

BUSINESS

OVERVIEW

We are a well-established SD-WAN router vendor focusing on the design, development, marketing and sale of our products and services. Our products and services are used by enterprise users, such as multinational companies, as well as industry users, including those in the transportation, retail and education industries. SD-WAN router market is a subset of the global router market. According to the Quocirca Report, the market size of global SD-WAN routers represents a small fraction of the global router market comprising only approximately 1.9% of the global router market and we are the fifth largest SD-WAN router vendor internationally in 2015 in terms of revenue value. Further, according to the Quocirca Report, the SD-WAN router market is projected to grow at a CAGR of 31.8% from 2015 to reach approximately US\$1.51 billion in 2020.

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

The table below sets out our revenue by product/service category during the Track Record Period:

	For the year ended 31 December					
	2013		2014		2015	
	Revenue US\$'000	% of total %	Revenue US\$'000	% of total %	Revenue US\$'000	% of total %
SD-WAN routers:						
Wired	6,487	48.8	7,493	41.8	6,987	32.0
Wireless	4,503	33.8	7,635	42.5	10,685	48.9
Warranty and support services:						
Embedded warranty	1,030	7.7	1,721	9.6	2,499	11.4
Additional warranty and support	802	6.1	860	4.8	1,406	6.4
Software licences.	484	3.6	237	1.3	282	1.3
Total	13,306	100.0	17,946	100.0	21,859	100.0

For each of the three years ended 31 December 2015, our total revenue was approximately US\$13.31 million, US\$17.95 million and US\$21.86 million, respectively. For each of the three years ended 31 December 2015, our net profit was approximately US\$2.57 million, US\$3.74 million and US\$3.36 million, respectively.

We sell our products and services mainly through an extensive network of distributors which consists of Independent Third Parties with whom we generally have entered into non-exclusive framework distribution agreements. As at 31 December 2015, we had 415 distributors in approximately 70 countries, an increase from 309 distributors in the beginning of 2013. For each of the three years ended 31 December 2015, the sale of our products to our distributors contributed to approximately 82.2%, 88.1% and 92.6% of our total revenue, respectively. Apart from sales through our network of distributors, we also sell our products and services to direct customers through our online store.

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

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Our R&D team, which is based at our headquarters in Hong Kong and in our Malaysia office, is mainly divided into two groups, namely the hardware R&D team and the software R&D team, and is responsible for conducting R&D and quality control. We expect the increasing use of business Internet and mobile connectivity will drive the demand for our SD-WAN routers and SpeedFusion licences. We plan to enrich our product and service portfolio in order for our end users to have reliable and high-bandwidth WAN connections. We will also continue to enhance brand recognition and expand our distribution network to promote sales. Our R&D expenses were approximately US\$3.14 million, US\$3.97 million and US\$3.91 million for each of the three years ended 31 December 2015.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths distinguish us from our competitors and contributed to our success.

We are dedicated to design, develop and market reliable and easy-to-use SD-WAN routers

We focus on the design, development, marketing and sale of SD-WAN routers. Since 2007, we have been building a comprehensive range of products and services, which enables us to meet different networking demands of our end users effectively. We strive to design and develop our SD-WAN routers with a reliable and easy-to-use software and hardware to satisfy our end users' demands. For our SD-WAN routers which are under warranty or with valid licences, our SD-WAN routers can be easily managed using our InControl cloud service, which can reduce the complexity of installation, maintenance and management of SD-WAN routers. As a standalone service, InControl has been able to increase our recurring revenue. In addition, our SD-WAN routers are supported by our patented SpeedFusion technology. We believe that SpeedFusion distinguishes us from our competitors and is capable of providing secured connections and bonding multiple WAN connections.

We do not have our own manufacturing plants. Instead, we leverage manufacturing services provided by renowned contract manufacturers, which are mainly based in Taiwan and some of them have been manufacturing information and communication technology products, for other technology companies. This allows us to better allocate our resources, reduce manufacturing overheads and maintain high product quality.

We have strong R&D capabilities

We have strong R&D capabilities with a track record for developing and commercialising innovative routers and services. All of our SD-WAN routers are developed by our R&D team. During the Track Record Period, our R&D team has developed MediaFast series routers and MAX HD4 routers. Our R&D team is committed to develop innovative technology. In November 2015, we were awarded the 2015 Deloitte Technology Fast 50 China (2015德勤高科技高成長中國50強暨明日之星) to recognised our continuous innovation excellence. As at 31 December 2015, we have been granted four patents from the United States Patent and Trademark Office and filed 161 patent applications internationally for the intellectual properties developed by our R&D team. Details of the patents obtained by are set out in the section headed “Statutory and General Information – Further Information about the Business of Our Group – 8. Intellectual property rights of our Group” in Appendix IV to this document.

Our R&D team is specialised in developing solutions that are user-centred and has the ability to cater specific end user needs. For example, MediaFast series was developed for a customer that requires caching and our R&D team was able to develop such product to meet the functionalities and requirements.

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We have been able to introduce products through technological innovations to use in a wide range of industries, including transportation, retail and education. We have also enhanced the hardware of most of our SD-WAN routers with a view to improving performance.

During the Track Record Period, R&D expenses represented approximately 23.6%, 22.1%, and 17.9% of our total revenue, respectively. Our skilled R&D team consists of international and local skilled personnel with extensive experience in their respective fields. We have one central R&D facility and one supporting testing facility located at our headquarters in Hong Kong. As at 31 December 2015, we had 51 R&D staff, comprising 10 hardware engineers and 41 software engineers, of which approximately 86.3% attained tertiary education and approximately 27.5% has master’s degree or higher qualification.

We have established an extensive distribution network

We have established an extensive distribution network which we built up in approximately ten years to facilitate the sale of our products and services. The number of distributors has increased from 309 at the beginning of 2013 to 415 as at 31 December 2015 in approximately 70 countries.

With the cooperation with our distributors, to whom we provide product education and marketing support, we take full advantage of their sales networks and geographical advantages to make available our products to a wide range of end users in different countries. We believe that such networks and advantages have strengthened our marketing ability and have helped increase the sales of our products. Our Directors consider that our extensive distribution network coverage is difficult to replicate and provides us with a competitive advantage and minimising our reliance on any single sales channel.

We have comprehensive and close relationship with our distributors and end users through our website and regular discussions through our online Community Forum

We have a comprehensive website (www.peplink.com) that showcases our products, conducts sales, and hosts an online Community Forum for our distributors, prospective customers and end users to contact us directly.

By focusing on end users’ feature requests, we are able to respond quickly and identify challenges that our end users may have encountered. Our marketing team and R&D team will then determine whether there is a market need for solving the challenge and how we should invest resources to develop products and services for such market need.

We mainly rely on our online Community Forum to communicate with our distributors, prospective customers and end users. They can post their enquiries, comments, feature requests, feedback and responses on our online Community Forum from which we seek to identify features and products that we believe our end users look for. There is no restriction on the qualification to obtain free membership of our online Community Forum.

In addition to our online Community Forum, we also discuss with our distributors regularly through conference calls, emails and visits to gather information about their feature requests and ideas for our product improvements.

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

We are a technology-focused enterprise and believe that our expertise in networking industry is key to our success. As such, we promote innovation with a view to maintaining our technological strength.

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We possess strong innovation capabilities supported by our senior management who has extensive experience in the technological, managerial and industrial fields and is dedicated to product innovation and development. Mr. Chan, the founder of our Group and the Chairman of our Board, possesses over 28 years of experience in electronic engineering and information technology industries and provides leadership and vision to our Group. A majority of our executive Directors have been with us for more than nine years and have been executing business strategies, identifying market opportunities and guiding our development of new products.

We believe that we will be able to continue to capitalise on the industry expertise, professional management skills and strong capability of our senior management team, and successfully formulate and implement our development strategies in the industry where we operate.

BUSINESS STRATEGIES

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

Continue to strengthen our ability to innovate, expand our R&D capability on new technologies and broaden functionality and application of our products

We believe that our strong R&D capabilities represent our core competency and are critical in expanding our product offering, strengthening our product features and broadening the functionality and application of our products. Our ability to keep up with the rapidly-evolving technologies for SD-WAN routers provides us with a competitive advantage in capturing growth opportunities in our industry.

Expansion of our R&D team

After the [REDACTED], we will continue to strengthen our R&D capabilities. The amount budgeted for our Group’s R&D activities (excluding capital expenditure for establishment of our R&D centre and upgrade of R&D facilities) is approximately US\$4.25 million, US\$5.34 million, US\$5.77 million and US\$6.12 million for the years ending 31 December 2016, 2017, 2018 and 2019, respectively. Our R&D expenses will be mainly used for salaries and benefits of our engineering, testing and supporting staff, product testing, certification, tooling and components expenses for R&D purposes. The expenditures for our R&D activities will be partly satisfied by the net [REDACTED] from the [REDACTED] and partly satisfied by our Group’s operating cash flow. The increase in the budgeted amount for our Group’s R&D activities from 2016 to 2019 is mainly attributable to our expansion plan of our R&D team.

Our R&D team forms our largest department. We intend to further expand it by recruiting more experienced and talented engineers with relevant skills and expertise in the industry. Approximately HK\$[REDACTED] million (equivalent to approximately US\$[REDACTED] million) of the [REDACTED] from the [REDACTED] will be used to strengthen our R&D capabilities through expansion of our R&D team. Our plan for use of the net [REDACTED] from the [REDACTED] for expansion of our R&D team is set out as follows:

<u>Year</u>	<u>Approximate amount of net [REDACTED] used</u>	<u>Description</u>
2016 . . .	US\$[REDACTED] <i>(Note 1)</i>	<ul style="list-style-type: none"> To employ one director of information technology, expected to have 10 years of relevant industry and management experience in multinational corporation with relevant university degrees, in the last quarter of 2016 to strengthen our internal information technology system and software development capabilities

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Year	Approximate amount of net [REDACTED] used	Description
		<ul style="list-style-type: none"> To employ three senior software engineers and three junior software engineers, expected to have seven years and three years of relevant industry experience and relevant university degrees, respectively, in the last quarter of 2016 in order to support our new developments
2017 . . .	[REDACTED] (Note 2)	<ul style="list-style-type: none"> To employ three senior hardware engineers and two senior network engineers, expected to have seven years of relevant industry experience and relevant university degrees, in order to strengthen our hardware and software development capabilities To employ three junior mobile application developers, expected to have three years of relevant industry experience and relevant university degrees, in order to strengthen mobile application development capabilities
2018 . . .	[REDACTED] (Note 2)	<ul style="list-style-type: none"> To employ three senior hardware engineers and three senior network engineers, expected to have seven years and five years of relevant industry experience and relevant university degrees, respectively, in last quarter of 2018 to strengthen our hardware and software development capabilities
2019 . . .	[REDACTED] (Note 2)	<ul style="list-style-type: none"> To employ two mobile application developers and three quality assurance engineers, expected to have five years of relevant industry experience and relevant university degrees, in order to strength our software development and quality assurance capabilities

Notes:

- The R&D staff are expected to be employed in the last quarter of 2016, as such the [REDACTED] to be used for the relevant salaries are comparatively low in 2016. Comparing with 2016 figures, the approximate amount of the [REDACTED] used in 2017 to 2019 are comparatively high, since those amounts include the salaries of the R&D staff employed in previous year(s).
- The amount includes the salaries of the employees employed in previous year(s).

Establishment of R&D centre and upgrade of R&D facilities

After the [REDACTED], we will continue to invest in capital expenditures for our future expansion. The amount budgeted for total capital expenditures is approximately US\$0.27 million, US\$2.51 million, US\$1.61 million and US\$0.90 million for the years ending 31 December 2016, 2017, 2018 and 2019, respectively. We will enhance our R&D facilities and upgrade our testing equipment, such as establishing a R&D centre to accelerate product development and automate our product testing. Since our existing leased properties do not have enough floor area for establishment of the R&D centre, we will need to locate a property for that purpose. Given the design of the R&D centre has to meet special requirements, relocation and renovation is relatively time consuming and costly. In light of this, we plan to purchase our own property for

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establishment of our R&D centre in mid of 2017 in order to maintain a stable environment for our continuous R&D works. The total capital expenditure for the R&D centre is estimated to be approximately [REDACTED] (equivalent to approximately [REDACTED]) which will be satisfied by the net [REDACTED] from the [REDACTED]. The total capital expenditure for the R&D centre forms part of the above 2017 budget amount for total capital expenditures. The R&D centre is expected to be ready for use by end of 2017 and will be equipped with infrastructure needed to simulate complex thousand-site SD-WAN networks, giving our R&D team the unprecedented ability to quickly observe the effects of the improvements. It will also contain fully automated regression testing facilities for SpeedFusion networks which will provide our developers with a valuable tool for testing the integrity of new software. Further, it will perform tests in an efficient manner, freeing our resources to focus on new innovations to strengthen our technological leadership.

In addition to the establishment of our R&D centre, we will also upgrade our R&D facilities. The total capital expenditure budgeted for upgrade of our Group’s R&D facilities is approximately US\$0.14 million, US\$0.52 million, US\$1.32 million and US\$0.52 million for the years ending 31 December 2016, 2017, 2018 and 2019, respectively. The total capital expenditure for upgrade of our R&D facilities will be satisfied partly by the [REDACTED] from the [REDACTED] and partly by our Group’s operating cash flow and/or bank borrowings. Approximately [REDACTED] (equivalent to approximately [REDACTED]) of the [REDACTED] from the [REDACTED] will be used to upgrade our R&D facilities. Our plan for use of the [REDACTED] from the [REDACTED] for upgrading our R&D facilities is set out as follows:

<u>Year</u>	<u>Approximate amount of net [REDACTED] used</u>	<u>Description</u>
2016 . . .	[REDACTED]	<ul style="list-style-type: none"> To upgrade our design software and hardware for our R&D facilities at our headquarters in Hong Kong in order to cope with the continuous advancement of technology
2017 . . .	[REDACTED]	<ul style="list-style-type: none"> To install new computers, servers, design software and middleware for our R&D team in anticipation of an increased R&D capacity requirement arising from anticipated development projects and to replace old equipment
2018 . . .	[REDACTED]	<ul style="list-style-type: none"> To take delivery and install one unit of fully-automated machine and to purchase two sets of equipment for our product testing and quality assurance facility at our headquarters in Hong Kong
2019 . . .	[REDACTED]	<ul style="list-style-type: none"> To install new computers, servers, design software and middleware for our product development purpose and to purchase one set of equipment for product testing and quality assurance facility at our headquarters in Hong Kong

Introduce more new products and improve our cloud services

We will continue to engage in R&D to address new business opportunities. We aim to invest our capabilities to focus on technologies for emerging high-growth SD-WAN applications such as developing hardware platforms that can support greater throughput and more advanced features. Incorporating next generation semiconductor chips will enable our SD-WAN routers to better address the higher throughput requirements that fibre connections present. We will also make the investments necessary to position ourselves as one of the first to take advantage of upcoming

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opportunities in the mobile market. We will develop support for the next generation of wireless technology — 5G, and introduce SD-WAN routers with lower power consumption with smaller and lighter form factors. This is particularly valuable in vehicular deployments where space and power are both at a premium.

We will continue leveraging the synergies created between our SD-WAN routers, SpeedFusion and InControl cloud service to create an easy-to-manage ecosystem that attracts end users with large SD-WAN routers deployments. We believe that this will continue to bring us opportunities in that we can generate recurring revenue from the use of InControl. In view of this, a continuous improvement in our software development of InControl and investment in the number of cloud servers for it will be made. Thus, the scalability and stability of InControl can continue to be improved in order to support more concurrent users and devices.

Protect and acquire intellectual properties rights

Our ability to develop our own advanced technologies will generate innovations, resulting in a continuous increase in our patents and patent applications. We consider our patent portfolio as an important factor in ensuring our competitiveness and a critical entry barrier for our competitors. As such, we will continue to expand our patent portfolio to protect our intellectual property rights and will explore the possibility of acquiring intellectual property rights that are relevant to our business. As at the Latest Practicable Date, we had not identified any suitable target for such acquisition.

Continue to enhance brand recognition and expand the breadth and depth of our international distribution network

Improve our brand recognition and strengthen our marketing team

We seek to improve our brand recognition through:

- business development efforts of our partners — we will enhance our partner education by hosting partner events where they can receive in-depth product and sales training. We will continue to support their attendance to internationally recognised trade shows by sponsoring them financially as well as providing professional booth and presentation design services. Our distributors can then focus on presenting our products to prospects, closing deals, and improving our brand recognition;
- hiring technology evangelists in specific sectors and industries — these technology evangelists will leverage their knowledge and connections to promote our products and solutions forward within their sectors and industries through talks, presentations, articles, user demonstration, and recorded demonstration; and
- placing advertisements for our products and services in magazines, blogs and social networks — this should help us to reach potential prospects.

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We also seek to strengthen our marketing capabilities, therefore, approximately [REDACTED] (equivalent to approximately [REDACTED]) of the net [REDACTED] from the [REDACTED] will be used to expand our marketing team and purchase additional computer design system. Our plan for use of the net [REDACTED] from the [REDACTED] for improving marketing capabilities is set out as follows:

<u>Year</u>	<u>Approximate amount of net [REDACTED] used</u>	<u>Description</u>
2016 . . .	US\$[REDACTED] <i>(Note 1)</i>	<ul style="list-style-type: none"> To employ one senior sales and one marketing manager, expected to have five years of relevant industry experience and relevant university degrees, in the last quarter of 2016 to strengthen our marketing capabilities and to enhance our brand recognition in overseas market To employ two experienced and reputable marketing executives, expected to have 10 years of relevant industry experience and relevant university degrees, in the last quarter of 2016 in the year ending 31 December 2016 in order to support and promote our new developments, as well as to enter into new overseas markets
2017 . . .	US\$[REDACTED] <i>(Note 2)</i>	<ul style="list-style-type: none"> To employ two senior sales, one marketing manager, two senior technical marketing engineers and one designer, expected to have five years, five years, seven years and three years of relevant designing experience and relevant university degrees, respectively, in order to strengthen our marketing capabilities to improve website/online e-commerce platform To purchase additional computer design systems in order to strengthen our pre-sales, design and marketing capabilities

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Year	Approximate amount of net [REDACTED] used	Description
2018 . . .	[REDACTED] (Note 2)	<ul style="list-style-type: none"> ● To employ one experienced director of sales and marketing, expected to have 10 years of relevant industry and management experience in multinational corporation with relevant university degrees, in third quarter of 2018 to strengthen our marketing capabilities ● To employ one senior technical marketing engineer and one marketing manager, expected to have seven years and five years of relevant industry experience and relevant university degrees, respectively, in order to strengthen our marketing capabilities ● To purchase additional computer design systems in order to strengthen our pre-sales, design and marketing capabilities
2019 . . .	[REDACTED] (Note 2)	<ul style="list-style-type: none"> ● To pay salaries for the employees employed during 2016 to 2018

Notes:

1. The sales and marketing staff are expected to be employed in the last quarter of 2016, as such the [REDACTED] to be used for the relevant salaries are comparatively low in 2016. Comparing with 2016 figures, the approximate amount of the [REDACTED] used in 2017 to 2019 are comparatively high, since those amounts include the salaries of the sales and marketing staff employed in previous year(s).
2. The amount includes the salaries of the employees employed in previous year(s).

Improve our online e-commerce platform

We plan to improve e-commerce platform to facilitate the collaboration between us and our distributors and direct customers in a more effective manner. This platform will make it easier to conduct matters such as products purchases, sales tracking, deal registration, review of sales history, and partner communications. We aim to make it easy for our distributors and direct customers to manage all sales processes themselves. It is expected that this will help us in dealing with increasing number of distributors and direct customers and sales without increasing our administrative overhead.

Invest in content development

Further, we plan to strengthen our brand recognition by producing more contents for our distributors, direct customers and end users by hiring more marketing staff. This will allow us to create more advertisements, product videos, customer case studies, and installation videos to demonstrate the reliability, performance, and ease of use of our SD-WAN routers. We also plan to develop templates and a cloud based platform for our partners to upload their own videos.

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Improve our website

We will improve our website to make it more mobile friendly and reduce the effort required when updating it. We will also strengthen our search engine optimisation efforts by optimising our existing website contents to increase the prospects of finding us online through search engines.

PRODUCTS AND SERVICES

Our main products are wired and wireless SD-WAN routers which we design and develop. We offer both entry level and high-capacity SD-WAN routers. These products are capable of using our patented and proprietary technology, namely SpeedFusion, and can be managed by our cloud service. In addition, we grant software licences for managing our devices, and add-on features as well as provide warranty and support services in connection with our SD-WAN router products.

SpeedFusion enables our SD-WAN routers to create secured private networks and to bond multiple WAN connections to increase site-to-site bandwidth and reliability. With SpeedFusion, in case of failure or network congestion at one or more WAN connections, other WAN connections can be used to carry network traffic.

InControl is our cloud service for managing and monitoring our SD-WAN routers. With InControl, end users are provided with advanced management tools to configure, manage, log, analyse and visualise the status of their devices. Status of their devices is displayed in charts and reports that are easy to comprehend. The number of devices registered with InControl has increased by approximately 90 folds from approximately 500 in 2013 to approximately 45,000 in 2015.

Wired router

Our wired routers, which comprise our Balance series and MediaFast series, are capable of connecting multiple devices and end users’ networks to the Internet through multiple WAN connections. The average selling price of wired routers is approximately between US\$670 and US\$792 during the Track Record Period.




Balance series

Our Balance series routers allow end users to have multiple WAN connections connected to WAN interfaces of the routers, monitor bandwidth usage, control website access, enjoy quality of service for VoIP and e-commerce as well as manage the access points we offer. A Balance series router deployed at a headquarters that supports multiple SpeedFusion connections can act as a central hub and link with Balance series routers deployed at different branch office. With our Balance series routers, data, voice, and video communications between these locations are kept confidential across the public Internet.

We believe that our Balance series routers have enabled most of our end users to replace expensive private leased lines by using multiple low-cost WAN connections without compromising network reliability.

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The table below sets out the selected models of our Balance series routers:

Selected models of Balance series routers	Features
<p>Balance 30</p> 	<ul style="list-style-type: none"> • An entry level SD-WAN router, recommended for small office and branch use • Contain three Ethernet WAN ports
<p>Balance 580</p> 	<ul style="list-style-type: none"> • A high-capacity SD-WAN router, recommended for mid-size business use • Contain five Ethernet WAN ports • Possess high availability capability
<p>Balance 2500</p> 	<ul style="list-style-type: none"> • A high-capacity SD-WAN router, recommended for large enterprise and campus use • Contain twelve Ethernet WAN ports • Possess high availability capability • With capability of connecting to optical fibre based LAN

MediaFast series

Our MediaFast series routers are capable of caching and can also be configured to download contents in advance during off-peak hours. Web contents, such as videos, audios and images, can be cached in the internal storage of MediaFast series routers. When an end user needs to access the web contents, the web contents will be retrieved from the internal storage. We believe that our MediaFast series routers provide students at education institutions with uninterrupted learning by accessing learning materials anytime from the internal storage of MediaFast series routers.

The table below sets out the selected models of our MediaFast series:

Selected models of MediaFast series routers	Features
<p>MediaFast 200</p> 	<ul style="list-style-type: none"> • An entry level SD-WAN router • Contain two Ethernet WAN ports • With internal storage of 120GB SSD
<p>MediaFast 750</p> 	<ul style="list-style-type: none"> • A high-capacity SD-WAN router • Contain seven Ethernet WAN ports • With internal storage of 1TB SSD

Wireless router

Our wireless routers comprise MAX BR series and MAX HD series. Some of the models in the MAX BR and MAX HD series are specifically designed for vehicular deployments and could be used for fleet tracking and management through our InControl cloud service. The average selling price of our wireless routers is approximately between US\$213 and US\$263 per unit during the Track Record Period.

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MAX BR series

Our MAX BR wireless routers support multiple SIM cards. They can be configured to switch from using one SIM card to another SIM card according to different criteria, including wireless network reliability and data usage.

MAX HD series

Our MAX HD series wireless routers are embedded with multiple 4G LTE modems and allow simultaneous wireless WAN connections through multiple wireless networks. The wireless WAN connections can be bonded together using our SpeedFusion technology. This allows better reliability, increase bandwidth, and wireless coverage compared to using only one 4G LTE modem. Our MAX HD2 routers are certified to have shock and vibration resistance and are particularly suitable for railway application.

The table below sets out the selected models of our wireless routers:

Selected models of MAX series routers	Features
<p style="text-align: center;">MAX BR1</p> 	<ul style="list-style-type: none">● An entry level SD-WAN router● Contain one embedded 4G LTE modem● Support two SIM cards and connect to one wireless network
<p style="text-align: center;">MAX HD4</p> 	<ul style="list-style-type: none">● A high-capacity SD-WAN router● Contain four embedded 4G LTE modems● Support eight SIM cards● With capability of connecting to four different wireless networks simultaneously

Software licences and warranty and support services

We grant software licences and provide warranty and support services in connection with our SD-WAN router products.

Software licences

In order to provide more flexibility to our distributors and end users, our products contain features, such as SpeedFusion and InControl, which we can license to our distributors and end users.

For some of our SD-WAN routers, SpeedFusion is an optional feature. For end users of our products who want to use our SpeedFusion, they can purchase licences from us to activate SpeedFusion. A one-time licence fee for SpeedFusion is in the range of approximately US\$600 to US\$1,000 per device during the Track Record Period.

InControl is provided to end users of our SD-WAN routers that are still under warranty coverage at no additional cost and at an annual fee per device for routers where the warranty period has expired. The annual licence fee for InControl was approximately US\$25 per device during the Track Record Period.

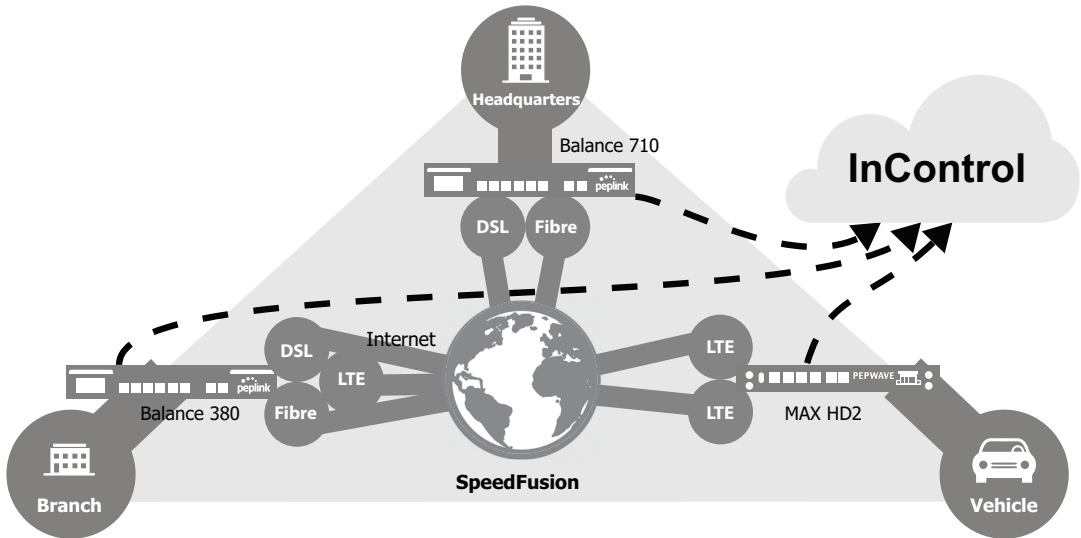
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Warranty and support services

We provide embedded warranty that comes with the sales of our SD-WAN routers. Besides, we offer additional warranty and support services to end users who require a longer warranty and support period. Having included in additional warranty and support services, end users of our products can subscribe to our advance hardware replacement support service pursuant to which we will send them free replacement unit once the hardware defect is confirmed. For details about our warranty policy, please refer to the paragraph headed “Customers and Sales – After-sales Services” in this section.

Integration of SD-WAN routers, SpeedFusion and InControl

The diagram below illustrates how our SD-WAN routers, SpeedFusion technology and InControl cloud services can be used together. Each of our SD-WAN routers (Balance 710, Balance 380 and MAX HD2) can form SpeedFusion with each other. This ensures that, secured connections can be established among the headquarters, branches and vehicles. Further, Balance 710, Balance 380 and MAX HD2 can be managed by InControl to reduce administrative efforts.



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Application Scenarios

We set out below the major industries where our SD-WAN routers are used:



Public Safety

Public safety sectors have strict demand and review processes when procuring routers suitable for deployment. Our MAX BR1 routers are ruggedised and perform as required. They have been used by police departments, fire departments and other emergency response units in different countries. The most common application is vehicular wireless connectivity where multiple wireless connections are employed to ensure service vehicles stay connected. Our wireless routers are also used for adding wireless backhaul to remote CCTV networks.



Education

It is common for schools network to become slow and congested during lessons due to students’ simultaneous access of teaching materials to the schools’ network. Our MediaFast routers can reduce network traffic to ease the load on the network. Teachers can store frequently accessed education content, including high definition media, mobile applications, web content and mobile device updates in advance. This reduces network congestion during lessons and provides students with a much improved education content user experience.



Retail

The retail sectors generally have to keep their branch networks up and running for applications such as enterprise resource planning, terminal services and point-of-sale systems. By deploying wireless routers, our end users have been able to save significant amount of network costs at their branches by replacing or supplementing their MPLS lines with inexpensive WAN connections.



Industrial, Construction, Utilities

The industrial, construction and utilities sectors typically have sites that are remote, isolated or temporary in nature. End users in this sector have been deploying our wireless routers to quickly setup WAN connection through wireless connections. For areas where wireless connectivity coverage is intermittent, our customers have been deploying our MAX HD routers for more bandwidth and reliability by bonding multiple wireless networks through our SpeedFusion technology.



Hospitality

A hospitality customer usually requires a network infrastructure that can provide fast Internet access to hundreds of guests. By deploying our Balance series routers, hospitality end users are able to prioritise and separate network traffic to prevent congestion, and use 4G LTE USB modems for an additional resilience and bandwidth.



Broadcasting and Media

Broadcasters, including journalists and reporters, usually rely on wireless networks to stream live content back to stations, especially for live broadcast and sports events. Our MAX HD2, MAX HD4 and MAX On-The-Go routers have been selected by end users to employ multiple wireless networks to stream live multimedia contents.

BUSINESS



Maritime

Vessels often roam between shore networks, wireless networks and satellites. Vessels which have been deploying our wireless routers to improve offshore communications, transmitting oceanographic research data and providing Internet access to its crew and passengers.



Transportation

Our MAX HD series routers with its multiple embedded wireless modems can keep passengers connected to high speed Internet. Fleet management is also built-in and available to transportation operators via InControl.

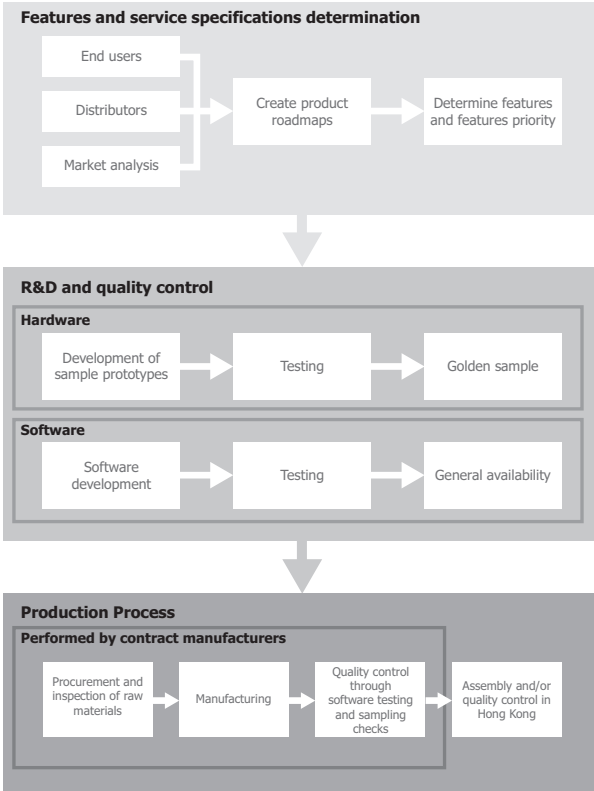


Energy

It is crucial for stakeholders in the energy sector to access their supervisory control and data acquisition systems reliably and remotely. Our wireless routers help our customers modernise their networking communications part of their supervisory control and data acquisition systems provide them with reliability and resiliency over wireless connections while enabling real-time monitoring and controls.

RESEARCH AND DEVELOPMENT AND PROCESS

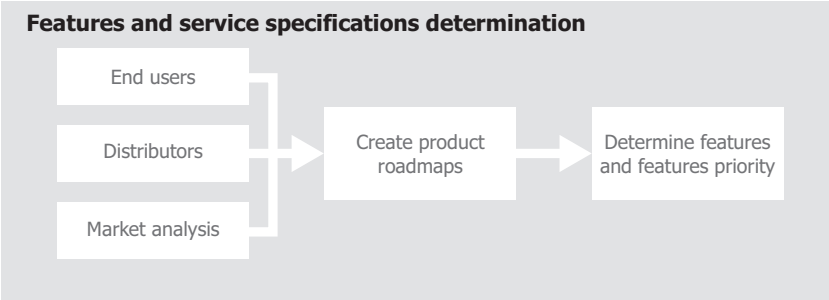
The main stages involved in the development of our products are set out below:



BUSINESS

The main stages improved in the development of our products are set out below:

Product and service specification determination

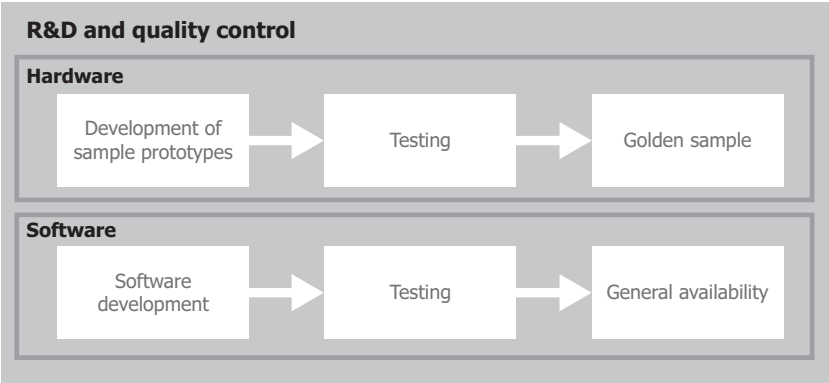


We determine the specifications of our products and services through the following:

- End users – we mainly engage with end users directly through our online Community Forum to understand the challenges and requirement of our end users.
- Distributors – we obtain feedback from our distributors on their local markets and technology trends.
- Market analysis – we conduct our own market analysis to anticipate upcoming market demand, market trends and new growth opportunities.

Based on the information gathered, our marketing team regularly updates our product roadmaps and shares them with our distributors. Further, our marketing team will discuss with our distributors on whether the product roadmaps will help us sell more of our products to customers. Once a product roadmap is determined or updated, our marketing team will determine the features of a particular product. A specification will then be jointly created by our marketing team and our R&D team. The close interaction between our marketing team and our R&D team allows us to act quickly to seize upon new market opportunities. The development of the specification may take a few months after we have gathered the relevant information from end users, distributors and market analysis.

R&D and quality control



Our R&D team, which is based at our headquarters in Hong Kong and our office in Malaysia, is mainly divided into two groups, namely the hardware R&D team and the software R&D team.

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Hardware R&D and quality control

We usually commence a hardware R&D project when the specification requires a new form factor, a new communication interface or the use of new semiconductor chips. In general, our hardware R&D engineers design products using a modular approach.

During the design process, our hardware R&D team usually breaks a single product down into multiple components which can be assembled together with ease to become the final product. Components include printed circuit board assembly and casing. There are other components that we may source from suppliers based on the required specifications, including power supply and antennas.

A test plan will first be developed by our hardware R&D team based on the specification of the products. Our hardware R&D team will then develop a few sample prototypes based on the specification for quality control tests, including functional test and stress test. The sample prototypes will have most of the features developed and be built in the specified form factor.

We appoint a contract manufacturer to make the sample prototypes by providing them with manufacturing information, including design files and testing procedures. We typically appoint the same contract manufacturer to make the golden sample and manufacture the final product.

The purpose of quality control tests is to determine whether the sample prototypes will perform according to the specifications under different environments.

We perform functional tests to ensure that the functions of routers are performed as specified in the specifications. Data inputs are fed to the routers and then data outputs are examined. If the data outputs match the expected results, the sample prototype passes the functional test.

During the stress test, we perform:

- temperature test — the sample prototypes are put into oven which is set to 65°C, and freezer which is set to -40°C, for 72 hours, respectively, to ensure the sample prototypes will be able to perform under such harsh temperature;
- hardware reboot test — the sample prototypes are turned on and off continuously for about 500 times to ensure the sample prototypes can still perform after frequent hardware reboot;
- software reboot test — the sample prototypes are rebooted through software continuously for about 500 times to ensure the sample prototypes can still perform after frequent software reboot; and
- throughput test — a large amount of network data is sent to the hardware device continuously for a period of 72 hours to ensure the sample prototypes will perform according to the specification amid heavy network traffic.

After the quality control tests, we may identify areas for improvement, including the performance of our products with a view to ensuring that our products are able to meet the relevant specification based on the sample prototypes, in which case we will instruct the contract manufacturer to make new sample prototypes. We will perform a quality control test on new sample prototypes upon us receiving them from our contract manufacturer. We will repeat the development of sample prototypes and quality control test processes until the target specification is met and no quality issue is identified. The sample prototypes that meet the

BUSINESS

target specification will be the golden sample. Our contract manufacturer will then manufacture the products, subsystems and components according to the design associated with the golden sample.

Software R&D and quality control

We regularly introduce new software-based features for our SD-WAN routers. The new software for our routers usually adds new features to our routers and fixes program bugs found in existing software. When a specification for a new version of software is determined, software development will commence. If a program bug is found, our software R&D team will try to fix the bug during the development of the new version of software.

Before we release the new version of software to our end users and to our contract manufacturers, we generally conduct the following tests:

- feature test — we conduct tests for each of the new features introduced by the new version of software;
- sanity test — we generally test particular components of the new version of software to ensure that new features can function and program bugs have been fixed;
- smoke test — we conduct this test to ensure that the critical features introduced by the new version of software are performing as specified and whether the program bugs have been fixed as well as verify the stability of the new version of software; and
- general availability test — we conduct tests on the new version of software comprehensively.

We perform the above tests through our testing personnel of our R&D team in Hong Kong. As we have different models of SD-WAN routers, the new version of software is uploaded to these different models during the tests. In addition, different network environments will be set in our testing facility in Hong Kong in order to conduct the tests.

When the new version of software is available, we will proceed to create a release candidate version of the software. End users can install the release candidate version to our products to try and test the new version of software. After the release candidate version has been released for a period of time and no issue is reported by our end users, we will create a generally available version of the new software and encourage our end users to install it on their SD-WAN routers.

We will send new version of software to our contract manufacturers for installing into our products that they are manufacturing. The quality control team of our contract manufacturers can conduct tests on our products using our latest software.

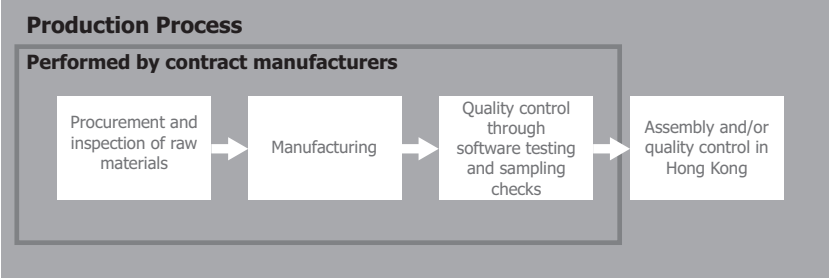
In addition, our distributors and end users can download the new version of software from our website directly and then install the new version of software to our products.

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

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As at Latest Practicable Date, our R&D team consisted of 55 members most of whom attained tertiary education or higher.

Production Process



We outsource the manufacturing process of our SD-WAN routers to contract manufacturers that are Independent Third Parties. For further details relating to our contract manufacturers, please refer to the paragraph headed “Suppliers” in this section.

We instruct contract manufacturers to manufacture products and components for us based on our product specifications. The whole manufacturing process takes approximately three months. Our contract manufacturers may purchase the raw materials, including CPUs, required for the manufacturing process, based on the specification of our products. Under certain circumstances, we may procure and purchase the raw materials by ourselves and then supply our raw materials to the contract manufacturers.

- Our contract manufacturers and we, in the case where we procure and purchase raw materials, will inspect the raw materials for any defect before the raw materials are used in the manufacturing process.
- Most of our final products and components are shipped to our Hong Kong warehouse for storage before we assemble them.

We have an assembly team in Hong Kong to perform quality control on our products and components manufactured by our contract manufacturers and mainly assemble newly developed products due to small shipping volume during their initial product launch before gaining market acceptance.

For finished goods and components, we generally conduct quality check on randomly selected products once we received the shipment from our contract manufacturers. For products assembled by our assembly team, such as MAX HD4, we will conduct quality check after the assembly. The assembly process for our newly developed products performed by our assembly team includes labelling, packaging, and assembling components, such as wireless communication modules, printed circuit board assembly, casing and antenna. We believe that assembly team in Hong Kong allows us to customise our products more effectively and reduce cost of newly developed products. The amount of revenue for these newly developed products is generally insignificant. When newly developed products have become mature and successfully accepted by the market, we may then delegate the assembly process to contract manufacturers. For details regarding our quality control, please refer to the paragraph headed “Quality Control” in this section.

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CUSTOMERS AND SALES

Our customers are distributors and direct customers who purchase our products and services directly from us. We mainly sell our products and warranty and support services provided by us through an extensive network of distributors which consists of Independent Third Parties in different regions of the world. Direct customers are mainly end users who purchase our products and services directly from us. The end users of our products and services include enterprises and organisations in the public safety, education, retail, industrial construction, utilities, hospitality, media and broadcasting, energy, maritime and transportation sectors. We recognise our revenue once the shipment of products has occurred or the title and risk of loss have passed to our customers.

The table below sets out the breakdown of the sale of our products and services to our customers under each of our sales channels during the Track Record Period:

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

As at 31 December 2015, we had an extensive network of distributors in particular the North American, EMEA and Asian regions. For each of the three years ended 31 December 2015, approximately 47.4%, 41.9% and 42.0% of our total revenue was derived from North America whereas our revenue from other regions mainly derived from EMEA and Asia.

The table below sets out the breakdown of our revenue which we derived from different regions of the world during the Track Record Period:

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

Distributors

A majority of our sales are conducted through our distributors. We believe that the sales of products under our brands through distributors is an industry norm as some of our distributors sell products of similar nature under different brand names. Our relationships with all distributors are seller/buyer relationship. We retain no ownership control over the products sold to our distributors. Our distributors are responsible for managing their own inventories and anticipate demands from their customers and leads. We typically give at least 30 days advance notice to our distributors when we plan to introduce a new product model or in case of price change, to assist them in managing their inventories and marketing plans. Our distributors place orders with us on a transaction basis and the revenue from the sales of our goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to our distributors. Our Directors believe that the current distribution model allows us to focus on the design, development, marketing and sales of our products and services.

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We do not impose any initial purchase requirements against our distributors. As mentioned above, our distributors are responsible for managing their own inventories as we do not have ownership control over the products they sell and are not responsible for their inventory level. We adopt a stringent credit control policy on our trade receivables and do not generally grant credit terms to our new distributors and require full payment by our distributors before we deliver our products to them. We may extend credit to certain distributors on a case-by-case basis and the credit term period we typically grant ranges from 30 days to 60 days. As at the Latest Practicable Date, we received all of our trade receivables as at 31 December 2015. In addition, we communicate with our distributors to understand their sales performance. According to our distribution agreements, our distributors are generally required to provide sales data to us. We generally have from time to time requested the stock level reports from some of our major distributors during the Track Record Period since mid of 2014 so as to monitor their respective inventory level. We believe that this does not only enable us to estimate the anticipated demands of our products from these distributors, but also allows us to assess if our distributors have unnecessary high inventory level of our products even if we are not responsible for their inventory level. Our distributors (including distributors with whom we had ended our distribution arrangements) are not entitled to return our products (including unsold or obsolete goods), unless the products are defective. During the Track Record Period, we did not experience any material return of products from our customers. For each of the three years ended 31 December 2015, the amount of sales return from our customers were approximately US\$8,000, US\$79,000 and US\$49,000, respectively. Given the above, we do not consider that channel stuffing on the part of our distributors is likely to occur.

Selection of distributors

We carefully select our distributors based on various factors, including the quality of their supporting service their reputation in the industry, their experience in providing supporting service of similar products and their business scale. When we evaluate the qualification and capability of a potential distributor, we carry out the following procedures:

- review the reputation and experience of the potential distributors;
- discuss with the potential distributors about their sales plan and strategy for our products;
- review potential impacts on our existing distributors in the same region to avoid unhealthy cannibalisation among distributors; and
- determine revenue target and sales territory.

We will execute a distribution agreement with the potential distributor if we are satisfied with the evaluation result.

Terms with distributors

During the Track Record Period, we had generally entered into framework distribution agreements with distributors who had transactions with us. We had not entered into any long-term sales contract with our distributors and direct customers.

BUSINESS

The principal terms of the above framework distribution agreements are set out below:

Term	One to three years, which is renewable
Territories	Geographical location(s)
Warranty	One year, which can be extended
Obligation of our Group .	We should use commercially reasonable efforts to deliver our products at the dates specified in our written acceptance of orders
Obligation of our distributors	<ul style="list-style-type: none">● Promote and market our products to customers in their territories● Provide technical support to end users● Not to derogate our trademarks● Comply with all laws and regulations
Payment	We accept payments by telegraphic transfer and credit card
Confidentiality	Distributors are not allowed to disclose our confidential information to third parties without our consent
Credit	In general, we do not grant credit terms to our new distributors. All payments should be made before the shipments. We may extend credit to certain distributors on a case-by-case basis. For details of our credit policy, please refer to the paragraph headed “Customers and Sales – Credit Policy” in this section
Minimum purchase amounts	Some of our distributors have their own minimum purchase amounts. The amount, if any, are generally mutually agreed between us and our distributors before the distribution agreements are executed. If a distributor does not meet the amount, we are allowed to terminate the distribution agreement
Obsolete/inventory return	We do not accept product return (including obsolete products) or product rotation unless the product is defective
Geographically exclusivity	We do not generally offer geographical exclusivity to our distributors for the sale of our products
Pricing of our products . .	We do not generally allow our distributors to advertise our products at a price below our suggested prices. We believe that this arrangement helps avoid unhealthy cannibalisation among our distributors
Sales and expansion targets	We do not impose sales and expansion targets on our distributors
Termination arrangement	Upon termination, our distributors should pay us for all products delivered irrespective of the date of delivery and all other amounts due. Our distributors should work with us in good faith for a transition plan to ensure post-termination support for end users who purchased our products from them

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Grounds of termination . . . We may terminate the distribution agreement if our distributor (i) breaches any material terms or condition of the distribution agreement; (ii) becomes insolvent or is unable to repay its debts; and (iii) violates the terms of using our confidential information or trademark. We or our distributor may also terminate the distribution agreement by giving a 30-day advance notice

Use of our trademarks . . . We allow our distributors only to use our trademarks to promote and market our products and services

As at the Latest Practicable Date, none of our top five distributors for each of the three years ended 31 December 2015 had any exclusivity in selling our products and services in any territories.

In order to reward our distributors for their commitments and to manage competition among distributors in a particular region, we have an online deal registration system (the “**DRS**”). Our distributors are encouraged to register their deals with us through the DRS. Once a deal is registered, our distributor may have price advantage over other distributors as it has a set period of time to close the deal and is provided with additional price discounts from us to close the deal. Although the DRS may not be able to completely avoid conflicts among our distributors as our distributors may not register their deals with the DRS and distributors registered or not registered with the DRS may approach the same customer, DRS allows us to systematically (i) reduce conflicts among our distributors so that our distributors can focus on selling to the registered potential buyer without the concern that another distributor may offer our products at a lower price; (ii) know who the end users of our products are; and (iii) manage channel conflict and assist our distributors to close deals when necessary.

Apart from having DRS to avoid conflicts among our distributors in a particular region, we also endeavour to observe any cannibalistic act of our distributors to jeopardise the market through: (i) our regular communication with our distributors to understand their sales performance; (ii) selection of distributors; and (iii) prohibiting our distributors to advertise our products at a price below our suggested price.

Having knowledgeable distributors are likely to increase sales and effectiveness of our customer services. Since 2013, we have been encouraging our distributors and their staff who possess technical knowledge of our products and networking technology to be certified by us as a Peplink Certified Engineer. Our Directors believe that this may positively influence our distributors and their staff to recommend our products and services when our distributors provide their own services, such as network design consultation service and equipment installation service.

As at 31 December 2015, we had more than 200 Peplink Certified Engineers. Peplink Certified Engineers of our distributors help promote our products and services and to provide pre-sale and after-sale technical supports. For new version of software, we educate our distributors on the benefits of upgrading to the new version and provide technical supports to their customers who are interested in using the new version. Distributors and end users can download the new version of software from our website directly.

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The table below sets out the movements in the total number of our distributors during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
Beginning of the year	309	314	320
Additions.	93	85	120
Terminations/expirations.	(88)	(79)	(25)
Total number of distributors as at the end of the year	314	320	415

Note: The numbers of distributors that purchased products from us during the Track Record Period were 302, 286 and 364 for each of the three years ended 31 December 2015, respectively.

During the Track Record Period, the additions of new distributors mainly reflected our strategic expansion of our distribution network in EMEA and Asian regions in order to reduce our reliance on North American market and the termination/expiration of our distributors mainly reflected the expiration or termination of unsatisfactory or inactive distributors mainly in North American region.

Direct Customer

Our direct customers may purchase our products and services directly from us.

Pricing Policy and Seasonality

We price our products on a cost-plus basis as well as considering product model, market price and market condition. For models to be developed, we assess the current material costs and adjust for possible price fluctuation. For models we previously produced, we make reference to material costs and make adjustments for the current market price for the same materials.

We publish suggested price list for our products. During the Track Record Period, our business was not affected by seasonality although we observed that we typically sold more products during the last quarter of each year. We typically provide discount to our distributors who have control on the prices at which they sell to their customers. The discount we give to each distributor varies and is subject to the market condition in relevant countries or regions. Most of our sales are denominated in U.S. dollars. Any appreciation in the value of U.S. dollars against other currencies may make our products more expensive for some of our customers as well as reduce the competitiveness of, and the demand for, our products.

Credit Policy

We adopt a stringent credit control policy on our trade receivables. We generally do not grant credit terms to our new distributors and direct customers, and generally require full payment by cheques, telegraphic transfer or third-party online credit card payment gateways before the products are delivered.

Under certain circumstances where we decide to grant credit terms to some of our customers based on our relationship and potential business opportunities with these distributors, the credit term period we grant generally ranges from 30 days to 60 days. We may extend credit term to certain of our customers on a case-by-case basis. We assess impairment of our trade receivables based on our analysis of collectability and aging status of the trade receivables from time to time on a case-by-case basis.

BUSINESS

Five Largest Customers

Sales to our five largest customers accounted for approximately 29.7%, 29.6% and 39.7% of our total revenue for each of the three years ended 31 December 2015, respectively. Further, sales to our largest customer accounted for approximately 13.1%, 14.4% and 20.5% of our total revenue for the corresponding years, respectively. We had at least one to seven years of business relationship with our five largest customers during the Track Record Period. All of the five largest customers are Independent Third Parties.

Our five largest customers in 2013 and 2014 were mainly located in North America, which was our major market. In 2015, due to expansion of our EMEA market, two of the five largest customers were from North America and two were from EMEA. We believe that the increase in percentage of sales from the largest and five largest customers in 2015 when compared to 2014 was primarily due to (i) the largest customer, being our North American distributor, was willing to commit more resources including manpower and inventory to promote, market and support our products which made them our accredited distributor in North America over the past few years; (ii) the growing demand of our MAX BR and MAX HD series in North America, the largest distributor can offer a short lead time to customers which attracted more sales in return; and (iii) the industry trend of expanding 4G LTE networks globally and the EMEA distributors were able to resell our products to large projects such as transportation and community service in EMEA region during 2015.

None of our Directors, their respective close associates or any Shareholder who, to the best knowledge of our Directors, own more than 5% of our issued Shares had any interest in any of our five largest customers during each of the three years ended 31 December 2015, respectively.

A summary of the five largest customers during the Track Record Period is set out in the table below:

For the year ended 31 December 2013

Rank	Name of customers	Background and scope of business	Duration of business relationship	Type of products sold/services rendered	Credit terms	Payment terms
1	Customer A	Based in the U.S. and Netherlands. It provides computer hardware and IT solutions and support to the international business community.	5 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer
2	Customer B	Based in the U.S. It is a wholesale distributor of wireless networking products. It distributes products around the world through a global network of resellers.	4 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer
3	Customer C	Based in the U.S. It is an online store selling a wide variety of goods to many countries.	2 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer
4	Customer D	Based in the U.S. It runs an e-commerce portal to sell mobile broadband products to worldwide customers.	5 years	SD-WAN routers, warranty and support service	Net 45 days	Cheque
5	Customer E	Based in Taiwan. It focuses on OEM services for information and communication technology products, including routers.	7 years	Software licence	Net 30 days after receipt of full payment from a project in which Customer E was involved (Note)	Telegraphic transfer

Note: Customer E licensed software from our Group in 2013. Customer E is also one of our major suppliers. For details of the transaction, please refer to the paragraph headed “Suppliers — Our major supplier who is also our major customer” in this section.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED "WARNING" ON THE COVER OF THIS DOCUMENT.

BUSINESS

For the year ended 31 December 2014

<u>Rank</u>	<u>Name of customers</u>	<u>Background and scope of business</u>	<u>Duration of business relationship</u>	<u>Type of products sold/services rendered</u>	<u>Credit terms</u>	<u>Payment terms</u>
1	Customer A	Based in the U.S. and Netherlands. It provides computer hardware and IT solutions and support to the international business community.	5 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer
2	Customer C	Based in the U.S. It is an online store selling a wide variety of goods to many countries.	2 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer
3	Customer D	Based in the U.S. It runs an e-commerce portal to sell mobile broadband products to worldwide customers.	5 years	SD-WAN routers, warranty and support service	Net 45 days	Cheque
4	Customer F	Based in Malaysia. It specialises in delivering a wide range of advanced networking solutions and products in Malaysia.	5 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer
5	Customer B	Based in the U.S. It is a wholesale distributor of wireless networking products. It distributes products around the world through a global network of resellers.	4 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer

For the year ended 31 December 2015

<u>Rank</u>	<u>Name of customers</u>	<u>Background and scope of business</u>	<u>Duration of business relationship</u>	<u>Type of products sold/services rendered</u>	<u>Credit terms</u>	<u>Payment terms</u>
1	Customer A	Based in the U.S. and Netherlands. It provides computer hardware and IT solutions and support to the international business community.	5 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer
2	Customer G	Based in Israel. It provides solutions to transportation and mobile communication industry.	1 year	SD-WAN routers, warranty and support service	Paid in advance	Telegraphic transfer
3	Customer D	Based in the U.S. It runs an e-commerce portal to sell mobile broadband products to worldwide customers.	5 years	SD-WAN routers, warranty and support service	Net 45 days	Cheque
4	Customer H	Based in Denmark. It provides equipment, services and total solutions for communications to suit all sectors of the market.	2 years	SD-WAN routers, warranty and support service	Paid in advance	Telegraphic Transfer
5	Customer I	Based in Malaysia. It provides enterprise and small business networking solutions.	2 years	SD-WAN routers, warranty and support service	Net 30 days	Telegraphic transfer

BUSINESS

After-sales Services

Our after-sales services mainly include warranty and technical support services.

Warranty

We provide embedded warranty that comes with the sale of our SD-WAN routers. If a SD-WAN router is under warranty, we will repair the router in case of hardware defect. Further, if the router cannot be repaired, we will ship a replacement unit to the end user after receiving the defective router. Besides, we also offer additional warranty and support services to end users who require a longer warranty and support period. Having included in additional warranty and support services, end users of our products can subscribe to our advance hardware replacement support service pursuant to which we will send them free replacement unit once the hardware defect is confirmed.

Technical Support

Our end users can submit support tickets when they have questions or comments for our products that they have purchased from our distributors or directly from us. When we receive a support ticket, our technical support team will first contact our distributors or end users to understand the details of the question or comment and will try to solve any technical problems. If the technical problem or comment is related to the quality of our products, the technical support team will inform our R&D team accordingly. Our R&D team will conduct analysis to determine the source of the problem and try to rectify it.

MARKETING

We have a marketing team to manage and develop relationships with our distributors and manage our online Community Forum and online presence.

To continuously develop our relationship with our distributors, we provide them with the most up to date sales presentations, webinars, datasheets and detailed case studies. These are designed to equip them with information of our latest products and technologies, the latest industry trends and best deployments to date in order to maximise their potential. We have also hired overseas consultants to develop marketing materials to assist our distributors.

Other than product artwork and photos, our online Community Forum can be used by our distributors to respond to leads and sales opportunities. Furthermore, distributors have dedicated discussion areas as a community where they can reach us directly and make new feature requests. We also actively encourage our distributors to attend exhibitions and events, providing them with demo devices and sponsoring them by way of a marketing development fund. Participating distributors will gain exposure on our website and our various social media channels.

We encourage our distributors to offer value-added services when they sell our products to end users by acting as solution providers to the end users. This allows end users to learn the unique features of our products, and appreciate the price performance and reliability our products offer.

BUSINESS

The growth of our business is partially driven by our network of distributors. We believe that by educating our distributors and keeping them informed and up-to-date on our values and technologies, we can create a healthy ecosystem where all parties can benefit. Our objective of setting up a certification program is to ensure that these professionals possess the skills required to support our products and provide solutions to end users. This, in turn, means that our distributors will gain a certain degree of recognition and trust when they are evaluated by the end users.

In addition, keeping our distributors up to date is our priority as it allows us to obtain feedback on new unreleased features. We send out newsletters to our distributors in order to inform them of all the latest happenings. We also hold distributors summits so that they are aware of our development roadmap, and to provide them the opportunity to give feedback based on their respective area of expertise. Our distributors have access to information regarding new products and services and testing of features of new version of software.

We participate in different IT trade shows and conferences overseas to improve our brand recognition among prospective distributors and end users. For example, we have participated in SMAU Padova in 2015 which was held in Italy and dedicated to promote IT and new technologies. Further, we participated in Coach & Bus Live 2015, an exhibition for the bus and coach industry in the U.K. In addition, we have sponsored some of our distributors financially to participate in certain trade shows to promote our brands, products and services in different regions. We have also sponsored innovative use of our products to grow market awareness. For example, MIT Robotics Team in RASC-AL/NASA Exploration Robo-Ops Competition in 2014 used our SpeedFusion technology and won the second place in the competition. Apart from the above, we have been running marketing campaigns and competitions to demonstrate our reliability. For example, end users are encouraged to submit their uptime records and bandwidth usage records to demonstrate the reliability of our SD-WAN routers.

SUPPLIERS AND PURCHASE

Our suppliers comprise contract manufacturers and raw material suppliers. For each of the three years ended 31 December 2015, our total purchase from our contract manufacturers and raw material suppliers were approximately US\$6.1 million, US\$9.6 million and US\$10.7 million, respectively.

Contract Manufacturers

We believe that R&D capability is the core competence of a technology company. Therefore, we have been focusing on strengthening our R&D as well as product design. In order to better allocate our resources, reduce manufacturing overheads and maintain high product quality, we outsource the manufacturing process of our products to contract manufacturers mainly based in Taiwan that are Independent Third Parties. We work with multiple contract manufacturers with a view to minimising concentration risk and other contract manufacturers as back-up contract manufacturers. Our Directors believe that these back-up contract manufacturers can commence production within three months after we place our manufacturing orders. Further, we maintain certain levels of inventory of our products. Our Directors believe that maintaining certain levels of our inventory and having back-up contract manufacturers can help reduce any impact on, or disruption to, our business operation if our current contract manufacturers are unable to fulfil our manufacturing orders and there is a sudden increase or change in the demand of our products. For each of the three years ended 31 December 2015, we have engaged with four, seven and six contract manufacturers, respectively.

BUSINESS

Selection of contract manufacturers

We carefully select our contract manufacturers based on various factors, including the quality of their products, their reputation in the industry, their experience in manufacturing similar products and their business scale. When we evaluate the qualification and capability of a potential contract manufacturer for a particular product or component, we carry out the following procedures:

- review the reputation of the potential contract manufacturer;
- visit the manufacturing facility of the potential contract manufacturer;
- review the potential contract manufacturer's proposal;
- provide a bill of materials and design information for a sample product to the potential contract manufacturer for quotation; and
- submit a purchase order to the potential contract manufacturer for the manufacturing of the sample product.

We appoint potential contract manufacturers if we are satisfied with the quality of the sample manufactured by these potential contract manufacturers.

Terms with contract manufacturers

During the Track Record Period, we had not entered into long-term purchase agreements with our contract manufacturers. We make all of our purchases from our contract manufacturers on a purchase order basis. Our contract manufacturers will only manufacture our products when they accept our purchase orders. We generally notify a contract manufacturer about the specification of our product in details, and issue a purchase order to the contract manufacturer when the contract manufacturer and us agree on the product specification.

The major terms of the purchase orders include quantity, expected date of delivery, unit cost, shipping terms and payment terms. Some of our contract manufactures require us for initial deposits when we confirm order with them. We typically pay 10% of the purchase price of the purchase order as deposit to our contract manufacturers. Some of our contract manufacturers offer us credit terms of 30 days to 45 days. We generally settle the payment by way of bank transfer or telegraphic transfer in U.S. dollars to our contract manufacturers. If a product we receive from a contract manufacturer is defective, the contract manufacturer will repair or replace the defective product if we return the defective product within the warranty period, which is typically one year. During the Track Record Period, we had not experienced any material price fluctuations, delay or quality issue with our contract manufacturers.

BUSINESS

Raw Material Suppliers

The key raw materials we use in the production of our routers are CPUs and wireless communication module.

Selection of raw material suppliers

We carefully select our raw material suppliers and regularly test new raw materials marketed by our existing suppliers and potential suppliers with a view to further reducing our manufacturing cost, improving performance of our products and introducing new product features. When we evaluate a potential raw material supplier for particular raw materials, we generally request for samples of the raw materials and development kit corresponding to the raw materials and conduct tests on the samples. We place orders for new raw materials if we are satisfied with the quality features, performance, price and availability.

We regularly communicate with our raw material suppliers about features, price and availability of their new or alternative raw materials. We check the price of the raw materials we use and alternative raw materials that we can use regularly with the same raw material suppliers and different raw material suppliers. Our Directors believe that by communicating regularly with different suppliers, we can take advantage of new product introduction and price reduction of various raw materials.

Terms with raw material suppliers

During the Track Record Period, we did not enter into any long-term agreements with our raw material suppliers. We believe that this allows us to diversify the risk of potential disruption of our operations, maintain sourcing stability and secure competitive pricing for us and use newer and more advanced raw materials, which may have more features and better performance. We did not experience any material price fluctuations or supply delay or shortages of components or raw materials during the Track Record Period.

Our Directors believe that we can obtain alternative sources of raw materials with similar functionality and price in a reasonable time frame and will not have material impact on the sale of our products as we regularly communicate with different raw materials suppliers about new and alternative raw materials.

Our raw material suppliers generally give us a 30 days to 120 days credit period. We generally settle the payment upon delivery of goods, on monthly basis by way of bank transfer or by telegraphic transfer in U.S. dollars to overseas suppliers.

Five Largest Suppliers

Although we do not have any long-term agreements with our suppliers, we maintain stable relationship with our five largest suppliers. Purchases from our five largest suppliers accounted for approximately 74.5%, 75.0% and 77.4% of our total purchase for each of the three years ended 31 December 2015, respectively. For each of the three years ended 31 December 2015, the purchases from our largest supplier represented approximately 43.0%, 46.0% and 37.3% of our total purchase, respectively. We had two to seven years of business relationship with our five largest suppliers during the Track Record Period. All of the five largest suppliers are Independent Third Parties.

BUSINESS

To the best of our knowledge, none of our Directors, chief executive or any person, own more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest suppliers during each of the three years ended 31 December 2015, respectively.

A summary of the five largest suppliers during the Track Record Period is set out in the table below:

For the year ended 31 December 2013

Rank	Name of suppliers	Background and scope of business	Duration of business relationship	Major products produced or materials supplied	Credit terms	Payment terms
1	Supplier A	It is our contract manufacturer based in Taiwan. It focuses on OEM services for information and communication technology products, including routers.	7 years	Routers	30 days after invoice day	Telegraph transfer
2	Supplier B	It is our contract manufacturer based in Taiwan. It focuses on OEM services for information and communication technology products, including routers.	7 years	Routers	10% deposit, 20% before shipment, 70% 45 days after invoice day	Telegraph transfer
3	Supplier C	It is our raw material supplier based in Taiwan. It is a distributor of semiconductors and components products for many vendors.	4 years	Wireless communication modules	30 days after invoice day	Telegraph transfer
4	Supplier D	It is our raw material supplier based in the PRC and is a distributor of semiconductor products for many vendors.	3 years	Semiconductors	30 days after invoice day	Cheque
5	Supplier E	It is our contract manufacturer based in Taiwan and it focuses on OEM/ODM services for networking communications equipment.	5 years	Routers	Cash on delivery	Cheque

For the year ended 31 December 2014

Rank	Name of suppliers	Background and scope of business	Duration of business relationship	Major products produced or materials supplied	Credit terms	Payment terms
1	Supplier A	It is our contract manufacturer based in Taiwan. It focuses on OEM services for information and communication technology products, including routers.	7 years	Routers	30 days after invoice day	Telegraph transfer
2	Supplier B	It is our contract manufacturer based in Taiwan. It focuses on OEM services for information and communication technology products, including routers.	7 years	Routers	10% deposit, 20% before shipment, 70% 45 days after invoice day	Telegraph transfer
3	Supplier C	It is our raw material supplier based in Taiwan. It is a distributor of semiconductors equipment and components products for many vendors.	4 years	Wireless communication modules	30 days after invoice day	Telegraph transfer
4	Supplier D	It is our raw material supplier based in the PRC and is a distributor of semiconductor products for many vendors.	3 years	Semiconductors	30 days after invoice day	Cheque
5	Supplier F	It is our raw material supplier based in Hong Kong and is a distributor of electronic component for many vendors.	2 years	Wireless communication modules	Paid in advance	Cheque

BUSINESS

For the year ended 31 December 2015

<u>Rank</u>	<u>Name of suppliers</u>	<u>Background and scope of business</u>	<u>Duration of business relationship</u>	<u>Major products produced or materials supplied</u>	<u>Credit terms</u>	<u>Payment terms</u>
1	Supplier A	It is our contract manufacturer based in Taiwan. It focuses on OEM services for information and communication technology products, including routers.	7 years	Routers	30 days after invoice day	Telegraph transfer
2	Supplier C	It is our raw material supplier based in Taiwan. It is a distributor of semiconductors and components products for many vendors.	4 years	Wireless communication modules	30 days after invoice day	Telegraph transfer
3	Supplier B	It is our contract manufacturer based in Taiwan. It focuses on OEM services for information and communication technology products, including routers.	7 years	Routers	10% deposit, 20% before shipment, 70% 45 days after invoice day	Telegraph transfer
4	Supplier G	It is our raw material supplier based in Taiwan. It focuses on the design, develop and manufacture of various of radio frequency/microwave and networking solutions.	3 years	Wireless communication modules	Paid in advance	Telegraph transfer
5	Supplier D	It is our raw material supplier based in the PRC and is a distributor of semiconductor products for many vendors.	3 years	Semiconductors	30 days after invoice day	Cheque

Our major supplier who is also our major customer

During the Track Record Period, we had entered into transactions where some of our major customers were also our major suppliers, details of which are set out below:

Sale of raw materials to contract manufacturers

We purchased and paid for some raw materials and then sold them to our contract manufacturers (the “**Relevant Suppliers**”) who required these raw materials in the manufacturing of our products while the Relevant Suppliers may purchase these raw materials directly, we were able to purchase these raw materials at terms which were generally better than those the Relevant Suppliers would obtain if they were to purchase by themselves. This was mainly due to our long-term relationship with suppliers of these raw materials and the economies of scale we obtained from bulk purchasing of these raw materials.

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The table below sets out the details of our sales to and purchases from these Relevant Suppliers during the Track Record Period:

	For the year ended 31 December					
	2013		2014		2015	
	US\$'000	% of total purchase	US\$'000	% of total purchase	US\$'000	% of total purchase
Purchases from:						
Supplier A	2,604	43.0	4,389	46.0	3,987	37.3
Supplier E	268	4.4	63	0.7	—	—
Supplier H	—	—	12	0.1	59	0.6

	For the year ended 31 December					
	2013		2014		2015	
	US\$'000	% of total sale of raw material	US\$'000	% of total sale of raw material	US\$'000	% of total sale of raw material
Sale of raw materials to: <i>(Note)</i>						
Supplier A	782	93.3	1,096	71.2	981	100.0
Supplier E	56	6.7	—	—	—	—
Supplier H	—	—	65	4.2	—	—

Note: In the Accountants' Report, sale of raw material, which is not an income derived from our ordinary course of business, is classified as an other income presenting on a net basis netting with the relevant cost.

Licensing of our software to a contract manufacturer

We entered into a software licence arrangement with one of our contract manufacturers in 2013 to whom we licensed our software for its use in return for the payment of a software licence fee from this contract manufacturer.

The software licence fee we received from this contract manufacturer and our purchases from this contract manufacturer were approximately US\$0.37 million and US\$0.95 million during the year ended 31 December 2013, respectively, details of which are as follows:

	For the year ended 31 December 2013 US\$'000	% of total purchase/revenue %
Goods purchased.	951	15.7
Software licence fee.	366	2.8

Save and except for the above contract manufacturers who are both our supplier and customer for the transactions, no other supplier is also our customer or vice versa during the Track Record Period.

BUSINESS

INVENTORY MANAGEMENT

Our inventories consist of raw materials and components and finished products. Our Directors believe that it is critical to maintain certain levels of inventory to shorten the delivery time of our products to our customers and to prevent unnecessary storage of raw materials so as to balance the risk of stock obsolescence and possible supply shortage of raw materials.

We closely monitor our inventory level to (i) maintain an inventory level of raw materials and components to satisfy the actual production needs, taking into consideration anticipated inventory turnover, market demand and supply of the relevant raw materials; and (ii) maintain an inventory level of finished products to cope with approximately four to six months of the market demand for our products after taking into consideration anticipated sales of our finished products. During the Track Record Period, we did not encounter any material shortage of key raw materials and components.

Physical inventory count will be carried out on a monthly basis for better control and management of inventories to ensure the accuracy and completeness of stock-in and stock-out information on record. Monthly analysis will be conducted to manage the obsolete inventory by way of making provision or written-off. Provision will be made for inventories which are considered obsolete after taking into account the aging of the inventory items, the movements and usefulness or residual value of the inventories. For each of the three years ended 31 December 2015, we made provision for inventories of approximately US\$0.19 million, US\$0.24 million and US\$0.04 million, respectively.

QUALITY CONTROL

We consider product and service quality to be critical to our business. Therefore, we place great emphasis on the quality control of our products and services. In order to maintain high quality standard, we have a dedicated quality control team of five staff with relevant experience from one to eight years, which is led by our Director of software development and quality assurance to ensure that our internal quality control procedures are duly followed. Depending on different products and services, we may assign more engineers from our R&D team to assist the quality control team whenever necessary.

We carry out our quality control of the hardware and the software of our products from the time we procure components for the manufacturing of the hardware of our products to the post-sale software improvement. When we conduct R&D, we develop test cases along with product specifications for testing the hardware and software of our products. The test cases are used to ensure that the final products and the software developed conform to the product specifications.

We have developed testing tools for contract manufacturers to ensure that the products and components manufactured by them are tested to meet our specifications. Our contract manufacturers are required to use the testing tools to test each product and component manufactured before shipment. The testing tools also record the testing results performed by our contract manufacturers and report the test results back to our server automatically.

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After passing through the quality control performed by contract manufacturers, samples of final products are selected randomly and shipped to our headquarters in Hong Kong for our quality check. If no quality issues are identified and after we have notified our contract manufacturers, the products and components will be shipped by our contract manufacturers to our warehouse in Hong Kong or occasionally to our customers directly. If quality issues are identified, our contract manufacturers will have to notify us before they ship the products to us. Further, our quality control team in Hong Kong performs the same task for products that are assembled in Hong Kong.

As at the Latest Practicable Date, we did not receive any major complaints from our customers which had a material adverse effect on our profitability nor did we receive any material product liability claims or product recall from our customers.

For further details on our quality control during R&D and production processes, please refer to the paragraph headed “Research and Development and Process” in this section.

INTELLECTUAL PROPERTY RIGHTS

Our intellectual property rights are crucial to us as we rely on our proprietary technologies and recognition of our brands and products. We believe that in order to maintain our competitiveness in the market, we must develop and protect the intellectual property rights of our technologies, products and services. We have established an in-house patent team that devotes its efforts to protecting our rights.

We rely primarily on intellectual property laws and contractual arrangements with our employees, business partners and other parties to protect our intellectual property rights. Our employees are required to enter into employment agreements where they are required to keep confidential relating to our intellectual property and trade secrets. Intellectual property rights associated with the technological achievements developed by our employees during the course of their employment with our Group belong to us.

While we actively take steps to protect our proprietary rights, such measures may not be adequate to eliminate the risk of the infringement or misappropriation of our intellectual property rights. Infringement or misappropriation of our intellectual property rights could materially harm our business. For details of the risk relating to infringement or misappropriation of our intellectual property rights, please refer to the section headed “Risk Factors — Risks related to our Business — We may face possible infringement of our trademarks and other intellectual property rights and possible counterfeiting of our products” in this document.

As at 31 December 2015, we had a total of 37 registered trademarks and 16 trademark applications which are pending registration, four patents granted by the United States Patent and Trademark Office and 161 patent applications internationally and at least three registered domain names. For instance, the U.S. patent 9,019,827 protects a feature in SpeedFusion that optimises throughput of data transmission over bonded multiple WAN connections. In addition, U.S. patent application 14396750 is filed for the purpose of protecting a feature in our wireless router that uses multiple SIMs to select wireless base station. Details of such registrations are set out in the section headed “Statutory and General Information — Further Information about the Business of our Group — 8. Intellectual property rights of our Group” in Appendix IV to this document.

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When required, we obtain licences, including software, software development kits, device drivers and patents, from our raw materials suppliers and third parties for our products and services in order to accelerate product development without infringing others’ intellectual properties. The terms of these licences generally specify the licence fee, the licence period, responsibilities and obligations of the particular licensor and our obligations as a licensee. In general, in order to reduce the possibility of infringing third parties’ intellectual property rights, we use licensed third parties’ intellectual property rights, including open source software, such as Linux, in our products and services. An entity in the U.S. filed a patent lawsuit claiming against us in February 2015 in the United States District Court for the Eastern District of Texas regarding our use of an expired U.S. patent in some of our products sold from 2009 to 2012. The U.S. patent, which expired in October 2012, was mainly about performing network security by filtering data packets using a decision block which is not configurable by a user. Our Group did not use that expired patent in our products, since the decision block of filtering data packet function in our products is configurable by a user. Therefore, we believe that our products did not infringe the said expired patent and such claims were ungrounded. We therefore engaged a U.S. attorney to represent us and negotiated with the entity. In order to avoid lengthy and costly litigation process, we and the entity decided to settle the litigation and entered into a settlement agreement under which we agreed to license from the entity on the basis that no infringement or liability of such claims were admitted by us. The licence was also ensured that our customers will not face litigation from the entity in the use of our products. The lawsuit was settled in June 2015 with an immaterial amount. We have internal control measures to ensure compliance with the law and regulations relating to intellectual property rights. For further details, please refer to the paragraph headed “Internal Control Measures” in this section.

As at the Latest Practicable Date, we were not involved in any pending litigations or legal proceedings for the infringement of intellectual property rights, and we were not aware of any threatened material proceedings or claims relating to intellectual property rights against us.

COMPETITION

According to the Quocirca Report, we are the fifth largest SD-WAN router vendor internationally in 2015 in terms of revenue value. Our competitors mainly comprise specialised vendors and diversified vendors. Specialised vendors focus on providing highly available connectivity through multiple WAN connections, bonding and wireless routers, while diversified vendors, which typically have a strong legacy of business in the telecommunication carrier sector as well as the enterprise sector, have been providing traditional routers and other networking solutions, and are in the process of adding SD-WAN capabilities through their internal product development supplemented by acquisitions.

The SD-WAN sector is dominated by a few specialised vendors whose revenues are relatively small when compared to the global enterprise router market. The top five specialised vendors accounted for approximately 75.3% of the entire market share of SD-WAN routers in terms of sales value in 2015. As the SD-WAN market gathers pace, additional players will likely enter the market and the diversified vendors will likely add SD-WAN capabilities through organic product development or acquisitions. As such, the market share of specialised vendors may decrease and lead to a more competitive market environment. However, the exponential growth of the SD-WAN router market revenues should be able to offset against the potential loss of market share of existing market players. We believe that the growth will fuel demand for our products, which in turn, contribute to the continuous growth of the sales value of our SD-WAN routers with assistance of our extensive distribution network. Moreover, we believe that customers prefer our reliable and easy-to-use routers, due to our strong R&D capabilities for developing innovative products and services.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, we had 84 full-time employees, of which 77 and seven of them were based in Hong Kong and Malaysia, respectively.

The table below sets out the breakdown of our employees by function:

<u>Functions</u>	<u>Number of employees</u>
Research, development and quality control	60
Marketing	10
Patent	1
Finance, administrative and operations	13
	<u>84</u>

We enter into a standard employment contract with all of our executive officers, managers and employees. These contracts typically include a confidentiality provision.

We have designed an evaluation system to assess the performance of our employees annually. Such system forms the basis of our determinations of whether an employee should receive salary raises, bonuses or promotions. We believe the salaries and bonuses that our employees receive are competitive with market rates. Under applicable laws and regulations, we are subject to insurance schemes. We believe that we have complied with relevant labour and social welfare laws and regulations in Hong Kong and Malaysia in all material respects.

We participate in a mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Under such ordinance, the employer and its employees are each required to make monthly contribution to the plan at 5% of the employee’s relevant income, subject to a cap of maximum relevant income of HK\$30,000.

We believe that we maintain a good working relationship with our employees and we did not experience any significant labour disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

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ENVIRONMENTAL PROTECTION, HEALTH AND WORK SAFETY

We have engaged our contract manufacturers to manufacture our products. As such, our daily operations do not involve any manufacturing process and do not result in production of any harmful products.

Pursuant to the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), employers are required, so far as reasonably practicable, to ensure the safety and health at work of all the employees. Our Directors consider that we have managed our business operations with due consideration to workplace safety and health concerns and comply with the relevant rules and regulations requirements relating to health and safety.

We had not committed any material breach of non-compliance in relation to health and safety matters and we did not receive any improvement notice or suspension notice issued by the Commissioner for Labour against activity of workplace which may create an imminent hazard to its employees during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

We currently maintain general insurance policies with reputable insurance companies covering our equipment, inventories, employees’ compensation, and business interruption. These insurance policies cover losses against accidental damage to office contents, interruption of normal operation of our offices and bodily injury to any person or damage to property. We maintain product liability insurance in respect of some of our products and services. We do not maintain public liability insurance or general third-party liability insurance, nor do we maintain key-man life insurance.

In addition, we maintain insurance policies covering losses incurred during the delivery up to a place where we need to bear the relevant risks according to the terms agreed with our distributors and direct customers. We consider our insurance coverage to be sufficient for our business operations. For details of the risk relating to our insurance coverage, please refer to the section headed “Risk Factors – Risks related to our Business – We may not have adequate insurance coverage to cover potential liabilities or losses” in this document.

During the Track Record Period, the total insurance premiums we had paid amounted to US\$29,000, US\$32,000 and US\$49,000 for each of the three years ended 31 December 2015, respectively.

Our Directors believe that our existing insurance policies are in line with the industry norm. During the Track Record Period, we did not experience any material insurance claims nor did we receive any material claim from our distributors and direct customers to any liability arising from or relating to the use of our products or service.

AWARDS AND RECOGNITION

In November 2015, we were awarded the 2015 Deloitte Technology Fast 50 China (2015德勤高科技高成長中國50強暨明日之星) to recognise our continuous innovation excellence among these participating companies in this award which have independent intellectual property rights or proprietary technologies, and the technologies are used to bring significant revenues.

BUSINESS

PROPERTIES

We do not have self-owned properties. As at the Latest Practicable Date:

- we had leased seven properties in Hong Kong with a total gross floor area of approximately 19,645 sq. ft. from several connected parties which are controlled by our Controlling Shareholder for our business operations. We entered into tenancy agreements (the “**Tenancy Agreements**”) with those connected parties dated 29 January 2016 which take effect on the [REDACTED] on normal commercial terms. These properties are used by us as office, product development and warehouse. For further details of the Tenancy Agreements, please refer to the section headed “Continuing Connected Transactions” in this document; and
- we had leased a property from an Independent Third Party in Hong Kong with a total gross floor area of approximately 7,367 sq. ft. as office and warehouse, and leased a property from an Independent Third Party in Malaysia with a total gross floor area of approximately 2,655 sq. ft. as office space.

During the Track Record Period, we did not experience any difficulty or failure in renewing any material lease agreements.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have may from time to time become a party to various legal, arbitration or administrative proceedings arising from the ordinary course of our business, and that could have a material adverse effect on our financial condition or results of operation.

LICENCES, REGULATORY APPROVALS AND COMPLIANCE

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, save as incidents set out under the paragraph headed “Non-Compliance Incidents” in this section, we had complied with all relevant laws and regulations in Hong Kong and Malaysia in all material respects and have obtained all requisite licences, approvals and permits from the relevant regulatory authorities for our operations in Hong Kong and Malaysia.

BUSINESS

Non-compliance incidents

We set out below the non-compliance incidents relating to our Group during the Track Record Period and the measures we have adopted or proposed to adopt to rectify the non-compliances:

Non-compliance incidents	Relevant laws and regulations, legal consequences and potential maximum penalty	Reasons for non-compliance	Rectification actions	Internal control measures to prevent future breach
<p>Failure to inform the IRD of our chargeability to tax under section 51(2) of the Inland Revenue Ordinance arising from a subsidiary incorporated in the BVI for the years of assessment 2012/13, 2013/14 and 2014/15 within the specified time in Hong Kong</p>	<p>Pursuant of section 80(2) of the Inland Revenue Ordinance, any person who fails to comply with section 51(2) of the Inland Revenue Ordinance is liable on conviction to a fine of HK\$10,000 and a further fine of treble the amount of tax which has been undercharged or would have been undercharged if such failure has not been detected.</p> <p>If no prosecution under section 80(2) has been instituted, then under section 82A of the Inland Revenue Ordinance, an administrative penalty by way of an assessment to additional tax as a penalty, not exceeding treble the amount of tax which has been undercharged or would have been undercharged if such late submission had not been detected.</p>	<p>Peplink Worldwide, a BVI company, was established to handle transactions where no assembly work, sales or purchases were performed in Hong Kong. As such, the director of Peplink Worldwide considered Peplink Worldwide was not subject to Hong Kong profits tax. The non-compliance was mainly due to (i) inadequate understanding of the relevant tax regulatory requirements possessed by our relevant staff who had been responsible for our tax filing matters; and (ii) failure to seek proper tax advice from external advisers.</p>	<p>Peplink Worldwide has taken initiative to submit its tax computation to the IRD on 5 February 2016 and has applied for tax registration. We estimate the total tax involved for the years of assessment 2012/13, 2013/14 and 2014/15 amounts to approximately US\$0.18 million.</p> <p>Tax provisions have been made with respect of the tax amount not yet paid.</p> <p>Peplink Worldwide has informed the IRD its chargeability to tax, though not within the specified statutory time limit. Based on the facts, Mr. Richard Leung of Counsel has opined that, as this is a first offence for the BVI subsidiary, the likely penalty will be 10% of the amount of tax undercharged, and even in the more serious scenario that tax return is filed after two or more assessments are issued, the penalty will be 20% of the tax undercharged.</p> <p>Tax penalty provisions of approximately US\$16,930, US\$12,359 and US\$6,579, for the years of assessment 2012/13, 2013/14 and 2014/15, respectively, around 20% of the tax undercharged, have been provided.</p>	<p>We have formulated and adopted an internal control manual which includes the procedures for tax filing and recording to prevent recurrence of non-compliance incidents. For further details, please refer to the paragraph head “Internal Control Measures” in this section.</p>

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Non-compliance incidents	Relevant laws and regulations, legal consequences and potential maximum penalty	Reasons for non-compliance	Rectification actions	Internal control measures to prevent future breach
<p>We did not obtain Radio Dealers Licences (Unrestricted) for our certain operating Hong Kong subsidiaries carrying on business in the sales and exportation of our products, namely Peplink International, Pepwave and Pismo Labs (collectively “HK Subsidiaries”) prior to 6 July 2015, 2 September 2015 and 2 September 2015, respectively.</p>	<p>Pursuant to section 9 of the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong), save under and in accordance with a permit granted by the Authority, no person shall import into Hong Kong or export therefrom any radiocommunications transmitting apparatus unless he is the holder of a licence authorising him to deal in the course of trade or business in such apparatus.</p> <p>Under section 21 of the Telecommunications Ordinance, any person who contravenes section 9 shall be guilty of an offence and shall be liable on summary conviction to a fine of HK\$25,000 and to imprisonment for 12 months.</p> <p>Based on the facts, Mr. Richard Leung of Counsel has opined that, as this is the first offence of Peplink International, Pepwave and Pismo Labs, the possible penalty, if any, is likely to be a fine that is lower than the maximum level of fines stipulated under the Telecommunications Ordinance, and it is extremely remote that a penalty of imprisonment would be imposed on the directors of these companies.</p>	<p>We were not aware that Radio Dealers Licences (Unrestricted) were required for the HK Subsidiaries carrying on business in the sales and exportation of our products, and had mistakenly believed that our products were exempted from obtaining import and export licences under the Import and Export (Strategic Commodities) Regulations, and accordingly, no other licences or permits were required for the sales and exportation of our products.</p> <p>However, in about July 2015, as part of the preparation work for the [REDACTED], our Directors were informed that Radio Dealers Licences (Unrestricted) are required for the HK Subsidiaries carrying on its business in the sales and exportation of our products. As a result, we took immediate steps to apply for the Radio Dealers Licences (Unrestricted).</p>	<p>As soon as we become aware that Radio Dealers Licences (Unrestricted) are required for the HK Subsidiaries carrying on the business in the sale and exportation of our products in about July 2015, we took immediate steps in submitting applications for Radio Dealers Licences (Unrestricted) to the Office of Communications Authority for the HK Subsidiaries. The Radio Dealer Licences (Unrestricted) were granted to the HK Subsidiaries on 6 July 2015, 2 September 2015 and 2 September 2015, respectively.</p>	<p>We have formulated and adopted an internal control manual which includes the procedures for licences application and renewal to prevent recurrence of non-compliance incidents. For further details, please refer to the paragraph headed “Internal Control Measures” in this section.</p>

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BUSINESS ACTIVITIES WITH CUSTOMERS FROM SANCTIONED COUNTRIES

The U.S., other jurisdictions or organisations, including the E.U., the U.N. and Australia, have comprehensive or broad economic sanctions targeting the Sanctioned Countries.

Sales to customers from Sanctioned Countries

During the Track Record Period, we had sales with customers from some of the Sanctioned Countries imposed by the U.S., the E.U., the U.N. and Australia, namely Belarus, Bosnia and Herzegovina, Cote D’Ivoire (Ivory Coast), Egypt, Iraq, Lebanon, Myanmar (Burma), Serbia, Russia and Ukraine. Our Sanctions Law Advisers have advised us that the sanctions imposed by the U.S., the E.U., the U.N. and Australia on these Sanctioned Countries during the Track Record Period were not “country-wide sanctions”, but generally consisted of (i) restrictions on certain forms of trade with such Sanctioned Countries; and (ii) financial sanctions (asset freezes) on designated individuals and entities in or connected with such Sanctioned Countries, which are included on lists maintained by the U.S., the E.U., the U.N. and Australia. The amount of total revenue generated from sales to customers from these Sanctioned Countries for each of the three years ended 31 December 2015 was approximately US\$17,000, US\$50,000 and US\$93,000, respectively, representing approximately 0.1%, 0.3% and 0.4% of our total revenue for the same years, respectively, which was negligible to our total revenue during the Track Record Period.

Our Directors confirm that, after making reasonable enquiries, during the Track Record Period, none of our customers were in the Sanctioned Countries which fall within the kinds of so called “country-wide sanctions” and none of our customers from the Sanctioned Countries was a Sanctioned Person. Our Directors further confirm that we did not entered into any sanctionable transactions with the designated individuals and entities under financial sanctions and on the restricted parties list maintained by the U.S., the E.U., the U.N. and Australia during the Track Record Period.

Our Sanctions Law Advisers have advised us that, based on the information provided to them on our Group’s historical sales to customers from the Sanctioned Countries during the Track Record Period, and on the basis that, (i) none of our sales during the Track Record Period were directly to customers in countries where so called “country-wide sanctions” apply; (ii) none of these sales otherwise fell within the kinds of trade restricted by the U.S., the E.U., the U.N. or Australia in relation to the Sanctioned Countries; (iii) none of our customers in the Sanctioned Countries during the Track Record Period was a Sanctioned Person and we had not traded with any entity included on the restricted parties list maintained by the U.S., the E.U., the U.N. and Australia during the Track Record Period; (iv) Australian sanction laws only apply to Australian incorporated entities, or entities owned or controlled by Australians or person in Australia, or entities employing Australians or a persons in Australia who are involved with the businesses of the entities, and our Group does not fall into any of these categories; and (v) based on the content of the relevant U.N. Security Council resolutions, it is unlikely that our historical sales would breach U.N. sanctions as they may be implemented in any national legislation of U.N. member states (although this is a matter which would ultimately need to be decided in the context of such legislation), they are not aware of any basis for enforcement action in connection with such sales against our Group, our Shareholders and [REDACTED], and persons who might, directly or indirectly, be involved in permitting the [REDACTED], [REDACTED] and [REDACTED] of our Shares including the Stock Exchange and its related group companies as a result of the [REDACTED] and [REDACTED] and their involvement in the [REDACTED], and therefore these sales present a low sanctions risk.

Our Directors confirm that up to the Latest Practicable Date, we had not been notified that any sanctions would be imposed on us in relation to our sales to customers from the Sanctioned Countries during the Track Record Period.

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We may undertake new businesses in the Sanctioned Countries if such businesses will not expose us to any sanctions risk to maximise the interests of our Group and our Shareholders. To achieve this, we have implemented a number of measures to control our exposure to sanctions risk. For details of the measures we have implemented to control our sanctions risk, please refer to the paragraph headed “Internal Control Measures – Internal control measures to identify and monitor our exposure to risks associated with sanction laws” in this section.

Our undertaking

We have undertaken to the Stock Exchange:

- (i) that we will not use the [REDACTED] from the [REDACTED], or any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with any Sanctioned Country which are prohibited under international sanction laws and regulations or with any Sanctioned Person;
- (ii) that we have no present intention to undertake any future business that would cause us, the Stock Exchange and its related group companies, our Shareholders or potential investors to violate or become a target of sanction laws of the U.S., the E.U., the U.N. or Australia;
- (iii) to disclose on the respective websites of the Stock Exchange and our Company if we believe that the transactions our Group entered into in relation to a Sanctioned Country would put us or our Shareholders and investors at risk of being sanctioned; and
- (iv) to disclose in our annual reports or interim reports our efforts in monitoring our business exposure to sanctions risk, the status of future business, if any, in the Sanctioned Countries and our business intention relating to the Sanctioned Countries.

If we breach these undertakings to the Stock Exchange after the [REDACTED], it is possible that the Stock Exchange may delist our Shares.

For details of the sanction laws relevant to our business, please refer to the section headed “Regulatory Overview – Sanction Laws” in this document.

INTERNAL CONTROL MEASURES

We believe that the above non-compliance incidents and the exposure to the risks associated with sanction laws and intellectual property rights are not crucial to our operation and would not materially affect our business and results of operation and our Directors are of the view that we have taken all reasonable steps to establish a proper internal control system to prevent future recurrence of non-compliance incidents and the exposure to the risks associated with sanction laws. Our Directors are also of the view that our internal control measures in relation to due compliance with the law and regulations on intellectual property right have been effective and the patent lawsuit filed in the U.S. in February 2015 regarding an expired patent should not be considered as an ineffectiveness as we believe our products did not infringe the said expired patent, and the claim was settled on a no admission of infringement and liability basis to avoid lengthy and costly litigation process.

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In order to prevent future recurrence of non-compliance incidents and to identify and monitor our exposure to risks associated with sanction laws and intellectual property rights, we will adopt, before the [REDACTED], enhanced internal control measures, including:

Internal control measures on tax non-compliance

- (a) We engaged a reputable firm as our tax representative to handle our Hong Kong profits tax filing matters to prevent the reoccurrence of its non-compliance and to review our Group’s tax compliance system and conduct tax compliance review on a regular basis.
- (b) We have strengthened the internal control measures in respect of the possible tax liability of each member of our Group. All tax computations for the existing members and newly established members will be prepared by an experienced accountant and will be reviewed and approved by our finance controller on a monthly or quarterly basis.
- (c) With the support from external advisers, we have formulated annual tax plans and have prepared fiscal budgets with appropriate tax provisions based on the prevailing charging rates at the places/jurisdictions where the relevant members of our Group are incorporated or having a permanent place of business. If there is any material discrepancy between the amount of tax provision and the actual amount of the tax payment, our financial controller will report to our Board and will review the difference with further advice obtained from the external tax advisers. Our Directors are of the view that all of these measures are reasonable in the circumstance in seeking to prevent similar non-compliant incidents from happening again in the future.

Internal control measure on non-compliance with licensing requirements

- (a) Our risk management committee will regularly review the licencing status of each member of our Group to ensure that licence renewals are carried out prior to the expiry of the licences, and consider whether there are any requirements to obtain new licences or permits relevant to our business.
- (b) If we become aware of any possible requirements to obtain new licences or permits which are relevant to our Group’s business, our Risk Management Committee will assess such requirements and we will carry out steps in applying for such licences and permits if they are required. In the event that there is any uncertainty as to whether new licences or permits are required, we will seek professional advice.

Internal control measures to identify and monitor our exposure to risks associated with sanction laws

- (a) to further enhance our existing internal risk management functions, our Board has established the Risk Management Committee. Members of the Risk Management Committee include Mr. Chan, Mr. Chau Kit Wai and Mr. Yip Kai Kut Kenneth, and of whom Mr. Chan serves as the chairman of our Risk Management Committee. Our Risk Management Committee is principally responsible for monitoring our exposure to sanction risk and overseeing our implementation of the related internal control policies;
- (b) our credit and risk control department will assist our Risk Management Committee in the day-to-day monitoring of our sanction risk, including (i) maintaining and updating a control list of the Sanctioned Countries and Sanctioned Persons from time to time; (ii) reviewing the existing customers’ information against our control list of Sanctioned Countries and Sanctioned Persons and, if needed, report to the Risk Management

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- Committee; (iii) preparing summary of the use of [REDACTED] from the [REDACTED] for Risk Management Committee's review; and (iv) monitoring our transactions against sanction risk as requested by our Risk Management Committee;
- (c) for potential distributors and direct customers from the Sanctioned Countries, our Risk Management Committee must review and approve these potential distributors and direct customers, with the help of external legal advisers, before we can enter into any agreements with these potential distributors and direct customers;
 - (d) our Risk Management Committee may also engage external legal advisers with necessary expertise and experience in sanctions matter to evaluate sanction risk as and when necessary and will adhere to appropriate advice provided by such external legal advisers;
 - (e) our Risk Management Committee will convene monthly meetings with our credit and risk control department, and to the extent necessary, our sales, procurement, finance and internal audit departments, to assess the latest sanction risk our operations may be exposed to;
 - (f) trainings relating to sanctions law will be provided to our Directors, senior management members and other relevant personnel;
 - (g) the [REDACTED] from the [REDACTED] or any other funds raised through the Stock Exchange will be deposited in a designated bank account separate from other funds of our Group; and
 - (h) our Risk Management Committee will monitor our use of [REDACTED] from the [REDACTED], as well as the performance of our undertaking to the Stock Exchange relating to sanctions matters.

Internal control measures to ensure compliance with the law and regulations relating to intellectual property rights

We have an internal intellectual property team to review third party patents, to protect our freedom to operate, and to establish our own intellectual property rights. Our internal intellectual property team is led by Mr Yip Kai Kut Kenneth, one of our Directors and our in-house patent attorney, and consists of R&D engineers that review patents related to our operations to reduce the risk of infringement. Our patent application team is also led by Mr Yip Kai Kut Kenneth, and consists of three supporting members that establish our intellectual property rights by selectively converting some of our innovations into patents. As intellectual property is of fundamental importance to our business, we plan to continue to invest in our internal intellectual property team, patent application team and to engage external intellectual property legal advisers where necessary.

Our Directors and the Sole Sponsor are of the view that the above measures will provide reasonably adequate and effective framework to assist us in preventing future non-compliant incidents, and in identifying and monitoring any material risks relating to sanctions law and intellectual property rights so as to protect the interests of our Shareholders, [REDACTED] and us.