approximately US$2,122,000 for the year ended 31 December 2016, generally in line with growth of its cyber infrastructure solutions business and more hardware components being used in the cyber infrastructure solutions projects completed in 2016.

Please refer to the paragraph headed "Gross Operating Profit and Gross Operating Profit Margin" in this section for detailed explanation of the fluctuation of the Group's gross operating profit margin.

Staff costs and related expenses

The Group's staff costs and related expenses increased by approximately US$476,000, or 105.3%, from approximately US$452,000 for the year ended 31 December 2015 to approximately US$928,000 for the year ended 31 December 2016. The increase was mainly due to the combined effect of (i) increase in salaries and bonus of employees and Directors, and (ii) the number of employees for the expansion of the Group's business.

Depreciation and amortisation

The Group's depreciation and amortisation increased by approximately US$104,000, or 49.1%, from approximately US$212,000 for the year ended 31 December 2015 to approximately US$316,000 for the year ended 31 December 2016. The increase was mainly due to the increase in amortisation of the Group's intangible assets. The increase in amortisation of the Group's intangible assets reflected the fact that the Group continued to invest in R&D activities for cyber security solutions and more development costs of the Group's developed technologies had been capitalised as intangible assets. As such, more amortisation was charged for the year ended 31 December 2016.

Other operating expenses

The Group's other operating expenses increased by approximately US$162,000, or 60.9%, from approximately US$266,000 for the year ended 31 December 2015 to approximately US$428,000 for the year ended 31 December 2016, which was mainly due to (i) the incurrence of subcontracting costs, and (ii) the increase in acquired warranty costs. The subcontracting costs incurred was related to an engagement of a local subcontractor for the implementation work of a cyber infrastructure solutions project in the Philippines. The increase in acquired warranty costs was generally in line with the growth of the Group's maintenance and support services.

[REDACTED] expenses

The Group recorded [REDACTED] expenses of approximately US$[REDACTED] for the year ended 31 December 2016.

Profit before income tax

As a result of the above, the Group's profit before income tax remained relatively stable at approximately US$1,375,000 and US$1,411,000 for the years ended 31 December 2015 and 2016, respectively.

Income tax expenses

The Group's income tax expenses increased by approximately US$110,000 or 440.0% from approximately US$25,000 for the year ended 31 December 2015 to approximately US$135,000 for the year ended 31 December 2016. The increase was mainly due to a decrease in tax incentives in Singapore from investment in computer equipment under the PIC Scheme as well as an increase in deferred tax expenses.

Profit for the year

As a combined effect of the above, the Group's profit for the year remained stable at approximately US$1,350,000 and US$1,276,000 for the years ended 31 December 2015 and 2016, respectively. The net profit margin of the Group decreased from approximately 36.3% for the year ended 31 December 2015 to approximately 22.6% for the year ended 31 December 2016.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, the Group's operations (which included funding required for working capital and other liquidity requirements) were primarily financed through cash flow from its business operations as well as capital injection from the [REDACTED] Investment by the Strategic Investor on 30 June 2016. Following completion of the [REDACTED], the Group expects to fund its future operations and expansion plans principally with cash generated from its business operations, proceeds from the [REDACTED] Investment by the Strategic Investor, net [REDACTED] from the [REDACTED], bank borrowings and other funds raised from capital markets from time to time, as and when necessary.

Cash flow

The following table sets out selected cash flow data from the Group's combined statements of cash flow for the periods indicated:

	Year ended 31 December		
	2014	**2015**	**2016**
	US$'000	**US$'000**	**US$'000**
Net cash from operating activities	516	1,223	1,051
Net cash used in investing activities	(82)	(482)	(325)
Net cash (used in) from financing activities	(4)	(480)	1,223
Net increase in cash and cash equivalents	430	261	1,949

Net cash from operating activities

For the year ended 31 December 2016, the Group had net cash from operating activities of approximately US$1,051,000. This was primarily the result of the profit before income tax of approximately US$1,411,000, which was primarily adjusted for (i) amortisation and depreciation expenses of approximately US$252,000 and US$64,000, respectively, (ii) the decrease in amount due from a related company of approximately US$76,000 due to the repayment of such amount by the related party and (iii) the increase in trade and other payables of approximately US$62,000, mainly due to an increase in trade payable, reflecting the growth in the Group's cyber infrastructure solutions business which requires more equipment and/or hardware for project implementation. This was partially offset by the increase in trade and other receivables of approximately US$781,000. For details of the reasons for increase in trade and other receivables, please refer to the paragraph headed "Description of selected items of the Group's combined statements of financial position — Trade and other receivables" of this section.

For the year ended 31 December 2015, the Group had net cash from operating activities of approximately US$1,223,000. This was primarily the result of the profit before income tax of approximately US$1,375,000, which was primarily adjusted for (i) amortisation and depreciation expenses of approximately US$188,000 and US$24,000, respectively and (ii) the increase in trade and other payables of approximately US$155,000 mainly due to the increase in receipt in advance resulting from the growth in the Group's maintenance and support services. This was partially offset by (i) the increase in trade and other receivables of approximately US$401,000 and (ii) the increase in amount due from a related company of approximately US$76,000 mainly due to the interest-free advance from the Group to the related company. For details of the reasons for the increase in trade receivables, please refer to the paragraph headed "Description of selected items of the Group's combined statements of financial position — Trade and other receivables" of this section.

For the year ended 31 December 2014, the Group had net cash from operating activities of approximately US$516,000. This was primarily the result of the profit before income tax of approximately US$1,371,000, which was primarily adjusted for (i) amortisation and depreciation of approximately US$98,000 and US$17,000, respectively and (ii) the decrease in amount due to an ex-director of a subsidiary of approximately US$96,000 due to repayment by the Group. This was offset by the increase in trade and other receivables of approximately US$820,000 which was in line with the increase in the Group's revenue.

Net cash used in investing activities

The Group had net cash used in investing activities of approximately US$82,000, US$482,000 and US$325,000 for the years ended 31 December 2014, 2015 and 2016, respectively, mainly due to (i) the Group's continuous investment in R&D activities in cyber security technologies of which the development costs were capitalised as intangible assets and (ii) the Group's purchase of IT equipment for business operations.

Net cash (used in) from financing activities

The Group had net cash generated from financing activities of approximately US$1,223,000 for the year ended 31 December 2016, mainly due to proceeds from the [REDACTED] Investment.

The Group had net cash used in financing activities of approximately US$480,000 for the year ended 31 December 2015 which represents payment of dividends.

The Group had net cash used in financing activities of approximately US$4,000 for the year ended 31 December 2014 which represents repayment of bank borrowings in January 2014.

Net current assets

The Group had net current assets of approximately US$1,717,000, US$2,332,000, US$4,887,000 and US$5,304,000 as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 April 2017, respectively. The following table sets out the breakdown of the Group's current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2014	2015	2016	2017
	US$'000	US$'000	US$'000	US$'000
Current assets				
Inventories	38	44	63	301
Trade and other receivables	1,207	1,608	2,389	3,395
Due from a related company	—	76	—	—
Bank balances and cash	790	1,051	3,000	2,100
	2,035	2,779	5,452	5,796
Current liabilities				
Trade and other payables	277	432	494	327
Due to an ex-director of a subsidiary	30	—	—	—
Income tax payables	11	15	71	165
	318	447	565	492
Net current assets	1,717	2,332	4,887	5,304

There has been no material fluctuation of the Group's net current assets as at 30 April 2017, compared to the net current assets in 31 December 2016. The Group's current assets remained stable at approximately US$5,304,000 as at 30 April 2017. The Group's trade and other receivables increased from approximately US$2,389,000 as at 31 December 2016 to approximately US$3,395,000 as at 30 April 2017, the increase was mainly due to increase in trade receivables as a result of business expansion. The Group's current liabilities decreased from approximately US$565,000 as at 31 December 2016 to approximately US$492,000 as at 30 April 2017, mainly due to the decrease in trade and other payables of approximately US$167,000.

The Group's net current assets increased by approximately US$2,555,000 from approximately US$2,332,000 as at 31 December 2015 to approximately US$4,887,000 as at 31 December 2016. The increase was mainly due to (i) the proceeds from the [REDACTED] Investment, which was completed on 30 June 2016 and (ii) the increase in trade receivables resulting from expansion of the Group's business.

The Group's net current assets increased by approximately US$615,000 from approximately US$1,717,000 as at 31 December 2014 to approximately US$2,332,000 as at 31 December 2015, which was mainly due to (i) the increase in trade receivables resulting from expansion of the Group's business, and (ii) an increase in bank balances and cash in the amount of approximately US$261,000 which was mainly generated from the Group's business operations.

For details of the reasons for the changes in trade receivables, please refer to the paragraph headed "Description of selected items of the Group's combined statements of financial position — Trade and other receivables" of this section.

DESCRIPTION OF SELECTED ITEMS OF THE GROUP’S COMBINED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

The Group recorded property, plant and equipment of approximately US$32,000, US$148,000 and US$103,000 as at 31 December 2014, 31 December 2015 and 31 December 2016, respectively.

The increase in the Group’s property, plant and equipment from approximately US$32,000 as at 31 December 2014 to approximately US$148,000 as at 31 December 2015 was mainly due to purchases of IT equipment of approximately US$115,000 which were used for the Group’s business operations. The decrease in the Group’s property, plant and equipment from approximately US$148,000 as at 31 December 2015 to approximately US$103,000 as at 31 December 2016 was mainly due to depreciation for the year ended 31 December 2016. For details, please refer to note 13 of section B of the Accountants’ Report in Appendix I to this document.

Intangible assets

The Group recorded intangible assets of approximately US$263,000, US$417,000 and US$471,000 as at 31 December 2014, 31 December 2015 and 31 December 2016, respectively. The intangible assets represented the capitalised development costs incurred by the Group for the development of the Group’s cyber security technology (including IRGO core engine, RTPR technology, 3i System, 3i-Tactical System, 3i-Web System and 3i-Anti Drone (UAV) Solutions), such as the direct labour costs and other direct costs of the Group’s R&D team for the development activities. The increase in intangible assets during the Track Record Period reflected the fact that the Group had continued to invest in R&D activities in cyber security solutions.

Inventories

The Group’s inventories mainly comprised the inventories commonly used for implementation of the Group’s projects. These inventories mainly include IT hardware including laptop and cables required for the implementation of its cyber infrastructure solutions and cyber security solutions projects. The balance of Group’s inventories was approximately US$38,000, US$44,000 and US$63,000 as at 31 December 2014, 31 December 2015 and 31 December 2016, respectively. The following table sets out the Group’s average inventory turnover days for the periods indicated:

	Year ended 31 December		
	2014	2015	2016
Average inventory turnover days(1)	16	11	9

Note:

(1) Average inventory turnover days are calculated by average inventory turnover balance as at the beginning and as at the end of a financial year, dividing such average by cost of inventories sold during the financial year and multiplying the number of days in the period.

The Group’s average inventory turnover days during the Track Record Period was fairly low. It was primarily due to the fact that the Group normally places orders with its suppliers upon acceptance of customers’ orders. The Group only maintains a minimal level of inventories which are commonly used for the implementation of its projects. As such, the Group can minimise its risk of exposure to obsolete stock as the lifecycle of IT hardware is normally short and reduce its working capital requirement. As at the Latest Practicable Date, approximately 28.0% of inventories as at 31 December 2016 was subsequently utilised.

Trade and other receivables

The Group's trade and other receivables comprised trade receivables, prepayments and deposits and other receivables. The following table sets out the breakdown of trade and other receivables of the Group as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Trade receivables	932	1,513	1,715
Other receivables			
Prepayments	250	57	643
Deposits and other receivables	25	38	31
Total	1,207	1,608	2,389

Trade receivables

Trade receivables comprised amounts due from the Group's customers. The Group's trade receivables increased from approximately US$932,000 as at 31 December 2014 to approximately US$1,513,000 as at 31 December 2015, and subsequently increased to US$1,715,000 as at 31 December 2016. The increase was generally in line with the growth of the Group's business during the Track Record Period. For the description of the Group's credit policies, please refer to the section headed "Business — Sales — Credit control" of this document.

The following table sets out the ageing analysis of trade receivables based on invoice date as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Within 30 days	409	987	1,227
31 to 60 days	40	433	460
61 to 90 days	18	5	13
Over 90 days	465	88	15
Total	932	1,513	1,715

The following table sets out the ageing analysis of trade receivables which are past due but not impaired as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Within 30 days	40	283	80
31 to 60 days	18	5	13
61 to 90 days	76	—	—
Over 90 days	189	88	15
Total	323	376	108

During the Track Record Period, the Group had recorded some overdue trade receivables from certain customers. To the best of knowledge, information and belief of the Directors, the overdue trade receivables mainly resulted from the following reasons:

(a) certain end users of the Group's cyber security solutions from the public sector usually require considerable length of time to obtain internal approval for settlement of the bills, thereby resulting in a delay in settlement of receivables by the channel partners which normally only settle the Group's bills after receiving payments from the end users. The Directors are of the view that the default risk of the public sector end users is low. In addition, the loss that the Group may suffer as a result of default in payment is also low as the main component of its cyber security solutions is its software and its cost is minimal;

(b) the Group's customers may require the Group to fine-tune or make adjustments to the technical specifications for projects or to take steps to rectify any flaws in its solutions after completion of the projects. Accordingly, customers may not process the Group's invoices until their requirements are met; and

(c) the Group has allowed prolonged repayment schedules to certain well-established customers on a case-by-case basis, upon request of the customers and after assessments by the Directors taking into consideration the current creditworthiness, financial strength, past repayment history of and the Group's current and future business relationship with the customers.

As at the Latest Practicable Date, all of the Group's trade receivables as at 31 December 2014 and 31 December 2015 had been collected and approximately 69.5% of the Group's trade receivables as at 31 December 2016 had been collected. The following table sets out the average turnover days of the Group's trade receivables for the periods indicated:

	Year ended 31 December		
	2014	2015	2016
Average trade receivables turnover days(1)	93	120	105

Note:

(1) Average trade receivables turnover days are calculated by averaging the trade receivables balance after provision for impairment (if any) as at the beginning and as at the end of a financial year, dividing such average by revenue during the financial year.

For the years ended 31 December 2014, 2015 and 2016, the Group's trade receivables turnover days exceeded the Group's general credit period of 30 days primarily due to (i) the delayed settlement by certain customers of the Group; and (ii) the completion and delivery of certain projects with large project sum close to the end of the financial year with revenue is being recognised but not yet due in accordance with the instalment schedule. For instances, (a) the Group completed a cyber security solutions project in December 2014 with a contract sum of approximately US$659,000 of which approximately US$309,000 was not yet due as at 31 December 2014; (b) the Group completed a cyber security solutions project in December 2015 with a contract sum of approximately US$335,000 which was not yet due as at 31 December 2015; and (c) the Group completed a cyber infrastructure solutions project in December 2016 with a contract sum of approximately US$1,362,000, of which approximately US$725,000 was not yet due as at 31 December 2016.

The Directors closely monitor the settlement status of the Group's trade receivables and assess the collectability of the trade receivables on a case-by-case basis to determine if any impairment of trade receivables is necessary. The Directors' assessment takes into account, among others, the evaluation of collectability, ageing analysis of the trade receivables, as well as creditworthiness, financial strength and payment history of the customers. The Directors consider that there is no recoverability issue after assessing the individual condition of the Group's debtors. The Group had not recorded bad debt or impairment of trade receivables during the Track Record Period.

With respect to the high level of trade receivables turnover days and the amounts of overdue trade receivables during the Track Record Period, the Group has implemented the following internal control measures to mitigate their potential adverse impact and enhance the effectiveness of its credit policy:

(i) periodic review of collection status of trade receivables, including (a) the Group's finance personnel sends the monthly statement with account balances to customers and the responsible sales staff or project manager for their attention to follow up with customers; and (b) the Directors review the trade receivables ageing report highlighting the outstanding receivables monthly;

(ii) once the trade receivables becomes overdue, the Group's sales staff would contact the relevant customers by phone calls and emails to follow up on the repayment status and report to the Directors on the recoverability of the trade receivables after such follow up;

(iii) in the event where the overdue balances are remain unsettled after one month of the reminder, a demand letter will be issued and further sales to that customers will be suspended until the overdue balances is settled;

(iv) the Directors periodically review the Group's credit policy taking into account the collection status of trade receivables; and

(v) the Directors conduct monthly analysis of the overdue trade receivables balances and determine whether an allowance for bad and doubtful debts is required, taking into consideration the ageing status and likelihood of collection of the trade receivables from its customers.

Prepayments

The Group's prepayments mainly comprised prepaid [REDACTED] expenses and prepayment to suppliers. The Group's prepayments decreased by approximately US$193,000 from approximately US$250,000 as at 31 December 2014 to approximately US$57,000 as at 31 December 2015 was mainly attributable to decrease in prepayments to suppliers. The Group's prepayments increased by approximately US$586,000 from approximately US$57,000 as at 31 December 2015 to approximately US$643,000 as at 31 December 2016 was mainly attributable to increase in prepaid [REDACTED] expenses from nil as at 31 December 2015 to approximately US$559,000 as at 31 December 2016.

Trade and other payables

The Group's trade and other payables comprised trade payables to suppliers, accruals and other payables and receipt in advance. The following table sets out the breakdown of the Group's trade and other payables as at the dates indicated:

	As at 31 December		
	2014	**2015**	**2016**
	US$'000	**US$'000**	**US$'000**
Trade payables	68	125	265
Other payables			
Accruals and other payables	80	86	48
Receipt in advance	129	221	181
Total	277	432	494

Trade payables

The Group's trade payables primarily comprised amount due to its suppliers for purchase of telecommunications equipment, IT hardware and software for the implementation of its cyber infrastructure solutions projects and cyber security solutions projects. The fluctuations in the Group's trade payables during the Track Record Period were in line with the growth in the Group's cyber infrastructure solutions business which requires more equipment and/or hardware for project implementation.

The following table sets out the ageing analysis of trade payables based on the invoice date as at the dates indicated:

	As at 31 December		
	2014	**2015**	**2016**
	US$'000	**US$'000**	**US$'000**
Within 30 days	68	110	261
31 to 60 days	—	—	—
61 to 90 days	—	11	1
Over 90 days	—	4	3
Total	68	125	265

The following table sets out the average turnover days of the Group's trade payables for the periods indicated:

	Year ended 31 December		
	2014	2015	2016
Average trade payables turnover days(1) . .	58	25	34

Note:

(1) Average trade payables turnover days are calculated by averaging the trade payables balance as at the beginning and as at the end of a financial year, dividing such average by cost of inventories sold during the financial year.

The credit period granted to the Group by its suppliers is normally 30 days. The high trade payables turnover days was higher than 30 days for the year ended 31 December 2014 was mainly due to the increase in the volume of purchase from the Group's suppliers close to the end of the year, which led to the increase in the balance of outstanding trade payables at the end of 2014. The trade payables turnover days was fairly stable at around 30 days for the years ended 31 December 2015 and 2016 which is consistent with the credit period normally granted to the Group by its suppliers. As at the Latest Practicable Date, approximately 98.7% of the Group's trade payables as at 31 December 2016 had been settled.

Receipt in advance

The Group's receipt in advance mainly comprised deferred income for maintenance and support services and advance billing for the cyber infrastructure solutions projects. The Group's receipt in advance increased by approximately US$92,000 from approximately US$129,000 as at 31 December 2014 to approximately US$221,000 as at 31 December 2015, primarily due to the increase in deferred income for the Group's maintenance and support services which was in line with the growth in the Group's maintenance and support services and decreased by approximately US$40,000 from approximately US$221,000 as at 31 December 2015 to approximately US$181,000 as at 31 December 2016, primarily due to the decrease in deferred income for the Group's maintenance and support services.

Accumulated profits

The Group recorded accumulated profits of approximately US$20,000, US$1,383,000, US$2,253,000 and US$3,529,000 as at 1 January 2014, 31 December 2014, 31 December 2015 and 31 December 2016, respectively. The substantial increase in accumulated profits was primarily due to accumulation of net profit during the Track Record Period.

Prior to the Track Record Period, all of the Group's revenue was generated from its cyber infrastructure solutions business, as its cyber security solutions products were launched in late 2013. The Group did not make a substantial amount of net profit for the year ended 31 December 2012 and recorded a slight loss for the year ended 31 December 2013. This was mainly due to the absence of revenue contribution from cyber security solutions business until late 2013, while, a significant amount of time and effort of the Group's management were dedicated to, and occupied by, the researching of the core technologies (IRGO core engine and RTPR technology) and cyber security solutions products, and that the costs incurred for the research of core technologies and cyber security solutions products were not capitalised but charged to profit or loss during the same period. Based on the unaudited financial information of Netsis and Expert Team, the amount of R&D expenditure charged to the Group's profit or loss was approximately US$279,000 and US$161,000 for the years ended 31 December 2012 and 2013, respectively. These two factors, to a large extent, temporarily affected the Group's profitability for the years ended 31 December 2012 and 2013. With the launch of the Group's first cyber security solutions products in late 2013, coupled with capturing the opportunity and demand in the cyber security solutions sector, the Group reported a remarkable growth in its net profits in 2014 as compared with 2013.

Related party balances and transactions

During the Track Record Period, the Group had entered into the following transactions with related parties:

(i) the compensation of key management personnel (including Directors) of the Group;

(ii) the provision of personal guarantee by Mr. Foo, a Director and Controlling Shareholder of the Company, in respect of the bank loan obtained by Netsis (Singapore). The bank loan was fully repaid in January 2014;

(iii) an amount due from a related company representing interest-free borrowings from the Group to Global Expert Team Holdings Sdn. Bhd. for its establishment. Global Expert Team Holdings Sdn. Bhd. is a related company of the Group by virtue of common shareholder and director, it is held as to 50% by Mr. Foo and 50% by Mr. Chan. It has been dormant with no business operation since its incorporation in May 2015 and will be deregistered. Accordingly, it was not included as part of the Group. The amount due from the related company had been settled as at 31 December 2016; and

(iv) an amount due to an ex-director of a subsidiary representing the then outstanding balance of director's fee. The amount due to the ex-director of the Group was fully repaid in January 2015.

The Directors confirm that, save for the related party transactions relating to compensation of key management personnel (including Directors) of the Group, the other related party transactions had ceased during the Track Record Period and are not expected to continue after [REDACTED].

The Directors confirm that the related party transactions above were conducted in the ordinary and usual course of the Group's business and were entered into on normal commercial terms after arm's length negotiation and that the related party transactions did not cause any distortion of the Group's results of operations or make its historical results not reflective in the Track Record Period.

Details of the above transactions are set out in notes 17 and 24 of section B of the Accountants' Report set out in Appendix I to this document.

Historical transactions with connected persons

During the Track Record Period, the Group had provided cyber security solutions and maintenance and support services to a customer, which was a connected person of the Company at the time of the transaction by virtue of 49% of its shareholding interest previously held by Mr. Chan, a director of the Company's subsidiary until May 2015. The Directors confirm that such transactions with such customer had ceased during the Track Record Period and are not expected to continue after [REDACTED]. The following table sets out the breakdown of the transactions with such customer during the Track Record Period:

Nature of transaction	Year ended 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Provision of cyber security solutions and maintenance and support services	194	5	—

The Directors confirm that the above transactions with such customer were conducted in the ordinary and usual course of the Group's business and were entered into on normal commercial terms after arm's length negotiation and that such transactions did not cause any distortion of the Group's results of operations or make its historical results not reflective during the Track Record Period.

INDEBTEDNESS

Borrowings and contingent liabilities

During the Track Record Period and up to 30 April 2017, being the latest practicable date for the preparation of the indebtedness statement, except for a bank borrowing of approximately US$4,000 which was repaid in January 2014, the Group did not have any bank borrowing. As at 30 April 2017, the Group had no bank borrowings and did not have any unutilised banking facilities.

Save as disclosed in this section, and apart from intra-group liabilities, normal trade and other payables and accrued charges, as at 30 April 2017, the Group had not been granted any borrowing, and did not have any outstanding loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts, loans from government, other borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirm that (i) the Group had not defaulted or delayed in any payment or breached any of the material covenants pertaining to its bank borrowing, outstanding debts, guarantees or other contingent liabilities during the Track Record Period and up to the Latest Practicable Date; (ii) subsequent to 30 April 2017, there was no material change in the Group's indebtedness position; and (iii) as at the Latest Practicable Date, the Group did not have any plan to raise material external debt financing.

None of the Group's assets were charged during the Track Record Period and as at 30 April 2017.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital expenditure

During the Track Record Period, the Group's capital expenditures mainly comprised purchases of IT equipment required for the Group's business operation and the costs for development of the Group's cyber security solutions which are capitalised as intangible assets. The Group's capital expenditure in aggregate amounted to approximately US$142,000, US$482,000 and US$325,000 for the years ended 31 December 2014, 2015 and 2016, respectively.

The Group expects to incur capital expenditure of approximately US$3,313,000 in 2017 for the acquisition of a property as the Group's headquarters and R&D centre, the establishment of business in the PRC, the setting up of Netsis Hybrid Converge Hub and the purchase of office equipment. The Group plans to finance its future capital expenditures through cash flow from its business operations and the net [REDACTED] from the [REDACTED]. The Group's projected capital expenditures are subject to revision based upon any future changes in its business plan, market conditions and economic, and regulatory environment. Please refer to the section headed "Statement of Business Objectives and Use of [REDACTED]" in this document for more information.

Capital commitments

The Group had no capital expenditures contracted but not yet incurred and provided for as at the relevant balance sheet dates during the Track Record Period. As at the Latest Practicable Date, the Group had no capital commitments.

Operating lease commitments

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of its leased properties which fall due as at the dates indicated:

	As at 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Within one year	28	83	81
In the second to fifth years inclusive	90	126	15
Total	118	209	96

Operating lease payments represent rentals payable by the Group for certain of its leased properties. Leases are negotiated for a term of one to two years. The Group does not have an option to purchase the leased properties at the expiry of the lease period.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, the Group had not entered into any off-balance sheet arrangements.

WORKING CAPITAL

The Directors confirm that, taking into consideration the financial resources presently available to the Group, the Group's internal generated cash flow, and the estimated net [REDACTED] from the [REDACTED], the Group will have sufficient working capital for its present requirements and for at least the next 12 months commencing from the date of this document.

KEY FINANCIAL RATIOS

The following table sets out a summary of certain financial ratios for the periods or as of the dates indicated:

	As at 31 December		
	2014	2015	2016
Current ratio(1)	6.4	6.2	9.6
Quick ratio(2)	6.3	6.1	9.5
Gearing ratio(3)	N/A	N/A	N/A
Net debt-to-equity ratio(4)	Net cash	Net cash	Net cash

	Year ended 31 December		
	2014	2015	2016
Return on equity(5)	67.8%	46.9%	23.7%
Return on assets(6)	58.5%	40.4%	21.2%

Notes:

(1) Current ratio is derived by dividing the current assets by current liabilities as at the end of the relevant financial year.

(2) Quick ratio is current assets less inventories dividing by current liabilities as at the end of the relevant financial year.

(3) Gearing ratio is the total amount of bank borrowings as a percentage of total equity as at the end of the relevant financial year.

(4) Net debt-to-equity ratio is the total amount of bank borrowings less bank balances and cash as a percentage of total equity as at the end of the relevant financial year.

(5) Return on equity is the net profit for the year as a percentage of total equity as at the end of the relevant financial year.

(6) Return on assets is derived by dividing net profit for the year by total assets as at the end of the relevant financial year.

Current ratio and quick ratio

The current ratio and quick ratio indicated that the strong liquidity position of the Group. The current ratio as at 31 December 2014, 31 December 2015 and 31 December 2016 was approximately 6.4, 6.2 and 9.6 times, respectively and quick ratio as at those dates was approximately 6.3, 6.1 and 9.5 times, respectively. Current ratio and quick ratio remained stable as at 31 December 2014 and 2015. The improved current and quick ratio as at 31 December 2016 was primarily due to the capital injection by the Strategic Investor through the [REDACTED] Investment.

Gearing ratio

The gearing ratio is not available, since the Group had no bank borrowings and no debt as at 31 December 2014, 31 December 2015 and 31 December 2016.

Net debt-to-equity ratio

The Group was in net cash position, since the Group had no bank borrowings and no debt as at 31 December 2014, 31 December 2015 and 31 December 2016.

Return on equity

The return on equity decreased from approximately 67.8% for the year ended 31 December 2014 to approximately 46.9% for the year ended 31 December 2015 and then decreased to approximately 23.7% for the year ended 31 December 2016. The decrease in 2015 was primarily due to the increase in equity base as a result of accumulation of profit. The further decrease in 2016 was primarily due to the increase in equity base as a result of the capital injection by the Strategic Investor and the decrease in the Group's net profit mainly as a result of the incurrence of [REDACTED] expenses.

Return on assets

The return on assets decreased from approximately 58.5% for the year ended 31 December 2014 to approximately 40.4% for the year ended 31 December 2015 and then decreased to approximately 21.2% for the year ended 31 December 2016. The decrease in 2015 was primarily due to the increase in the Group's trade and other receivables as well as bank balances and cash as a result of expansion of the Group's business. The decrease in 2016 was primarily due to the increase in the Group's bank balances and cash resulting from the capital injection by the Strategic Investor and the decrease in the Group's net profit mainly as a result of the incurrence of [REDACTED] expenses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Group is exposed to various types of market risks in the normal course of its business, including credit risk, liquidity risk, and interest rate risk.

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group, resulting in a loss to the Group. The Group's credit risk is mainly attributable to trade and other receivables, amount due from related company and bank balances and cash. The Group limits its exposure to credit risk by selecting the counterparties with reference to their past credit history and/or market reputation. The Group's maximum exposure to the credit risk is summarised as follows:

	As at 31 December		
	2014	2015	2016
	US$'000	US$'000	US$'000
Trade and other receivables	957	1,551	1,746
Due from a related company	—	76	—
Bank balances and cash	790	1,051	3,000
Total	1,747	2,678	4,746

The management considers the credit risk in respect of bank balances and cash is minimal because the counter-parties are authorised financial institution with high credit ratings.

In order to minimise the credit risk, the management of the Group closely monitors the credit limits granted to individual customers and implements appropriate monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debtors at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced. The Group trades with recognised and creditworthy third parties. The receivable balances are monitored on an ongoing basis by senior management and the Group's exposure to bad debts is not significant.

As at 31 December 2014, 31 December 2015 and 31 December 2016, the Group had a concentration of credit risk as approximately 33.2%, 22.9% and 42.3% of the total trade receivables was due from the Group's largest trade debtor, respectively, and approximately 94.4%, 77.4% and 86.4% of the total trade receivables was due from the Group's five largest trade debtors, respectively.

For details of the Group's credit control measures, please refer to the section headed "Business — Sales — Credit control" in this document.

Foreign currency risk

During the Track Record Period, the Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the functional currency of the operating subsidiaries of the Group, i.e. US dollars.

During the Track Record Period, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group has no specific policy for managing its liquidity. The remaining undiscounted contractual maturity profile of the Group's non-derivative financial liabilities, which are all interest-free, at the end of the reporting period, based on the earliest date on which the Group is required to settle, is within one year or on demand.

Please refer to note 25 of the Accountants' Report as set out in Appendix I of this document for details.

DIVIDENDS

During the Track Record Period, the Group has declared and paid dividends in the amount of US$480,000 for the year ended 31 December 2015. As at the Latest Practicable Date, the Group has not adopted any dividend policy. Dividends to be declared and paid in the future will be subject to the Directors' discretion and will depend on the Group's financial conditions, results of operations, cash availability, statutory and regulatory restrictions in relation thereto, future prospects, and any other factors that the Directors may consider relevant. Accordingly, the historical dividends of the Group should not be treated as an indication of the future dividend policy of the Group.

The Board has the absolute discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

DISTRIBUTABLE RESERVE

The Company was incorporated on 22 June 2016. As at 31 December 2016, the Company has share premium and capital reserve of approximately US$1,200,000 and US$3,922,000, respectively. It is distributable to the Shareholders of the Company provided that the Company is able to pay its debts as they fall due in the ordinary course of business.

UNAUDITED PRO FORMA COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group is prepared in accordance with Rule 7.31 of the GEM Listing Rules and is set out below to illustrate the effect of the [REDACTED] on the audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 December 2016, as if the [REDACTED] had taken place on 31 December 2016.

The unaudited pro forma statement of adjusted combined net tangible assets of the Group has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group if the [REDACTED] had been completed as at 31 December 2016, or at any future date.

	Audited combined net tangible assets attributable to the owners of the Company as at 31 December 2016		Estimated net [REDACTED] from the [REDACTED]		Unaudited pro forma adjusted combined net tangible assets attributable to the owners of the Company		Unaudited pro forma adjusted combined net tangible assets attributable to the owners of the Company per Share	
	(1)	*(5)*	*(2, 5)*	*(2)*		*(5)*	*(3)*	*(5)*
	US$'000	*HK$'000*	*US$'000*	*HK$'000*	*US$'000*	*HK$'000*	*US$*	*HK$*
Based on the [REDACTED] of HK$[REDACTED] per [REDACTED]	4,908	38,282	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK$[REDACTED] per [REDACTED]	4,908	38,282	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 December 2016 is based on the audited combined net assets attributable to the owners of the Company as at 31 December 2016 of approximately US$5,379,000 with an adjustment for the intangible assets at 31 December 2016 of approximately US$471,000, extracted from the combined financial information included in the Accountants' Report as set out in Appendix I to this document.

(2) The estimated net [REDACTED] from the [REDACTED] are based on [REDACTED] new Shares and the indicative [REDACTED] of HK$[REDACTED] and HK$[REDACTED] per [REDACTED], respectively, after deduction of relevant estimated [REDACTED] commissions and fees and other related expenses payable by the Company excluding approximately US$514,000 [REDACTED]-related expenses which has been accounted for prior to 31 December 2016. The estimated net [REDACTED] have not taken into account any Shares which may be allotted and issued pursuant to any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates given to the Directors.

(3) The calculation of the pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company per Share is based on [REDACTED] Shares expected to be in issue after the completion of the [REDACTED] and the [REDACTED]. It has not taken into account any Shares which may be allotted and issued pursuant to any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates given to the Directors.

(4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2016.

(5) These amounts are converted from US dollars to Hong Kong dollars or Hong Kong dollars to US dollars at an exchange rate of US$1 to HK$7.8. No representation is made that US dollars/Hong Kong dollars amount have been, could have been or may be converted to Hong Kong dollars/US dollars at that rate or at all.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

The Directors confirm that, as at the Latest Practicable Date, no circumstances would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules upon the [REDACTED].

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] commission and other fees incurred in connection with the [REDACTED] and the [REDACTED]. Assuming the [REDACTED] of HK$[REDACTED] per [REDACTED], being the mid-point of the indicative range of the [REDACTED] stated in this document, the [REDACTED] expenses, which are non-recurring in nature and to be borne by the Group are estimated to be approximately US$[REDACTED] (equivalent to approximately HK$[REDACTED]), of which approximately US$[REDACTED] (equivalent to approximately HK$[REDACTED]) were charged to the Group's profit and loss during the Track Record Period. The remaining amount of approximately US$[REDACTED] (equivalent to approximately HK$[REDACTED]) will be charged to the Group's profit and loss for the year ending 31 December 2017, and approximately US$[REDACTED] (equivalent to approximately HK$[REDACTED]) of its estimated [REDACTED] expenses is directly attributable to the issue of the [REDACTED] and is to be accounted for as a deduction from equity in accordance with the relevant accounting standard after [REDACTED].

The Directors would like to emphasise that the [REDACTED] expenses stated above are the current estimation for the purpose of reference and the actual amount of [REDACTED] expenses to be recognised is subject to adjustments based on audit and changes in variable and assumptions. Prospective investors should note that the financial performance of the Group for the year ending 31 December 2017 would be materially and adversely affected by the [REDACTED] expenses mentioned above.

RECENT DEVELOPMENT

Subsequent to the Track Record Period and up to the Latest Practicable Date, the Group continued its focus on the provision of cyber infrastructure and cyber security solutions. The Group's business model remained unchanged and the number of the Group's channel partners remained stable since 31 December 2016. Southeast Asia remained the principal market of the Group. As at 31 December 2016 and the Latest Practicable Date, the Group had 7 Major Projects with total unfulfilled contract value of approximately US$364,000 and 7 Major Projects with total unfulfilled contract value of approximately US$4,371,000, respectively in its backlog. Revenue from those Major Projects was recognised or is expected to be recognised during the year ending 31 December 2017. As at the Latest Practicable Date, one of the cyber security solutions projects amongst the Major Projects with a contract sum of approximately US$3,200,000 comprised a significant portion of hardware components. Projects with larger portion of hardware components generally contributed lower gross operating profit to the Group.

As such, if there is no material change in project mix and hardware component in subsequent new projects for the year ending 31 December 2017, it is expected that the Group's gross operating profit margin for the year ending 31 December 2017 will be lower than that of the year ended 31 December 2016.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that up to the date of this document, there has been no material adverse change in the Group's financial or trading position since 31 December 2016 and no event had occurred since 31 December 2016 which would materially affect the information shown in the Group's financial information included in the Accountants' Report set out in Appendix I to this document.