
SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this document. You should read the entire document before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks associated with an investment in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED]. Various expressions used in this section are defined in the sections headed “Definitions” and “Glossary of Technical Terms” in this document.

OVERVIEW

We are a leading SD-WAN routers vendor focusing on the design, development, marketing and sale of our products and services. Our products and services are used by enterprise users, such as multinational companies, as well as industry users, including those in the transportation, retail and education industries. According to the Quocirca Report, we are the fourth largest SD-WAN router vendor internationally in 2014 in terms of revenue value. Further, according to the Quocirca Report, the SD-WAN router market is projected to grow at a CAGR of 32.1% from 2015 to reach approximately US\$1.49 billion by 2020.

Since established in 2006, we have been focusing on developing SD-WAN routers to help organisations resolve their WAN connection issues including increasing their bandwidth, reducing their networking costs, and ensuring reliability of WAN connection for accessing key resources such as e-mail, enterprise resource planning, file sharing, and video conferencing.

We market and sell our products and services to customers and end users under our own brands namely “Peplink” and “Pepwave”. We derive our revenue mainly from the sale of our self-developed SD-WAN routers, categorised into wired and wireless, which run our patented and proprietary technology, namely SpeedFusion, which is a technology specifically designed to bond multiple WAN connections and create a secured private network. In addition, we derive our revenue from the grant of our software licences, including InControl cloud service for managing our devices, and the provision of warranty and support services in connection with our SD-WAN router products.

We sell our products and services mainly through an extensive network of distributors, which are Independent Third Parties, in different regions of the world. As at the 31 December 2015, we had 415 distributors in approximately 70 countries.

As at 31 December 2015, we have been granted four patents from the United States Patent and Trademark Office and 161 patent applications internationally.

In November 2015, we were awarded 2015 Deloitte Technology Fast 50 China (2015德勤高科技高成長中國50強暨明日之星) to recognise our continuous innovation excellence.

Our revenue increased from approximately US\$13.31 million for the year ended 31 December 2013 to approximately US\$17.95 million for the year ended 31 December 2014 and further to approximately US\$21.86 million for the year ended 31 December 2015, representing a CAGR of approximately 28.2%. Our profit for each of the three years ended 31 December 2015 was approximately US\$2.57 million, US\$3.74 million and US\$3.36 million, respectively, representing a CAGR of approximately 14.3%. The decrease in profit for the year ended 31 December 2015 was primarily due to (i) a decrease in gross profit margin resulted from our pricing strategy to increase market share, and (ii) the [REDACTED] and an increase in staff cost and general office expenses which was in line with our business expansion.

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REVENUE

We derive our revenue mainly from the sale of our self-developed SD-WAN routers. In addition, we derive our revenue from the grant of software licences including SpeedFusion and InControl cloud service for managing our devices, and the provision of warranty and support services in connection with our products.

The table below sets out our revenue by product and service segments for the periods indicated:

	For the year ended 31 December					
	2013		2014		2015	
	Revenue US\$'000	% of total %	Revenue US\$'000	% of total %	Revenue US\$'000	% of total %
SD-WAN routers:						
Wired	6,487	48.8	7,493	41.8	6,987	32.0
Wireless	4,503	33.8	7,635	42.5	10,685	48.9
Software licence and warranty and support services	2,316	17.4	2,818	15.7	4,187	19.1
Total	13,306	100.0	17,946	100.0	21,859	100.0

Our SD-WAN routers are categorised into wired and wireless. Wired routers comprise our Balance series and MediaFast series which are capable of connecting multiple devices and end users' networks to the Internet through multiple WAN connections. Wireless routers mainly comprise MAX BR series and MAX HD series. Most of our SD-WAN routers are capable of running our patented and proprietary technology, namely SpeedFusion, which is a technology specifically designed to bond multiple WAN connections and to create a secured private network.

In order to provide more flexibility, our SpeedFusion and InControl can be turned on by our distributors and end users by subscribing to our software licences, where necessary.

During the Track Record Period, the average selling price of wired routers is approximately between US\$670 and US\$792; the average selling price of our wireless routers is approximately between US\$213 and US\$263; a one-time licence fee for SpeedFusion is in the range of approximately US\$600 to 1,000 per device; and the annual licence fee for InControl is approximately US\$25 per device.

End users of our products can subscribe to our advance hardware replacement support service pursuant to which we will send them free replacement unit once the hardware defect is confirmed. We also offer additional warranty and support services to end users who require a longer warranty and support period.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success:

- We are dedicated to design, develop and market a vast product range of reliable and easy-to-use SD-WAN routers.
- We have strong R&D capabilities with a track record for developing and commercialising innovative routers and services. We have been granted four patents from the United States Patent and Trademark Office and have 161 patent applications internationally as at 31 December 2015.
- We have established an extensive distribution network which we have built up in approximately ten years to facilitate the sale of our products and services. The number of our distributors has increased from 309 at the beginning of 2013 to 415 as at 31 December 2015 in approximately 70 countries.
- We have a comprehensive and close relationship with our distributors and end users through our website and regular discussions through our online Community Forum.

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- We have a stable and dedicated management team with extensive industry experience.

BUSINESS STRATEGIES

Our principal business objective is to further strengthen our position in the design, development, marketing, and sale of the SD-WAN routers. We intend to achieve this business objective by pursuing the following strategies:

- Continue to strengthen our ability to innovate, expand our R&D capability on new technologies and broaden functionality and application of our products.
- Continue to enhance brand recognition and expand the breadth and depth of our international distribution network.

CUSTOMERS

Our customers are distributors and direct customers who purchase our products and services directly from us. We mainly sell our products and provide our services through our distributors to end users. Direct customers are mainly end users who purchase our products and services directly from us.

The table below sets out the breakdown of the sale of our products and services to our customers under each of our sales channels for the periods indicated:

	For the year ended 31 December					
	2013		2014		2015	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	US\$'000	%	US\$'000	%	US\$'000	%
Distributors	10,933	82.2	15,812	88.1	20,240	92.6
Direct customers	2,373	17.8	2,134	11.9	1,619	7.4
Total	13,306	100.0	17,946	100.0	21,859	100.0

Sales to our five largest customers accounted for approximately 29.7%, 29.6% and 39.7% of our total revenue for each of the three years ended 31 December 2015, respectively. Further, sales to our largest customer accounted for approximately 13.1%, 14.4% and 20.5% of our total revenue for the corresponding years, respectively. All of the five largest customers are Independent Third Parties.

Our revenue was mainly derived from our customers in North America, EMEA and Asia. During the Track Record Period, the North American market is the largest revenue contributor of our Group.

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The table below sets out the breakdown of our revenue derived from different regions of the world:

	For the year ended 31 December					
	2013		2014		2015	
	Revenue US\$'000	% of total %	Revenue US\$'000	% of total %	Revenue US\$'000	% of total %
North America	6,310	47.4	7,519	41.9	9,180	42.0
EMEA	3,045	22.9	4,878	27.2	7,351	33.6
Asia	2,937	22.1	4,538	25.3	4,669	21.4
Others	1,014	7.6	1,011	5.6	659	3.0
Total	13,306	100.0	17,946	100.0	21,859	100.0

Our revenue was mainly derived from North America which accounted for approximately 47.4% of our total revenue for the year ended 31 December 2013. In order to reduce the reliance on the North American market, we strategically expanded our distributor network to EMEA and Asian regions starting from 2014. The growth in sales from EMEA exceeded the growth in sales in North America for the year ended 31 December 2014 and 2015, which led to a decreasing trend in the percentage of our revenue generated from North America during this period.

SUPPLIERS

Our suppliers comprise mainly contract manufacturers and raw material suppliers. In order to better allocate our resources, reduce manufacturing costs, minimise delivery lead times and maintain high product quality, we outsource the manufacturing process of our products to our contract manufacturers based in Taiwan that are Independent Third Parties. Our major raw materials for our routers are CPU and wireless communication module. For each of the three years ended 31 December 2015, our total purchases from our contract manufacturers and raw material suppliers were approximately US\$6.1 million, US\$9.6 million and US\$10.7 million, respectively.

Purchases from our five largest suppliers accounted for approximately 74.5%, 75.0% and 77.4% of our total purchase for each of the three years ended 31 December 2015, respectively. For each of the three years ended 31 December 2015, the purchases from our largest suppliers represented approximately 43.0%, 46.0% and 37.3% of our total purchase, respectively. All of our five largest suppliers are Independent Third Parties.

RESEARCH AND DEVELOPMENT

We believe that R&D capability is the core competence of a technology company. Therefore, we have been focusing on strengthening our R&D as well as product design. We have strong R&D capabilities with a track record for developing and commercialising innovative routers and services. We have been able to introduce products through technological innovation which are used by end users from wide-ranging industries, including transportation, retail and education sectors.

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Our skilled R&D team consists of international and local experts with extensive experience in their respective fields. We have one central R&D facility and one supporting testing facility located at our headquarters in Hong Kong.

The amount of time and resources we spend on our R&D vary depending on the types of technology and products involved. It may take a few weeks to a year to complete the R&D for a product. For each of the three years ended 31 December 2015, our R&D expenses including relevant employment expenses, material expenses and other expenses were approximately US\$3.14 million, US\$3.97 million and US\$3.91 million, respectively, representing approximately 23.6%, 22.1% and 17.9% of our total revenue, respectively.

As at the Latest Practicable Date, our R&D team consisted of 51 members with most of whom attained tertiary education or higher. Our employment contracts require our staff to maintain confidentiality for any proprietary information, including information relating to our R&D.

SUMMARY HISTORICAL FINANCIAL INFORMATION

Profit or Loss

Our results of operations are affected by a number of factors, including (i) the product/service mix, (ii) the market demand for our products, (iii) the price and cost of raw materials and components and (iv) technology changes. Our success depends upon our ability to enhance our existing products and services, respond to changing customer requirements, technological and competitive developments and emerging industry standards, conduct R&D, work with raw materials suppliers and contract manufacturers, and introduce new products in a timely manner.

The table below sets out a summary of our combined profit or loss data during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Revenue	13,306	17,946	21,859
Gross profit	8,651	11,036	12,693
Profit for the year	2,565	3,743	3,357
Gross profit margin	65.0%	61.5%	58.1%
Net profit margin	19.3%	20.9%	15.4%

The continuous growth in our revenue and gross profit in each year from 2013 to 2015 was primarily due to the introduction of new and improved products and services, the enhanced global awareness of our brand, the expansion of the network of our distributors and an increase in the sales volume of our products which was in line with the strong market demand for Internet connectivity in recent years.

Our wired routers generally recorded a higher gross profit margin than our wireless routers during the Track Record Period. The overall gross profit margin declined slightly in each year from 2013 to 2015, primarily due to our product mix comprising a large portion of wireless routers with lower margin compared to wired routers.

The increase in our net profit margin from the year ended 31 December 2013 to the year ended 31 December 2014 was attributable to an increase in the profitability of our business. The decrease in our net profit margin for the year ended 31 December 2015 when compared to year ended 31 December 2014 was primarily due to the decrease in our profit for the year resulted from [REDACTED] incurred.

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Net Current Assets

The table below sets out our combined current assets, current liabilities and net current assets as at the dates indicated:

	As at 31 December			As at 31 January
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)
Total current assets	10,247	11,491	14,516	15,334
Total current liabilities	3,418	4,464	7,461	7,413
Net current assets	<u>6,829</u>	<u>7,027</u>	<u>7,055</u>	<u>7,921</u>

Cash Flows

The table below sets out a summary of our combined cash flows during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Net cash flows from operating activities	3,076	3,093	3,019
Net cash flows (used in) from investing activities	(19)	130	(915)
Net cash flows (used in) from financing activities	(1,291)	(3,639)	202

During our Track Record Period, our cash inflow from operating activities was principally from the receipt of the proceeds from the sale of our products and our software licence as well as warranty and support services provided. Our cash outflow used in operating activities was principally for the purchase of routers made by contract manufacturers, raw materials and accessories and for salary payments.

Our cash outflow used in investing activities primarily consists of payment of application cost for patent, trademark, test and certification, payments for acquisition of property, plant and equipment, and repayment of borrowings and advances to a director. Our cash inflow from investing activities primarily consists of receipts on advances to related companies and a director.

Our cash outflow from financing activities primarily represents cash used for payment of dividend to a Shareholder and repayment of advance from related companies and a director. Our cash inflow from financing activities primarily consists of new bank loans raised and advances from related companies and a director.

FINANCIAL RATIOS

The tables below set out certain of our financial ratios as at the dates and for the periods indicated:

	As at 31 December		
	2013	2014	2015
Current ratio	3.0	2.6	1.9
Quick ratio	2.2	1.8	1.4
Gearing ratio (%)	8.8	7.8	17.4

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	For the year ended 31 December		
	2013	2014	2015
Return on assets (%)	27.9	32.7	24.4
Return on equity (%)	43.1	56.8	49.0

For more details, please refer to the section headed “Financial Information — Financial Ratios” in this document.

SHAREHOLDERS AND SHARE OPTION SCHEME

Controlling Shareholder

Mr. Chan will directly hold approximately [REDACTED] of the issued share capital of our Company immediately following completion of the [REDACTED], assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued upon the exercise of any options which may be granted under the Share Option Scheme. Accordingly, Mr. Chan will be our Controlling Shareholder within the meaning of the Listing Rules. Mr. Chan has confirmed that he does not have any direct or indirect interest in any business or companies, save as disclosed in this document, that engage in any business activities that compete or may compete with our business activities. For further details, please refer to the sections headed “Relationship with our Controlling Shareholder” and “Substantial Shareholders” in this document.

Share Option Scheme

We have also conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimise their future contributions to our Group and to attract, retain and maintain ongoing relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. The principal terms of this scheme are summarised in the section “Statutory and General Information — 15. Share Option Scheme” in Appendix IV to this document.

RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorised into (i) risks related to our business; (ii) risks related to the industry in which we operate; (iii) risks related to the [REDACTED]; and (iv) risks related to statements in this document. Some of the key risks include:

- Our gross profit margin and growth in profit may not be sustainable in the future;
- Our dependence on a limited number of contract manufacturers for the manufacturing of our products may result in supply disruptions and prevent us from delivering our products in a timely manner to our customers in the required quantities;
- Our business and financial performance depend on our ability to manage our inventory effectively;
- The SD-WAN sector is dominated by a few specialised vendors, including our Group, whose revenues are relatively small compared to the entire enterprise router market. When diversified vendors enter, our market share may be reduced;
- If we fail to keep up with the rapidly changing technologies or fail to conduct R&D and market our new products and services, we could lose our customer and our business, financial conditions and results of operations may be materially and adversely affected;

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- We do not have long-term purchase commitments from our customers which may lead to significant uncertainty and volatility within our revenue; and
- We are exposed to credit risk of our customers if we experience significant delays in collecting trade receivable from our customers, it could adversely affect our cash flow.

For a more comprehensive list of risk factors and explanations, please refer to the section headed “Risk Factors” in this document for details.

[REDACTED]

We expect to further incur [REDACTED] (including [REDACTED]) of approximately [REDACTED] (based on midpoint of our indicative price range for the [REDACTED] and assuming that the [REDACTED] is not exercised and without taking into account any [REDACTED], if applicable) by the completion of the [REDACTED], of which an estimated amount of approximately [REDACTED] will be charged to our consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2016 and an estimated amount of approximately [REDACTED] will be capitalised.

[REDACTED] STATISTICS

All statistics in the table below are based on the assumptions that (i) the [REDACTED] has been completed and [REDACTED] Share are newly allotted and issued by us and [REDACTED] Sales Shares are sold by the [REDACTED] pursuant to the [REDACTED]; (ii) the [REDACTED] is not exercised; and (iii) [REDACTED] Shares are issued and outstanding following the completion of the [REDACTED].

	Based on minimum [REDACTED] of HK\$[REDACTED]	Based on maximum [REDACTED] of HK\$[REDACTED]
Market capitalisation of our Company	[REDACTED]	[REDACTED]
Unaudited pro forma adjusted tangible assets per Share	[•]	[•]

[REDACTED]

The aggregate net proceeds from the [REDACTED] (after deducting [REDACTED] and estimated expenses in connection with the [REDACTED] and assuming (i) an [REDACTED] of HK\$[REDACTED] per Share, being the midpoint of the indicative range of the [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share, and (ii) the Over-allotment Option is not exercised) will be approximately HK\$[REDACTED].

Our Directors intend to apply the net proceeds from the [REDACTED] as follows:

- approximately [47]% or [REDACTED] (equivalent to approximately [REDACTED]) will be used to strengthen our R&D capabilities through expansion of our R&D team, upgrade of our R&D facilities, establishment of a R&D centre for R&D, testing and quality assurance purposes;
- approximately [33]% or [REDACTED] (equivalent to approximately [REDACTED]) will be used to improve our brand awareness and carry out related promotional and marketing activities, conduct detailed qualitative and quantitative market research and expand our distribution network;

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- approximately [10]% or [REDACTED] (equivalent to approximately [REDACTED]) will be used to strengthen our patent portfolio by filing more patent applications as well as acquiring intellectual property rights; and
- approximately [10]% or [REDACTED] (equivalent to approximately [REDACTED]) will be used for working capital and other general corporate purposes.

We will not receive any of the proceeds from the sale of the [REDACTED] by the [REDACTED] in the [REDACTED]. The [REDACTED] estimates that he will receive, in aggregate, a [REDACTED] from the [REDACTED] of approximately [REDACTED], after deducting the estimated [REDACTED], SFC transaction levy and Stock Exchange trading fee and buyers’ and sellers’ stamp duties in respect of the [REDACTED] (if applicable) and assuming an [REDACTED] of [REDACTED] per Share, being the midpoint of the [REDACTED] range set out in this document.

DIVIDEND AND DIVIDEND POLICY

We declared dividends of approximately US\$1.30 million, US\$3.70 million and US\$2.80 million for each of the three years ended 31 December 2015, respectively. As at the Latest Practicable Date, we had paid the dividends declared in full. The table below sets out information relating to the dividends declared by our subsidiaries:

	For the year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Declared by:			
Peplink International.	1,300	700	—
Pepwave	—	3,001	2,800
Total:	<u>1,300</u>	<u>3,701</u>	<u>2,800</u>

As at the Latest Practicable Date, our Company had not adopted any dividend policy. Any declaration of dividends, however, is subject to the discretion of our Directors, depending on our results of operations, working capital and cash position, future business and earnings, capital requirements, contractual restrictions, if any, as well as any other factors which our Directors may consider relevant. Our Company’s dividend payment history is not, and should not be taken as, an indication of our potential future practice on dividend payments. Our 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.

RECENT DEVELOPMENT

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued our focus on the design, development, marketing and sale of SD-WAN routers. Our business model, revenue structure and cost structure remained unchanged since 31 December 2015.

Our number of distributors increased from 415 as at 31 December 2015 to 439 as at the Latest Practicable Date in line with our organic business growth. Such increase was mainly attributable to enhanced awareness of our brand and strong market demand for Internet connectivity in recent years. Between 31 December 2015 and the Latest Practicable Date, we had been granted one additional patent from the United States Patent and Trademark Office and one additional patent from the United Kingdom Intellectual Property Office.

For information related to the trend or other factors that may affect our results of operations, please refer to the section headed “Financial information” in this document.

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NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since 31 December 2015 and up to the date of this document, there had not, as far as we are aware, been any material adverse change in our business, financial operational or trading position and no event had occurred that would materially and adversely affect the information as shown in our combined financial statements included in the Accountants’ Report set out in Appendix I to this document.

COMPETITION

According to the Quocirca Report, we are the fourth largest SD-WAN router vendor internationally in 2014 in terms of revenue value. Our competitors mainly comprise specialised vendors and diversified vendors. Specialised vendors focus on providing highly available connectivity through multiple WAN connections, bonding and wireless routers. Diversified vendors typically have a strong legacy of business in the telecommunication carrier sector as well as enterprise sector, have been providing traditional routers and other networking solutions, and are in the process of adding SD-WAN capabilities through their internal product development supplemented by acquisitions.

As the SD-WAN market gathers pace, additional players will likely enter the market and the diversified vendors will likely to add SD-WAN capabilities through organic product development or acquisitions. As such, the market share of specialised vendors may decrease and lead to a more competitive market environment.

BUSINESS ACTIVITIES WITH CUSTOMERS FROM SANCTIONED COUNTRIES

During the Track Record Period, we had sales with customers from some of the Sanctioned Countries, namely Belarus, Bosnia and Herzegovina, Cote D’Ivoire (Ivory Coast), Egypt, Iraq, Lebanon, Myanmar (Burma), Serbia, Russia and Ukraine. The amount of total revenue generated from sales to customers from these Sanctioned Countries for each of the three years ended 31 December 2015 was approximately US\$16,595, US\$49,571 and US\$93,265, respectively, representing approximately 0.1%, 0.3% and 0.4% of our total revenue for the same years, respectively, which was negligible to our total revenue during the Track Record Period.

Our Sanctions Law Advisers have advised us that the sanctions imposed by the U.S., the E.U., the U.N. and Australia on the Sanctioned Countries during the Track Record Period generally consisted of (i) restrictions on certain forms of trade with the Sanctions Countries; and (ii) financial sanctions (asset freezes) on designated individuals and entities in or connected with the Sanctioned Countries, which are included on lists maintained by the U.S., the E.U., the U.N. and Australia. Our sales to customers in the Sanctioned Countries during the Track Record Period did not fall within the kinds of trade restricted by the U.S., the E.U., the U.N. or Australia in relation to the Sanctioned Countries.

Further, our Directors confirm that, after making reasonable enquiries, none of our customers from the Sanctioned Countries was a target of financial sanctions, and we have not knowingly traded with any entity included on the restricted parties list maintained by the U.S., the E.U., the U.N. and Australia during the Track Record Period.

Our Sanctions Law Advisers have further advised us that based on the information provided to them, our Group’s historical sales to customers from the Sanctioned Countries during the Track Record Period, they are not aware of any basis for enforcement action in connection with such sales against our Group, our Shareholders or potential investors as a result of the Listing and trading in the Shares on the Stock Exchange and their involvement in the [REDACTED], and therefore these sales present a low sanctions risk.

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NON-COMPLIANCE INCIDENTS

During the Track Record Period, we had certain non-compliance incidents in relation to (i) the failure of Peplink Worldwide, our wholly-owned subsidiary, to notify the IRD of its assessable profits for the years of assessment 2012/13, 2013/14 and 2014/15 on time, and (ii) previously failures of our certain operating Hong Kong subsidiaries, namely Peplink International, Pepwave and Pismo Labs, in obtaining Radio Dealers Licences for import into Hong Kong or export therefrom any radiocommunications transmitting apparatus.

Directors are of the view that the non-compliance incident have not resulted, and will not result, in any material impact on our financial and operational aspects. Please refer to the section headed “Business — Licences, Regulatory Approvals and Compliance” in this document for detailed information of the non-compliance incident.