
APPENDIX I

ACCOUNTANTS’ REPORT



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[Date]

The Directors
Plover Bay Technologies Limited

Southwest Securities (HK) Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Plover Bay Technologies Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2015 (the “Track Record Period”) for inclusion in the document of the Company dated [Date] (the “Document”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company, which acts as an investment holding company, was incorporated as an exempted company with limited liability in the Cayman Islands on 5 May 2015. Pursuant to a group reorganisation, as more fully explained in the section headed “Reorganisation” in the document (the “Group Reorganisation”), the Company became the holding company of the Group on [•]. Other than the transactions relating to the Group Reorganisation and the preparation for the [REDACTED] on the Stock Exchange, the Company has not carried on any business since the date of its incorporation.

The Group is principally engaged in the designing, development and marketing of SD-WAN routers and provision of software licences and warranty and support services.

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The Company and its subsidiaries have adopted 31 December as their financial year end date. At the date of this report, the Company has equity interests in the following subsidiaries comprising the Group:

Name of subsidiaries	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid-up share capital	Equity attributable to the Company				Principal activities
				At 31 December			At the date of the report	
				2013	2014	2015		
				%	%	%	%	
Direct								
Protean Holdings Limited ("Protean") . . .	BVI	8 April 2015	United States dollars (US\$) 1	N/A	N/A	100	100	Investment holding
Indirect								
Pepwave Limited ("Pepwave")	Hong Kong	13 October 2006	Hong Kong dollars (HK\$) 1	100	100	100	100	Designing, development and marketing of SD-WAN routers and provision of software licence and warranty and support services
Peplink International Limited ("Peplink"). .	Hong Kong	22 August 2007	HK\$1,000	100	100	100	100	Designing, development and marketing of SD-WAN routers and provision of software licence and warranty and support services
Pismo Labs Limited ("PLL")	Hong Kong	13 October 2006	HK\$1	100	100	100	100	Development of SD-WAN routers
Pismo Labs Technology Limited ("PLTL").	Hong Kong	14 November 2006	HK\$1	100	100	100	100	Holding intellectual property
Pismo Research (Malaysia) Sdn. Bhd. ("PRSB")	Malaysia	3 August 2011	Ringgit Malaysia ("RM") 350,000	100	100	100	100	Development of SD-WAN routers
Peplink Worldwide Limited ("PWL"). . . .	BVI	20 October 2011	US\$1	100	100	100	100	Trading of SD-WAN routers
Pegatrack Limited ("Pegatrack").	Hong Kong	6 February 2015	HK\$1	N/A	N/A	100	100	Inactive
Pacific Smart Systems Limited ("Pacific Smart")	Hong Kong	4 September 2015	HK\$1	N/A	N/A	100	100	Inactive

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

No audited statutory financial statements have been prepared for the Company and its subsidiaries incorporated in the Cayman Islands and the BVI, respectively, since their respective dates of incorporation, as there are no statutory audit requirements in the Cayman Islands and the BVI. We have, however, reviewed all relevant transactions of the Company and Protean since their respective dates of incorporation, and of PWL for the three years ended 31 December 2013, 2014 and 2015 and carried out such procedures as we considered necessary for inclusion of their financial information relating to the Group in this report.

The statutory financial statements of the Group’s subsidiaries incorporated in Hong Kong for each of the two years ended 31 December 2013 and 2014 were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and were audited by C. H. Sum & Co., CPA, certified public accountants registered in Hong Kong, except for Pegatrack and Pacific Smart as they have not reached its first financial year end since its date of incorporation. No audited financial statements have been prepared for the Group’s subsidiaries incorporated in Hong Kong for the year ended 31 December 2015 as they have not yet reached the statutory requirement for audited annual financial statements for the relevant year.

The statutory financial statements of PRSB, which was incorporated in Malaysia, for each of the three years ended 31 December 2013, 2014 and 2015 were prepared in accordance with relevant accounting principles and financial reporting framework applicable to entities incorporated in Malaysia and were audited by KY Siow & Co Chartered Accountants, certified public accountants registered in Malaysia.

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For the purpose of this report, the directors of the Company have prepared consolidated financial statements of Protean for the Track Record Period in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA (together with the management accounts of the Company for the period from the date of incorporation to 31 December 2015 are herein after referred to as the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out procedures which we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 2 below, after making such adjustments as the directors of the Company considered necessary in preparing of this report for inclusion in the document.

The Underlying Financial Statements are the responsibility of the directors of the respective companies who approved their issue. The directors of the Company are also responsible for the contents of the document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation sets out in note 2 below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial positions of the Company as at 31 December 2015 and of the Group as at 31 December 2013, 31 December 2014 and 31 December 2015, and of the financial performance and cash flows of the Group for the Track Record Period.

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A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December		
		2013	2014	2015
		US\$	US\$	US\$
Revenue	6	13,305,919	17,946,325	21,859,638
Cost of sales		(4,654,963)	(6,910,340)	(9,166,358)
Gross profit		8,650,956	11,035,985	12,693,280
Other income	7	33,797	129,085	69,334
Allowance for (reversal of) impairment losses for trade receivables		(147)	177,394	—
Selling and distribution expenses		(830,339)	(1,035,434)	(1,003,184)
Administrative expenses		(1,706,299)	(2,049,013)	(2,710,442)
Research and development expenses		(3,135,593)	(3,968,575)	(3,906,731)
[REDACTED]		—	—	(1,001,029)
Finance costs	8	(3,638)	(4,427)	(1,307)
Profit before taxation	9	3,008,737	4,285,015	4,139,921
Income tax expenses	10	(443,660)	(542,055)	(783,292)
Profit for the year attributable to owners of the Company		<u>2,565,077</u>	<u>3,742,960</u>	<u>3,356,629</u>
Other comprehensive (expense) income:				
<i>Item that may be reclassified subsequently to profit or loss:</i>				
Exchange differences on translating foreign operations		(528)	(21,765)	58,009
Other comprehensive (expense) income for the year		(528)	(21,765)	58,009
Total comprehensive income for the year attributable to owners of the Company		<u>2,564,549</u>	<u>3,721,195</u>	<u>3,414,638</u>

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STATEMENTS OF FINANCIAL POSITION

		The Group			The Company
		At 31 December			At 31 December
	NOTES	2013	2014	2015	2015
		US\$	US\$	US\$	US\$
ASSETS					
Non-current Assets					
Property, plant and equipment	14	446,029	595,095	555,985	—
Intangible assets	15	55,751	90,113	277,316	—
Total Non-current Assets		501,780	685,208	833,301	—
Current Assets					
Inventories.	16	2,585,304	3,651,149	4,138,254	—
Trade and other receivables	17	2,136,273	3,327,870	3,856,804	290,314
Amount due from a director	18	665,087	—	—	—
Amounts due from related companies	18	727,897	815,571	458,860	—
Bank balances and cash.	19	4,132,535	3,696,446	6,062,054	—
Total Current Assets.		10,247,096	11,491,036	14,515,972	290,314
Current Liabilities					
Trade and other payables	20	1,514,167	1,983,385	1,044,753	133,022
Amount due to a director	18	—	2,032	1,793,998	—
Amounts due to related companies	18	246,079	151,601	14,701	—
Amount due to a subsidiary	18	—	—	—	1,159,716
Deferred revenue	21	1,257,226	1,768,071	2,851,953	—
Tax liabilities		341,774	498,744	516,012	—
Bank borrowings	22	59,074	60,363	1,238,678	—
Total Current Liabilities		3,418,320	4,464,196	7,460,095	1,292,738
Net Current Assets (Liabilities)		6,828,776	7,026,840	7,055,877	(1,002,424)
Total Assets less Current Liabilities		7,330,556	7,712,048	7,889,178	(1,002,424)
Non-current Liabilities					
Bank borrowings	22	517,448	455,337	—	—
Deferred tax liabilities.	23	23,704	49,083	39,647	—
Deferred revenue	21	212,815	611,161	736,329	—
		753,967	1,115,581	775,976	—
Net Assets (Liabilities)		6,576,589	6,596,467	7,113,202	(1,002,424)
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	24	—	—	1	1
Reserves	24A	6,576,589	6,596,467	7,113,201	(1,002,425)
Equity attributable to owners of the Company		6,576,589	6,596,467	7,113,202	(1,002,424)

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COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				
	Share capital	Capital reserve	Exchange reserve	Retained earnings	Total
	US\$	(note) US\$	US\$	US\$	US\$
At 1 January 2013	—	98,206	28,046	5,186,241	5,312,493
Other comprehensive expense for the year	—	—	(528)	—	(528)
Profit for the year	—	—	—	2,565,077	2,565,077
Profit and total comprehensive income for the year	—	—	(528)	2,565,077	2,564,549
Dividend recognised as distribution	—	—	—	(1,300,453)	(1,300,453)
At 31 December 2013	—	98,206	27,518	6,450,865	6,576,589
Other comprehensive expense for the year	—	—	(21,765)	—	(21,765)
Profit for the year	—	—	—	3,742,960	3,742,960
Profit and total comprehensive income for the year	—	—	(21,765)	3,742,960	3,721,195
Dividend recognised as distribution	—	—	—	(3,701,317)	(3,701,317)
At 31 December 2014	—	98,206	5,753	6,492,508	6,596,467
Other comprehensive income for the period	—	—	58,009	—	58,009
Profit for the year	—	—	—	3,356,629	3,356,629
Profit and total comprehensive income for the year	—	—	58,009	3,356,629	3,414,638
Dividend recognised as distribution	—	—	—	(2,799,698)	(2,799,698)
Issue of a new share	1	—	—	—	1
Deemed distribution to a shareholder (Note 2(b))	—	(98,206)	—	—	(98,206)
At 31 December 2015	1	—	63,762	7,049,439	7,113,202

note: The capital reserve of the Group as at 1 January 2013, 31 December 2013 and 2014 represented the nominal values of the share capital of Pepwave, Peplink, PLL, PLTL, PRSB and PWL.

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COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Cash flows from operating activities			
Profit before taxation	3,008,737	4,285,015	4,139,921
Adjustments for:			
Amortisation of intangible assets.	46,900	43,520	77,945
Depreciation of property, plant and equipment.	153,838	199,984	253,879
Provision of inventories	185,855	235,715	36,146
Allowance for (reversal of) doubtful debts	147	(177,394)	—
Interest expenses.	3,638	4,427	1,307
Interest income	(12,934)	(6,759)	(90)
Loss on disposal of property, plant and equipment	13,870	120	—
Operating profit before working capital changes.	3,400,051	4,584,628	4,509,108
Movements in working capital:			
Increase in inventories	(576,642)	(1,301,560)	(523,251)
Increase in trade and other receivables	(1,203,507)	(1,014,203)	(528,934)
Increase (decrease) in amounts due to related companies.	5,915	(196,358)	69,512
Increase in deferred revenue.	692,162	909,191	1,209,050
Increase (decrease) in trade and other payables.	861,244	469,218	(938,632)
Cash generated from operations	3,179,223	3,450,916	3,796,853
Tax paid	(102,928)	(357,787)	(777,498)
Net cash from operating activities	3,076,295	3,093,129	3,019,355
Cash flows from investing activities			
Interest received	12,934	6,759	90
Additions to intangible assets	(20,605)	(78,165)	(264,770)
Purchases of property, plant and equipment	(237,667)	(352,460)	(214,712)
Repayment of borrowings on behalf of the related companies.	(57,831)	(60,822)	(515,700)
Proceeds from disposal of property, plant and equipment.	1,628	—	—
Advances to related companies	(30,705)	(72,293)	(38,607)
Receipt on advances to related companies	43,202	22,183	118,780
Advances to a director.	(1,049,564)	(2,528,104)	—
Receipts on advances to a director	1,319,320	3,193,191	—
Net cash (used in) from investing activities	(19,288)	130,289	(914,919)
Cash flows from financing activities			
Dividend paid	(1,300,453)	(3,701,317)	(2,799,698)
Interest paid	(3,638)	(4,427)	(1,307)
New bank loans raised	—	—	1,238,678
Repayment of advances from a director.	—	(328,104)	(362,776)
Advances from a director	—	330,136	2,154,742
Repayment of advances from related companies	(138,520)	(107,548)	(44,738)
Advances from related companies.	151,645	171,864	16,657
Proceeds for issue of a new share	—	—	1
Net cash (used in) from financing activities	(1,290,966)	(3,639,396)	201,559
Net increase (decrease) in cash and cash equivalents.	1,766,041	(415,978)	2,305,995
Cash and cash equivalents at the beginning of the year	2,365,090	4,132,535	3,696,446
Effect of foreign exchange rate change	1,404	(20,111)	59,613
Cash and cash equivalents at the end of the year, represented by bank balances and cash	4,132,535	3,696,446	6,062,054

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NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2015. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed Corporate Information in the document.

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

The Financial Information is presented in United States dollars (“US\$”), which is also the Company’s functional currency.

2. REORGANISATION AND BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

Group reorganisation

In preparation for the [REDACTED] of the Company’s shares on the Stock Exchange (the “[REDACTED]”), the entities in the Group underwent a group reorganisation which involves interspersing the Company between Protean (the existing holding company of the Group’s subsidiaries) and its shareholder. The sole shareholder of Protean was Mr. Chan Wing Hong, Alex (“Mr. Chan”). The principle steps are as follows:

- (a) Protean was incorporated in the BVI on 8 April 2015. The entire share capital of Protean is owned by Mr. Chan since the date of incorporation of Protean.
- (b) On 21 and 22 April 2015, Protean entered into six sale and purchase agreements to acquire the entire issued share capital of Pepwave, Peplink, PLL, PLTL, PRSB and PWL, which are under ultimate common control of Mr. Chan, from Tramunta Ventures Limited (“TVL”) with cash consideration of HK\$1, HK\$1,000, HK\$1, HK\$1, RM350,000 and US\$1 respectively. The total consideration is equivalent to US\$98,206, which was recorded as payable in the amounts due to related companies.
- (c) On 5 May 2015, the Company was incorporated in the Cayman Islands as exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.
- (d) On 20 May 2015, Protean acquired the entire issued share capital of Pegatrack from its sole shareholder, Mr. Chan at a consideration of HK\$1, being the nominal value of the total issued share capital of Pegatrack.
- (e) On [•], the Company acquired the entire issued share capital of Protean from its sole shareholder, Mr. Chan. The consideration for acquisition was satisfied by allotment of and crediting as fully paid a total of one share to Mr. Chan.

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity and the Financial Information of the Group have been prepared as if the Company had been the holding company of Protean and its subsidiaries throughout the Track Record Period.

Basis of preparation of the financial information

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

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

The combined statements of financial position of the Group as at 31 December 2013, 2014 and 2015 have been prepared to present the assets and liabilities of the Combined Entities as if the current group structure had been in existence at those dates taking into account the respective dates of incorporation where applicable.

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3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)

For the purposes of preparing and presenting the Financial Information for the Track Record Period, the Group has adopted the HKFRSs issued by the HKICPA that are effective for the Group’s annual accounting period beginning on 1 January 2015 consistently throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new and revised HKFRSs which are not yet effective. The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle ²
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ²
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ²
Amendments to HKAS 1	Disclosure initiative ²
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ²
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ²
Amendments to HKAS 27	Equity method in separate financial statements ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2016.

³ Effective for annual periods beginning on or after a date to be determined.

HKFRS 15 Revenue from contracts with customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

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

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

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

The directors of the Company are in the process of making an assessment of the potential impact of the application of HKFRS 15 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of the other new standards and amendments will have no material impact on the Financial Information of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange of goods and services.

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

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

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

The principal accounting policies are set out below.

Basis of combination

The Financial Information incorporates the financial information of the entities controlled by the Company or its subsidiaries. Control is achieved when the Company:

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

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

Combination of a subsidiary begins when the Company obtains control over the subsidiary to bring their accounting policies in line with the Group’s accounting policies.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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

Merger accounting for business combination involving entities under common control

The Financial Information incorporates the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

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

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

Revenue recognition

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

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

Sale of hardware product and software licence

The Group’s sale arrangement typically includes multiple elements which comprise product sold, software, undelivered warranty and support services. The Group allocates revenue to these deliverables based on its relative fair value, as determined based on the current market price of these elements when sold separately. Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group estimates the stand-alone selling price by reference to the total contract consideration less the sum of the observable stand-alone selling prices of other elements.

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

For the Group’s sale of software licence, revenue from sale of standalone software license is recognised at the time of delivery.

Revenue from sales of goods is recognised when goods are delivered and title have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Provision of warranty and support services

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

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

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

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

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Interest income

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

Leasing

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

Operating lease payments where the Group is the lessee are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

Intangible assets

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

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

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

Derecognition of intangible assets

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

Impairment of tangible and intangible assets other than goodwill

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis.

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Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade and other receivables, amount due from a director, amounts due from related companies and bank balances and cash are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

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

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

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

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

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

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Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

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

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (“foreign currencies”) are recognised in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group’s foreign operation is translated into the presentation currency of the Group (i.e. US\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Borrowing costs

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

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

Retirement benefit costs

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

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Taxation

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

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

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

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

Development costs

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

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Key sources of estimation uncertainty

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

Allocation of revenue for bundled transactions with customers

The Group has bundled transactions under contract with customers including sales of both services and products. The amount of revenue recognised upon the sale of products is determined by considering the estimated fair value of each of the service element and hardware element of the contract. Significant judgement is required in assessing the fair value of each of these elements by considering, among others, standalone selling price.

Estimated useful lives of intangible assets

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

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

At 31 December 2013, 2014 and 2015, the carrying amounts of intangible assets are approximately US\$55,751, US\$90,113 and US\$277,316 respectively. Details of the useful lives of the intangible assets are disclosed in Note 15.

Estimated allowance for doubtful receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowance are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts in the period in which such estimate has changed. As at 31 December 2013, 2014 and 2015, the carrying amounts of trade receivables are US\$1,448,453 (net of allowance of US\$220,465), US\$2,397,633 (net of allowance of US\$42,933) and US\$2,702,376 (net of allowance of US\$43,019) respectively.

Allowance for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that the net realisable value is lower than the cost. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, a write-off or write-down of inventories may arise. As at 31 December 2013, 2014 and 2015, the carrying amounts of inventories are US\$2,585,304 (net of allowance of US\$221,040), US\$3,651,149 (net of allowance of US\$406,341) and US\$4,138,254 (net of allowance of US\$372,888 respectively).

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6. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in designing, development and marketing of SD-WAN routers and provision of software licences and warranty and support services. Information reported to the chief operating decision maker (the “CODM”), being the executive directors of the Company, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered and services provided.

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

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

The accounting policies of the reportable and operating segments are the same as the Group’s accounting policies described in note 4.

Segment profit represents the gross profit attributable to each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

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

Year ended 31 December 2013

	Sale of SD-WAN routers		Software licences and warranty and support services	Total
	Wired routers	Wireless routers		
	US\$	US\$	US\$	US\$
External sales and segment revenue	6,487,014	4,503,470	2,315,435	13,305,919
Segment profit	3,016,776	981,761	1,469,926	5,468,463
Other income				33,797
Allowance for impairment losses for trade receivables				(147)
Selling and distribution expenses				(830,339)
Unallocated administrative expenses				(1,659,399)
Finance costs				(3,638)
Profit before taxation				<u>3,008,737</u>

Year ended 31 December 2014

	Sale of SD-WAN routers		Software licences and warranty and support services	Total
	Wired routers	Wireless routers		
	US\$	US\$	US\$	US\$
External sales and segment revenue	7,493,307	7,635,485	2,817,533	17,946,325
Segment profit	3,567,957	1,682,560	1,773,373	7,023,890
Other income				129,085
Reversal of impairment losses for trade receivables				177,394
Selling and distribution expenses				(1,035,434)
Unallocated administrative expenses				(2,005,493)
Finance costs				(4,427)
Profit before taxation				<u>4,285,015</u>

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Year ended 31 December 2015

	<u>Sale of SD-WAN routers</u>		<u>Software licences and warranty and support services</u>	<u>Total</u>
	<u>Wired routers</u>	<u>Wireless routers</u>		
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
External sales and segment revenue	6,987,050	10,685,496	4,187,092	21,859,638
Segment profit	3,430,300	2,370,764	2,906,959	8,708,023
Other income				69,334
Selling and distribution expenses				(1,003,184)
Unallocated administrative expenses				(2,631,916)
[REDACTED]				(1,001,029)
Finance costs				(1,307)
Profit before taxation				4,139,921

Segment profit represents the profit earned by each segment without allocation of certain administrative expenses, other income, allowance for (reversal of) impairment losses for trade receivables, selling and distribution expenses, [REDACTED] and finance costs. This is the measure reported to the CODM for purpose of resource allocation and performance assessment.

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

Geographical information

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

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

	<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
United States of America	5,965,562	7,238,880	8,899,657
Malaysia	1,017,949	1,774,134	1,385,052
Canada	339,130	245,775	271,809
Mexico	457,794	455,060	200,897
United Kingdom	563,148	988,528	1,064,657
Hong Kong	259,296	1,031,811	839,114
Taiwan	534,715	174,970	249,804
France	374,578	473,356	578,576
Singapore	176,365	238,307	730,446
Israel	253,623	519,496	1,908,333
Others	3,363,759	4,806,008	5,731,293
	<u>13,305,919</u>	<u>17,946,325</u>	<u>21,859,638</u>

Revenue from major products and services:

	<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
SD-WAN routers			
— Wired routers	6,487,014	7,493,307	6,987,050
— Wireless routers	4,503,470	7,635,485	10,685,496
Warranty and support services	1,831,081	2,580,502	3,905,224
Software licences	484,354	237,031	281,868
Total	<u>13,305,919</u>	<u>17,946,325</u>	<u>21,859,638</u>

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Other segment information

	Sale of SD-WAN routers		Software licences and warranty and support services	Total
	Wired routers	Wireless routers		
	US\$	US\$	US\$	US\$
Amount included in the measure of segment result				
Year ended 31 December 2013				
Amortisation of intangible assets	1,428	45,401	71	46,900
Provision of inventories	2,803	183,052	—	185,855
Year ended 31 December 2014				
Amortisation of intangible assets	2,535	40,196	789	43,520
Provision of inventories	—	235,715	—	235,715
Year ended 31 December 2015				
Amortisation of intangible assets	7,478	69,200	1,267	77,945
Provision of inventories	7,824	28,322	—	36,146

Information about major customers

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Customer A (Note)	1,742,156	2,580,362	4,478,836

Note: For each of the years ended 31 December 2013, 2014 and 2015, Customer A was the only customer contributed more than 10% of total revenue involved in sales of SD-WAN routers and software licences and warranty and support service income.

7. OTHER INCOME

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Sales of parts material	20,863	122,326	69,244
Bank interest income	12,934	6,759	90
	33,797	129,085	69,334

8. FINANCE COSTS

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Interest on bank overdraft	3,638	4,427	1,307

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9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Directors’ remuneration (<i>note 11</i>)			
– Salaries and other allowances (<i>note</i>)	713,796	1,022,130	942,973
– Contribution to retirement benefit scheme (<i>note</i>)	9,675	10,795	11,610
Other non research and development staff costs			
– Salaries	647,614	661,731	656,867
– Contribution to retirement benefit scheme	29,939	32,776	40,922
Research and development expenses for salaries and other allowances, and contribution to retirement benefit scheme (excluded the directors’ remuneration)	2,105,017	2,689,939	2,661,763
Total staff costs	<u>3,506,041</u>	<u>4,417,371</u>	<u>4,314,135</u>
Auditors’ remuneration	11,947	11,732	16,656
Cost of inventories recognised as an expense	4,076,698	6,059,722	8,443,320
Foreign exchange loss, net	49,018	122,700	217,380
Amortisation of intangible assets	46,900	43,520	77,945
Depreciation of property, plant and equipment	153,838	199,984	253,879
Provision of inventories	185,855	235,715	36,146
Allowance for (reversal of) doubtful debts	147	(177,394)	—
Loss on disposal of property, plant and equipment	<u>13,870</u>	<u>120</u>	<u>—</u>

Note: The Directors’ remuneration of US\$323,234, US\$518,180 and US\$442,199 were included in research and development expenses for the year ended 31 December 2013, 2014 and 2015, respectively.

10. INCOME TAX EXPENSES

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Current tax:			
Hong Kong	437,139	518,163	792,908
Overprovision in prior years	—	(1,705)	—
Deferred tax	6,521	25,597	(9,616)
Income tax expenses	<u>443,660</u>	<u>542,055</u>	<u>783,292</u>

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

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

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

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Profit before taxation	<u>3,008,737</u>	<u>4,285,015</u>	<u>4,139,921</u>
Tax at applicable statutory tax rate of 16.5%	496,442	707,027	683,087
Tax effect of income not taxable for tax purpose	(4,139)	(2,497)	(2,974)
Tax effect of expenses not deductible for tax purpose	3,253	4,388	165,570
Tax effect of tax losses not recognised	—	—	26,703
Utilisation of tax losses previously not recognised	(46,936)	(154,739)	(89,094)
Overprovision in prior years	—	(1,705)	—
Effect of different tax rates of group entities in jurisdictions other than Hong Kong	(2,572)	(107)	—
Others	<u>(2,388)</u>	<u>(10,312)</u>	<u>—</u>
Total tax expenses for the year	<u>443,660</u>	<u>542,055</u>	<u>783,292</u>

Details of deferred taxation are set out in note 23.

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11. DIRECTORS’ AND CHIEF EXECUTIVE’S EMOLUMENTS AND EMPLOYEES’ REMUNERATION

(a) Directors’ and chief executive’s emoluments:

During the Track Record Period, no emoluments were paid by the Group to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for loss of office.

Details of emoluments paid or payable to the directors and chief executive of the Company (including emoluments for their services as key management of the group entities prior to becoming the directors of the Company) by the group entities during the Track Record Period, are set out as follows:

For the year ended 31 December 2013

Name of directors	Fees US\$	Salaries and allowances US\$	Performance related incentive payment (note) US\$	Contribution to retirement benefit scheme US\$	Total US\$
Mr. Chan [#]	—	278,037	—	1,935	279,972
Mr. Chau Kit Wai* (Mr. Chau)	—	118,330	—	1,935	120,265
Mr. Yip Kai Kut* (Mr. Yip)	—	115,819	19,303	1,935	137,057
Mr. Yeung Yu* (Mr. Yeung)	—	90,960	—	1,935	92,895
Mr. Chong Ming Pui* (Mr. Chong)	—	91,347	—	1,935	93,282
	—	694,493	19,303	9,675	723,471

For the year ended 31 December 2014

Name of directors	Fees US\$	Salaries and allowances US\$	Performance related incentive payment (note) US\$	Contribution to retirement benefit scheme US\$	Total US\$
Mr. Chan [#]	—	323,516	—	2,159	325,675
Mr. Chau*	—	140,835	46,076	2,159	189,070
Mr. Yip*	—	117,633	20,248	2,159	140,040
Mr. Yeung*	—	139,943	46,968	2,159	189,070
Mr. Chong*	—	139,820	47,091	2,159	189,070
	—	861,747	160,383	10,795	1,032,925

For the year ended 31 December 2015

Name of directors	Fees US\$	Salaries and allowances US\$	Performance related incentive payment (note) US\$	Contribution to retirement benefit scheme US\$	Total US\$
Mr. Chan [#]	—	352,941	—	2,322	355,263
Mr. Chau*	—	154,799	—	2,322	157,121
Mr. Yip*	—	125,635	—	2,322	127,957
Mr. Yeung*	—	154,799	—	2,322	157,121
Mr. Chong*	—	154,799	—	2,322	157,121
	—	942,973	—	11,610	954,583

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

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

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Note: The performance related incentive payments are determined based on the financial performance and resources of the Group and the performance of the individual during the Track Record Period.

No director waived any emoluments during the Track Record Period.

(b) Employee’s remuneration

The five highest paid individuals included four, five and five directors of the Company for the year ended 31 December 2013, 2014 and 2015 respectively. The emoluments of the remaining one, nil and nil individuals for the year ended 31 December 2013, 2014 and 2015 are as follows:

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Salaries and other benefits	109,032	—	—
Contributions to retirement benefit scheme	1,935	—	—
	<u>110,967</u>	<u>—</u>	<u>—</u>

Their emoluments were within the following bands:

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
HK\$nil (US\$nil) to HK\$1,000,000 (US\$129,032)	1	—	—

12. DIVIDENDS

No dividends have been paid or declared by the Company since its date of incorporation.

Prior to the Group Reorganisation, the subsidiaries had declared dividends to their then shareholder as follows:

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Declared by:			
Peplink	1,300,453	699,576	—
Pepwave	—	3,001,741	2,799,698
Total	<u>1,300,453</u>	<u>3,701,317</u>	<u>2,799,698</u>

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Group Reorganisation and the preparation of the results of the Group for the Track Record Period is on a combined basis as disclosed in note 2.

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14. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures US\$	Computer equipment US\$	Office equipment US\$	Machine and equipment US\$	Total US\$
THE GROUP					
COST					
At 1 January 2013	268,892	138,127	16,318	144,260	567,597
Exchange adjustments	(1,814)	(175)	(350)	(86)	(2,425)
Additions	76,507	37,242	12,274	111,644	237,667
Disposals/written off.	(19,325)	—	(6,716)	—	(26,041)
At 31 December 2013.	324,260	175,194	21,526	255,818	776,798
Exchange adjustments	(2,544)	(979)	(519)	(1,281)	(5,323)
Additions	76,107	54,841	69,469	152,043	352,460
Disposals/written off.	—	(1,148)	—	—	(1,148)
At 31 December 2014.	397,823	227,908	90,476	406,580	1,122,787
Exchange adjustments	(1,202)	(17)	(293)	1,536	24
Additions	13,906	24,158	68,145	108,503	214,712
Disposals/written off.	—	(507)	—	—	(507)
At 31 December 2015.	410,527	251,542	158,328	516,619	1,337,016
ACCUMULATED					
DEPRECIATION					
At 1 January 2013	16,441	91,934	6,942	72,596	187,913
Exchange adjustments	(273)	(36)	(84)	(46)	(439)
Charge for the year	55,727	31,421	4,679	62,011	153,838
Disposals/written off.	(6,782)	—	(3,761)	—	(10,543)
At 31 December 2013.	65,113	123,319	7,776	134,561	330,769
Exchange adjustments	(645)	(602)	(112)	(674)	(2,033)
Charge for the year	71,510	33,709	14,485	80,280	199,984
Disposals/written off.	—	(1,028)	—	—	(1,028)
At 31 December 2014.	135,978	155,398	22,149	214,167	527,692
Exchange adjustments	(692)	93	(254)	820	(33)
Charge for the year	79,138	36,576	33,153	105,012	253,879
Disposals/written off.	—	(507)	—	—	(507)
At 31 December 2015.	214,424	191,560	55,048	319,999	781,031
CARRYING VALUES					
At 31 December 2013.	259,147	51,875	13,750	121,257	446,029
At 31 December 2014.	261,845	72,510	68,327	192,413	595,095
At 31 December 2015.	196,103	59,982	103,280	196,620	555,985

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

Furniture and fixtures	20%
Computer equipment	33 $\frac{1}{3}$ %
Office equipment	33 $\frac{1}{3}$ %
Machine and equipment	33 $\frac{1}{3}$ %

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15. INTANGIBLE ASSETS

	Patents US\$	Trademarks US\$	Total US\$
THE GROUP			
COST			
At 1 January 2013	134,342	—	134,342
Additions	13,450	7,155	20,605
Exchange adjustments	(49)	(3)	(52)
At 31 December 2013	147,743	7,152	154,895
Additions	67,958	10,207	78,165
Exchange adjustments	(685)	(52)	(737)
At 31 December 2014	215,016	17,307	232,323
Additions	261,420	3,350	264,770
Exchange adjustments	859	65	924
At 31 December 2015	477,295	20,722	498,017
ACCUMULATED AMORTISATION			
At 1 January 2013	52,278	—	52,278
Provided for the year	46,713	187	46,900
Exchange adjustments	(34)	—	(34)
At 31 December 2013	98,957	187	99,144
Provided for the year	41,888	1,632	43,520
Exchange adjustments	(447)	(7)	(454)
At 31 December 2014	140,398	1,812	142,210
Provided for the year	75,656	2,289	77,945
Exchange adjustments	539	7	546
At 31 December 2015	216,593	4,108	220,701
CARRYING VALUES			
At 31 December 2013	48,786	6,965	55,751
At 31 December 2014	74,618	15,495	90,113
At 31 December 2015	260,702	16,614	277,316

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

Patents	3–3.5 years
Trademarks	5–10 years

16. INVENTORIES

	At 31 December		
	2013 US\$	2014 US\$	2015 US\$
THE GROUP			
Raw materials and consumables	1,057,084	1,618,403	1,865,954
Finished goods	1,528,220	2,032,746	2,272,300
	2,585,304	3,651,149	4,138,254

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17. TRADE AND OTHER RECEIVABLES

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
THE GROUP			
Trade receivables	1,668,918	2,440,566	2,745,395
Less: Allowance for doubtful debts	(220,465)	(42,933)	(43,019)
	<u>1,448,453</u>	<u>2,397,633</u>	<u>2,702,376</u>
Other receivables	261,013	230,775	183,205
Trade deposits paid	231,718	358,955	205,728
Utility and deposits	61,025	102,865	99,241
Prepaid expenses	134,064	237,642	375,940
[REDACTED]	—	—	290,314
	<u>2,136,273</u>	<u>3,327,870</u>	<u>3,856,804</u>

Included in the trade receivables balance are debts with total carrying amount of US\$415,036, US\$866,915 and US\$1,225,258 which are past due as at 31 December 2013, 2014 and 2015 respectively for which the Group has not provided for impairment loss as the Group considers that the default risk is low after considering the creditworthiness and repayment history of the debtors and settlement after the end of each reporting period. No collateral is held over these receivables. Trade receivables which are neither overdue nor impaired are of good quality.

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

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
1 — 30 days	373,810	607,737	724,016
31 — 60 days	36,358	65,933	397,486
61 — 90 days	3,562	111,188	51,814
91 — 120 days	1,306	82,057	51,942
	<u>415,036</u>	<u>866,915</u>	<u>1,225,258</u>

Movement in allowance for doubtful debts

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
At beginning of year	220,387	220,465	42,933
Impairment (reversal of) losses recognised on receivables . . .	147	(177,394)	—
Exchange realignment	(69)	(138)	86
Balance at end of year	<u>220,465</u>	<u>42,933</u>	<u>43,019</u>

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

The following is an aged analysis of trade receivables (net off allowance for doubtful debts) presented based on the invoice date at the end of each reporting period.

Ageing of trade receivables

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
1 — 30 days	1,103,103	1,652,489	1,586,532
31 — 60 days	330,855	492,200	571,928
61 — 90 days	12,241	77,852	434,383
91 — 120 days	2,254	175,092	109,533
Total	<u>1,448,453</u>	<u>2,397,633</u>	<u>2,702,376</u>

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Trade deposits paid and prepayments mainly represent the deposits and prepayments paid for manufacturing of products. The Group is required to make prepayments and trade deposits to certain suppliers to secure regular manufacturing of routers. Credit terms for periods ranging from 30 to 60 days are granted to customers based on the relationship and potential business opportunities with the customers, order size and creditworthiness.

[REDACTED] represent professional fees for the [REDACTED], which would be offset against the share premium accounts in equity upon the [REDACTED].

THE COMPANY

The amount as at 31 December 2015 represents the deferred professional fees in connection with the [REDACTED], which would be offset against the share premium accounts in equity upon the [REDACTED].

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

(I) Amount due from/(to) a director

	At 31 December			Maximum amount outstanding during the year		
	2013	2014	2015	2013	2014	2015
	US\$	US\$	US\$	US\$	US\$	US\$
THE GROUP						
Mr. Chan	665,087	(2,032)	(1,793,998)	1,798,200	3,023,053	(1,956,834)

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

	At 31 December		
	2013 US\$	2014 US\$	2015 US\$
THE GROUP			
Amounts due from related companies:			
Glamour Technologies Limited 輝煌科技有限公司 (note 2)	53,896	101,446	70,956
Perfect Giant Limited (note 2)	9,487	951	—
Tramunta Ventures Limited (note 2)	84,731	82,897	—
Conficiency Limited (note 2)	—	—	87,611
Open Gain Limited (note 3)	234,429	212,528	18,070
PBS Ventures Limited (note 2)	—	108,060	132,029
Paciot Limited (note 2)	—	900	903
Advance Action Limited (note 3)	345,354	308,789	147,407
Rich Origin Limited (note 2)	—	—	1,884
	<u>727,897</u>	<u>815,571</u>	<u>458,860</u>
Amounts due to related companies:			
PBS Ventures Limited (note 1)	17,939	—	—
Nice Achieve Limited (note 1)	11,604	16,874	—
Tramunta Ventures Limited (note 2)	—	—	14,701
Conficiency Limited (note 2)	209,047	110,284	—
Talent Trend International Limited (note 1)	7,489	6,747	—
Real Energy Limited (note 1)	—	17,696	—
	<u>246,079</u>	<u>151,601</u>	<u>14,701</u>

Note 1: The amounts are mainly arising from rental of premises by the Group and aged within 30 days.

Note 2: The amounts are non-trade nature.

Note 3: As at the year ended 31 December 2013 and 2014, the amounts are mainly the receivables arising from the bank borrowings as stated in note 22 to be repaid by the related companies and from rental of premises by the Group. As at the year ended 31 December 2015, the amounts are mainly arising from rental of premises by the Group and aged within 30 days.

The amounts due from/(to) a director and related companies at 31 December 2013, 2014 and 2015 are unsecured, interest-free and repayable on demand.

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

As represented by the directors of the Company, the amounts will be fully settled upon [REDACTED].

(III) Amount due to a subsidiary

THE COMPANY

The amount as at 31 December 2015 is unsecured, interest-free, repayable on demand and non-trade nature.

19. BANK BALANCES AND CASH

Bank balances carry interest at market rates ranging from 0.001% to 2% per annum with an original maturity of three months or less as at the end of each of the reporting period.

20. TRADE AND OTHER PAYABLES

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
THE GROUP			
Trade payables	712,071	588,034	222,673
Deposits received from customers.	393,149	631,586	192,457
Accruals	408,656	763,474	605,322
Other payables	291	291	24,301
	<u>1,514,167</u>	<u>1,983,385</u>	<u>1,044,753</u>

The average credit period on purchase of goods is 30 to 60 days. The following is an aged analysis of the trade payables, based on the invoice date, at the end of each reporting period.

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Within 30 days.	623,036	574,533	207,700
31 to 90 days	89,035	13,501	14,973
	<u>712,071</u>	<u>588,034</u>	<u>222,673</u>

The advance and deposit received from customers mainly represent the advance and deposit received as security for the sales of products.

THE COMPANY

The amount at 31 December 2015 represents accruals for professional fees in connection with the [REDACTED].

21. DEFERRED REVENUE

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
THE GROUP			
Undelivered warranty and support services deferred revenue	<u>1,470,041</u>	<u>2,379,232</u>	<u>3,588,282</u>
Current portion	1,257,226	1,768,071	2,851,953
Non-current portion	212,815	611,161	736,329
	<u>1,470,041</u>	<u>2,379,232</u>	<u>3,588,282</u>

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22. BANK BORROWINGS

	At 31 December		
	2013 US\$	2014 US\$	2015 US\$
THE GROUP			
Secured bank loans	576,522	515,700	1,238,678
Carrying amount repayable within one year	59,074	60,363	1,238,678
More than one year, but not exceeding two years	60,568	61,887	—
More than two years but not more than five years	191,048	195,220	—
More than five years	265,832	198,230	—
	576,522	515,700	1,238,678
Less: Amounts shown under current liabilities	59,074	60,363	1,238,678
Amounts shown under non-current liabilities	517,448	455,337	—

The borrowings are mortgage loans, carrying interest at rates of 2.5% and 2.5% per annum for each of the two years ended 31 December 2013 and 2014 respectively and are repayable in instalments over ten years from their respective commencement dates. Pursuant to the bank loan agreement, such mortgage loans are borrowed by the Group and drawn are solely for the usage by the related companies (in which Mr. Chan has beneficial interest) to purchase the properties and therefore are secured by that properties held by related companies. The related companies repaid the bank borrowings to the lending bank through the Group’s bank accounts. The borrowings were fully settled on 30 September 2015.

For the finance costs arising from the secured bank borrowings for the two years ended 31 December 2013 and 2014, the Group obtained full reimbursement of the relevant finance costs from the related companies, and amount received by the Group has been set-off against the related finance costs borne by the Group.

The Group’s bank borrowings as at 31 December 2013 and 2014 were supported by limited guarantees of HK\$10,000,000 (equivalent to approximately US\$1,290,000) provided by Mr. Chan. Such guarantee is expected to be released prior to [REDACTED].

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

As represented by the directors of the Company, based on the bank facilities letter signed with the bank, the limited guarantee of HK\$20,600,000 provided by Mr. Chan is expected to be released upon [REDACTED].

23. DEFERRED TAX LIABILITIES

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the Track Record Period.

	Accelerated tax depreciation and others US\$	Accelerated tax amortisation of intangible assets US\$	Loss available for offset against future taxable profit US\$	Total US\$
THE GROUP				
At 1 January 2013	(20,972)	(13,540)	17,342	(17,170)
(Charge) credit to profit or loss	(4,171)	4,339	(6,689)	(6,521)
Exchange realignment	(12)	2	(3)	(13)
At 31 December 2013.	(25,155)	(9,199)	10,650	(23,704)
Charge to profit or loss	(9,237)	(5,717)	(10,643)	(25,597)
Exchange realignment	178	47	(7)	218
At 31 December 2014.	(34,214)	(14,869)	—	(49,083)
Credit (charge) to profit or loss	10,405	(30,826)	30,037	9,616
Exchange realignment	(125)	(62)	7	(180)
At 31 December 2015.	(23,934)	(45,757)	30,044	(39,647)

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At the end of each reporting periods, the Group had unused tax losses of US\$1,680,287, US\$671,069 and US\$444,072 as at 31 December 2013, 2014 and 2015 respectively, available for offset against future profits. Deferred tax assets have been recognised in respect of such tax losses of US\$64,567, nil and US\$182,041 and no deferred tax asset was recognised in respect of the remaining tax losses of US\$1,615,720, US\$671,069 and US\$262,031 as at 31 December 2013, 2014 and 2015 respectively, due to the unpredictability of future profit streams. Such tax losses can be carried forward indefinitely.

24. SHARE CAPITAL

On 5 May 2015, the Company was incorporated in the Cayman Islands as exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On [•], the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares to [REDACTED] divided into [REDACTED] shares by the creation of an additional [REDACTED] shares. On 5 May 2015, one subscriber share, was allotted and issued as fully paid share, to Mr. Chan Wing Hong, Alex. From the date of incorporation to 31 December 2015, there was no change in the authorised share capital and one share was issued.

The share capital at 31 December 2015 represented the combined share capital of the Company.

24A. RESERVE OF THE COMPANY

	Accumulated loss US\$
At 5 May 2015 (date of incorporation)	—
Loss and total comprehensive expense for the period	(1,002,425)
At 31 December 2015.	<u>(1,002,425)</u>

25. CAPITAL RISK MANAGEMENT

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

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

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

26. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	THE GROUP			THE COMPANY
	At 31 December			At 31 December
	2013	2014	2015	2015
	US\$	US\$	US\$	US\$
Financial assets				
Loans and receivables:				
Trade and other receivables	1,709,466	2,628,408	2,885,581	—
Amount due from a director	665,087	—	—	—
Amounts due from related companies	727,897	815,571	458,860	—
Bank balances and cash.	4,132,535	3,696,446	6,062,054	—
	<u>7,234,985</u>	<u>7,140,425</u>	<u>9,406,495</u>	<u>—</u>
Financial liabilities				
Financial liabilities held at amortised cost:				
Trade and other payables	712,362	588,325	246,974	—
Amounts due to related companies	246,079	151,601	14,701	—
Amount due to a director	—	2,032	1,793,998	—
Amount due to a subsidiary	—	—	—	1,159,716
Bank borrowings	576,522	515,700	1,238,678	—
	<u>1,534,963</u>	<u>1,257,658</u>	<u>3,294,351</u>	<u>1,159,716</u>

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(ii) Financial risk management objectives and policies

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

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

Market risk

Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 19) throughout the Track Record Period and variable-rate bank borrowing as at 31 December 2015 (note 22). The Group’s cash flow interest rate risk is mainly resulted from the fluctuation of market interest rate.

As disclosed in note 22, the bank borrowings as at 31 December 2013 and 2014 were drawn in favourable to and on behalf of solely for the related companies, in which Mr. Chan has significant beneficial interest. The related companies repaid the bank borrowings to the lending bank through the Groups’ bank accounts and the Group obtained full reimbursement of the relevant finance costs from the related companies. In view of such arrangement, the directors of the Company consider that there is no significant interest rate risk associated with the bank borrowings throughout the Track Record Period.

Interest rate risk sensitivity analysis

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

5 basis point and 50 basis point increases” are used for bank balances and bank borrowing respectively and represent management’s assessment of the reasonably possible change in interest rates. If interest rates had been 5 or 50 basis points higher and all other variables were held constant, the Group’s profit for the year ended 31 December 2013, 2014 and 2015 would increase US\$2,065, US\$1,847 and decrease US\$3,164 respectively. Management does not expect a significant decrease of interest rate.

In the management’s opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the Track Record Period.

Foreign currency risk management

Certain sale and purchase of goods of the Group are denominated in RM and EURO, the currencies other than the functional currencies of the relevant group entities.

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

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

	Assets	Liabilities
	US\$	US\$
31 December 2013:		
RMB	830,124	334
RM	351,242	—
HK\$	<u>1,540,987</u>	<u>933,287</u>
31 December 2014:		
RMB	820,599	7,043
RM	496,025	—
HK\$	<u>1,100,474</u>	<u>751,116</u>
31 December 2015:		
RMB	30,319	302
RM	157,269	1,771
HK\$	<u>2,064,401</u>	<u>1,374,439</u>

Foreign currency sensitivity analysis

The following table details the Group’s sensitivity to a 5% increase or decrease in RMB and RM for the year ended 31 December 2013, 2014 and 2015. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. It excludes items denominated in HK\$ held by group entities with US\$ as functional currency as the directors consider that the Group’s exposure to HK\$ for such entities is insignificant on the ground that HK\$ is pegged to US\$. A positive number indicates an increase in pre-tax profit for the year where the foreign currencies strengthen 5% against the functional currency of respective group entity. For a 5% weakening of the foreign currencies against the functional currency of respective group entity, there would be an equal and opposite impact.

	Pre-tax profit		
	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
RMB	41,490	40,678	1,501
RM	<u>17,562</u>	<u>24,801</u>	<u>11,885</u>

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

Credit risk management

As at the respective reporting dates, the Group’s maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantee provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 30.

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

	At 31 December		
	2013	2014	2015
Amount due from the largest debtor as a percentage to total trade receivables	24%	36%	42%
Total amount due from the five largest debtors as a percentage to total trade receivables	64%	66%	69%

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

- (i) A delegated team is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.
- (ii) Management regularly visits the Group’s key customers to understand their latest financial position and to ensure that there is no dispute on amounts due.
- (iii) Management reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

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

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than the above, the Group does not have other significant concentration of credit risk.

Liquidity risk management

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

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Liquidity table

The following table details the Group’s remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

	Weighted average effective interest rate %	On demand or within 1 year US\$	1–5 years US\$	More than 5 years US\$	Total undiscounted cash flow US\$	Carrying value US\$
THE GROUP						
At 31 December 2013						
Financial liabilities						
Trade and other payables	—	712,362	—	—	712,362	712,362
Amounts due to related companies	—	246,079	—	—	246,079	246,079
Bank borrowings	2.5%	72,812	291,249	279,042	643,103	576,522
Financial guarantee contracts (Note)	—	3,140,195	—	—	3,140,195	—
		<u>4,171,448</u>	<u>291,249</u>	<u>279,042</u>	<u>4,741,739</u>	<u>1,534,963</u>
At 31 December 2014						
Financial liabilities						
Trade and other payables	—	588,325	—	—	588,325	588,325
Amounts due to related companies	—	151,601	—	—	151,601	151,601
Amounts due to a director	—	2,032	—	—	2,032	2,032
Bank borrowings	2.5%	72,566	290,265	205,535	568,366	515,700
Financial guarantee contracts (Note)	—	3,044,820	—	—	3,044,820	—
		<u>3,859,344</u>	<u>290,265</u>	<u>205,535</u>	<u>4,355,144</u>	<u>1,257,658</u>
At 31 December 2015						
Financial liabilities						
Trade and other payables	—	246,974	—	—	246,974	246,974
Amounts due to related companies	—	14,701	—	—	14,701	14,701
Amount due to a director	—	1,793,998	—	—	1,793,998	1,793,998
Bank borrowings	2.75%	1,257,242	—	—	1,257,242	1,238,678
		<u>3,312,915</u>	<u>—</u>	<u>—</u>	<u>3,312,915</u>	<u>3,294,351</u>
THE COMPANY						
At 31 December 2015						
Financial liability						
Amount due to a subsidiary	—	<u>1,159,716</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,159,716</u>

The above table has been drawn up based on the undiscounted cash flows of financial liabilities (including principal and interest cash flows) based on the earliest date on which the Group can be required to pay (including principal and interest cash flows).

Note: The amount included above for financial guarantee contract is the maximum amount the Group could be required to settle under the arrangement for the guarantee amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the each reporting period, the directors of the Company consider that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Fair value measurements of financial instruments

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

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

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27. RELATED PARTIES TRANSACTIONS

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

(a) Transactions with related companies

	Year ended 31 December		
	2013 US\$	2014 US\$	2015 US\$
Rental expenses:			
PBS Ventures Limited	54,194	54,139	68,111
Nice Achieve Limited	34,065	34,030	42,724
Talent Trend International Limited	32,516	32,484	47,988
Open Gain Limited	30,194	30,163	29,412
Advance Action Limited	44,903	44,858	47,988
Perfect Giant Limited	3,548	42,538	47,988
Real Energy Limited	—	2,270	—
Plan Smart Limited	—	—	30,369
	<u>199,420</u>	<u>240,482</u>	<u>314,580</u>
Dividends paid:			
Tramunta Ventures Limited	1,300,453	3,701,317	—
Mr. Chan	—	—	2,799,698
Service expenses:			
Glamour Technologies Limited 輝煌科技有限公司	<u>30,968</u>	<u>30,937</u>	<u>18,060</u>

The related companies are companies in which the shareholder of ultimate holding company, Mr. Chan has beneficial interest.

(b) Significant balances with related parties

The significant balances with related parties have been disclosed in note 18.

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

The Group’s bank borrowings (note 22) as at 31 December 2013 and 2014 were supported by limited guarantees of HK\$10,000,000 (equivalent to approximately US\$1,290,000) provided by a director of the Company. Such guarantees were released on 30 September 2015.

The Group’s bank borrowings as at 31 December 2015 (note 22) were guaranteed by the Company and secured by a limited guarantee of HK\$20,600,000 (equivalent to approximately US\$2,658,000) provided by Mr. Chan. As represented by the directors of the Company, based on the bank facilities letter signed with the bank, the limited guarantee of HK\$20,600,000 provided by Mr. Chan is expected to be released upon [REDACTED].

(d) Compensation of key management personnel

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

The directors considered the key management personnel of the Group are the directors. The remuneration of members of key management personnel of the Group are disclosed in note 11.

28. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee’s relevant income. The maximum mandatory contribution per employee is HK\$1,250 per month before 1 June 2014, and increased to HK\$1,500 per month effective from 1 June 2014. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. During the years ended 31 December 2013, 2014 and 2015, the retirement benefit scheme contribution arising from the MPF Scheme charged to profit or loss were approximately US\$104,052, US\$124,158 and US\$143,463, respectively.

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The employees in the Group’s subsidiary in Malaysia are members of the state-managed retirement benefit scheme the Employees Provident Fund (the “EPF Scheme”) operated by the Malaysia government. The subsidiary is required to contribute a certain percentage of payroll costs to the EPF Scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions. During the years ended 31 December 2013, 2014 and 2015, the retirement benefit scheme contribution arising from the EPF Scheme charged to profit or loss were approximately US\$13,169, US\$15,906 and US\$23,585, respectively.

29. OPERATING LEASE COMMITMENTS

	Year ended 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Minimum lease payments under operating leases:			
— Land and buildings (office premises)	286,990	362,253	484,343

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

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Within one year	63,242	25,659	89,493
In the second to fifth year inclusive	27,901	—	55,003
	91,143	25,659	144,496

Operating lease payments represents rental payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed throughout the lease period.

30. CONTINGENT LIABILITIES

As at 31 December 2013 and 2014, the Group had obtained other general banking facilities from a bank for the use by the Group and certain related companies held by Mr. Chan. The banking facilities were secured by pledge of certain properties held by the related companies in favour of the bank, corporate guarantees provided by certain subsidiaries of the Group and related companies, and personal guarantees given by Mr. Chan. The details of the banking facilities granted and amount utilised by the related companies are as follows:

	At 31 December		
	2013	2014	2015
	US\$	US\$	US\$
Banking facilities granted (cross guaranteed amount)	3,140,195	3,044,820	—
Amount utilised by related companies	1,578,580	1,478,251	—

No amount was utilised by the Group in respect of the above banking facilities as at 31 December 2013 and 2014.

Such banking facilities were released on 30 September 2015 and hence the Group had no outstanding on such banking facilities granted or being utilised as at 31 December 2015.

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B. SUBSEQUENT EVENTS

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C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2015.

Yours faithfully

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong