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## FINANCIAL INFORMATION

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*You should read the following discussion of our financial condition and results of operations in conjunction with our combined financial statements and related notes set out in the Accountants’ Report included in Appendix I to this document. The Accountants’ Report contains our audited combined financial statements as at and for each of the three years ended 31 December 2015. Our combined financial statements have been prepared in accordance with HKFRSs, which may differ in material respects from generally accepted accounting principles in other jurisdictions. This discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in the sections headed “Forward-Looking Statements” and “Risk Factors” and elsewhere in this document.*

### 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. We market and sell our products and services to customers and end users under our own brands namely “Peplink” and “Pepwave”. 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.

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

### BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 5 May 2015. We underwent a Reorganisation in anticipation of the [REDACTED], pursuant to which our Company became the holding company of the companies now comprising our Group. As the companies now comprising our Group were under the common control of our Controlling Shareholder before and after the Reorganisation, the Reorganisation has been accounted for on the basis of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period. Accordingly, our combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for any year during the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the relevant subsidiaries or businesses first came under the common control of our Controlling Shareholder, where this is the shorter period. Our combined statements of financial position as at each reporting date during the Track Record Period have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from our Controlling Shareholder’s perspective. No adjustments are made to reflect fair values or recognise any new assets or liabilities as a result of the Reorganisation.

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### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations are affected by a number of factors, including those set out below:

#### Product/Service Mix

We generated our revenue primarily from the design, development, marketing and sale of our SD-WAN routers as our principal products. We have developed and will continue to develop new products to expand and diversify our product portfolio. We also generated revenue from other businesses such as software licences, and warranty and support services. The profitability of our product sales and provision of services varies according to factors including the nature of the products and services, technological development and market supply and demand. As different products generally have different demand and prices and are in different stages of their product cycles, changes in revenue mix in connection with the sales of products and provision of services may affect our revenue and financial results.

#### Market Demand for our Products

We develop and sell our SD-WAN routers to our customers in international markets. The demand for our products is affected by the level of continuous growth in the use of Internet, particularly access the Internet through 3G/4G LTE in the countries that our customers reside. If the infrastructure is unable to support the growing use of the Internet, end users’ use of the Internet may be hindered and demand for our products may decline. If the usage of the Internet does not continue to grow, or if the Internet infrastructure, does not effectively support its growth, our revenue and growth could be adversely affected.

#### Pricing and Cost of Raw Materials and Components

Our cost of inventories sold accounted for approximately 87.6%, 87.7% and 91.7% of our cost of sales during each of the three years ended 31 December 2015. Our major raw materials used for our products include CPUs and wireless communication modules. The availabilities and prices of these components and raw materials depend on domestic and global market conditions and our relationships with suppliers. Fluctuations in the prices of these components and raw materials may affect the manufacturing and service costs of ourselves and our suppliers. We price our products generally based on our estimated or actual costs incurred plus a profit margin. Our results of operations are therefore affected by our ability to price our products at our desired profit margins and to accurately estimate and account for our product costs under this cost-plus pricing structure. Our pricing and bargaining power can be affected by market factors such as intensified competition from other competitors and any decrease in wholesale or retail prices to our customers in the market, as well as changes in demand for our products.

#### Technology Change

The market for our products is characterised by continuing technological development, evolving industry standards, increasing number of product certification, changing customer needs, frequent new product introductions and enhancements, and occasional changes in government policies and regulations. The introduction of products by our direct competitors or others embodying new technologies, the introduction and adoption of new product certification, the emergence of new industry standards, changes in customer requirements or changes in government policies and regulations could render our existing products obsolete, unmarketable, or less competitive. In particular, an industry-wide adoption of new standards could reduce the importance of the functionality of our products and materially adversely affect the

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competitiveness and market acceptance of our products. Further, when we market and sell our products to a new regional market or a new industry, our products may need to be certified and qualified to gain the trust of the new regional market or new industry.

Our success depends upon our ability to enhance existing products, to respond to changing customer requirements, technological and competitive developments and emerging industry standards, and to conduct research and development, work with raw materials suppliers and contract manufacturers and introduce new products in a timely manner. We cannot guarantee that we will not experience delays in releasing new products, new software and product enhancements as we experienced such delays in the past. It is possible that some of our distributors and end users defer purchasing our products until the new products, new software or product enhancements are released. Further, even if we are able to develop new products, new software and product enhancements, we cannot assure that they will achieve market acceptance.

### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies that are significant to the preparation of our combined financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management to make subjective and complex judgments based on information and financial data that may change in future periods. When reviewing our combined financial statements, you should consider (i) our significant accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set out below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial statements:

- Revenue recognition
- Intangible assets
- Impairment of tangible and intangible assets other than goodwill
- Inventories
- Taxation

Please refer to notes 4 and 5 to our combined financial statements included in the Accountants’ Report in Appendix I to this document for further details of the significant accounting policies, judgments and estimates, which are important for an understanding of our financial condition and results of operations.

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### DESCRIPTION OF SELECTED ITEMS IN COMBINED STATEMENTS OF PROFIT OR LOSS

The table below summarises the combined statements of profit or loss data from the Financial Statements during the Track Record Period, details of which are set out in the Accountants’ Report in Appendix I to this document:

	For the year ended 31 December		
	2013	2014	2015
	US\$’000	US\$’000	US\$’000
<b>Revenue</b> . . . . .	13,306	17,946	21,859
Cost of sales . . . . .	(4,655)	(6,910)	(9,166)
<b>Gross profit</b> . . . . .	8,651	11,036	12,693
Other income . . . . .	34	129	69
(Allowance for) reversal of allowance for doubtful debts . . . . .	—	177	—
Selling and distribution expenses . . . . .	(830)	(1,035)	(1,003)
Administrative expenses . . . . .	(1,706)	(2,049)	(2,710)
Research and development expenses . . . . .	(3,136)	(3,969)	(3,907)
[REDACTED] . . . . .	—	—	(1,001)
Finance costs . . . . .	(4)	(4)	(1)
<b>Profit before taxation</b> . . . . .	3,009	4,285	4,140
Income tax expenses . . . . .	(444)	(542)	(783)
<b>Profit for the year</b> . . . . .	2,565	3,743	3,357

### Revenue

During the Track Record Period, we generated revenue mainly from the sale of SD-WAN routers and the grant of software licences including SpeedFusion and InControl cloud service for managing our devices, and the provision of warranty and support services in connection with our products. Our revenue represents the net invoiced value of (i) the products sold, after deducting allowances for returns and trade discounts; and (ii) services rendered.

Our product/service consist mainly of the following categories: (i) SD-WAN routers which are further divided into wired and wireless products; (ii) warranty and support services; and (iii) software licences. While we historically generated our revenues mainly from the sale of SD-WAN routers, we expect our business in the grant of software licences and the provision of warranty and support service will become a more important source of income in the next few years due to the fact that accumulated number of SD-WAN routers is increasing and they require extended services or warranties.

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	% of total	Revenue	% of total	Revenue	% of total
	US\$’000	%	US\$’000	%	US\$’000	%
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
<b>Total</b> . . . . .	13,306	100.0	17,946	100.0	21,859	100.0

Our revenue experienced continuous growth in each year from 2013 to 2015, primarily due to introduction of new and improved products, such as MAX BR series with 4G LTE capabilities, enhanced awareness of our brand and growing customer base for our products which was in line with strong market demand for Internet connectivity in recent years.

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In order to capture the potential growth in wireless Internet connectivity due to the industry trend of expanding 4G LTE networks and decrease of the network costs, as such in 2013 we strategically changed our focus from wired routers to wireless routers in response to increasing demand for wireless networks and the intention to expand our customer base. Our revenue derived from the sales of wireless routers accounted for approximately 33.8%, 42.5% and 48.9% of total revenue for each of the three years ended 31 December 2015, respectively and the amount exceeded the revenue from the sale of wired routers since 2014.

The table below sets out the breakdown of revenue from the sale of major products during the Track Record Period:

	For the year ended 31 December					
	2013		2014		2015	
	Revenue US\$'000	Sales volume units	Revenue US\$'000	Sales volume units	Revenue US\$'000	Sales volume units
<b>Major products</b>						
Wired routers:						
Balance small network series . . . . .	972	5,349	1,364	5,412	1,478	6,389
Balance enterprise series . . . . .	5,508	4,331	5,685	3,839	5,207	3,412
Others . . . . .	7	5	444	213	302	127
<b>Total</b> . . . . .	<b>6,487</b>	<b>9,685</b>	<b>7,493</b>	<b>9,464</b>	<b>6,987</b>	<b>9,928</b>
Wireless routers:						
MAX HD series . . . . .	1,115	913	2,344	1,560	2,979	1,726
MAX BR series . . . . .	912	3,774	2,594	10,158	5,221	23,347
MAX USB series . . . . .	957	3,107	933	4,636	811	4,718
Others . . . . .	1,519	13,394	1,764	12,724	1,674	15,694
<b>Total</b> . . . . .	<b>4,503</b>	<b>21,188</b>	<b>7,635</b>	<b>29,078</b>	<b>10,685</b>	<b>45,485</b>

We sell products mainly to customers in North America. We expect the North American market will continue to account for a major part of our revenue in the foreseeable future. In terms of absolute sales amount, sales to North America, EMEA and Asia experienced continuous growth during the Track Record Period.

For the year ended 31 December 2013, our revenue was mainly derived from North America which accounted for approximately 47.4% of our total revenue. In order to reduce the reliance on North American market, we strategically expanded our distribution network to EMEA and Asian regions starting from 2014. The growth in sales from EMEA exceed the growth in sales in North America for the year ended 31 December 2014 and 2015, which led to a decreasing trend in the percentage of total revenue from North America accordingly. For the year ended 31 December 2015, our sales in EMEA experienced a strong growth by approximately 50.7% when compared to year 2014, which was driven by the demand for MAX BR series for the transportation market and was in line with the expansion of 4G LTE networks in that region.

The table below sets out the breakdown of revenue by location of customers in terms of absolute amount and as a percentage of total revenue 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	9,179	42.0
EMEA . . . . .	3,045	22.9	4,878	27.2	7,352	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
<b>Total</b> . . . . .	<b>13,306</b>	<b>100.0</b>	<b>17,946</b>	<b>100.0</b>	<b>21,859</b>	<b>100.0</b>

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### Cost of Sales

Cost of sales represents cost and expenses directly attributable to the sale of our products, warranty and support services, it comprises mainly (i) cost of inventories sold; (ii) warranty costs; and (iii) other direct expenses. Cost of inventories sold is our main component of cost of sales and accounted for approximately 87.6%, 87.7% and 91.7% of our total cost of sales for each of the three years ended 31 December 2015, respectively, which mainly included purchase costs of routers made by contract manufacturers, components, raw materials and accessories. Warranty costs represent costs of provision for customer support services and repair services. Other direct expenses mainly include labour cost, direct shipping expense and insurance.

The table below sets out the breakdown of cost of sales by components of cost of sales in terms of absolute amount and as a percentage of total cost of sales during the Track Record Period:

	For the year ended 31 December					
	2013		2014		2015	
	Cost of Sales US\$'000	% of total %	Cost of Sales US\$'000	% of total %	Cost of Sales US\$'000	% of total %
Cost of inventories sold	4,077	87.6	6,060	87.7	8,407	91.7
Warranty costs	485	10.4	420	6.1	530	5.8
Other direct expenses	93	2.0	430	6.2	229	2.5
<b>Total</b>	<b>4,655</b>	<b>100.0</b>	<b>6,910</b>	<b>100.0</b>	<b>9,166</b>	<b>100.0</b>

### Gross Profit and Gross Profit Margin

For each of the three years ended 31 December 2015, our gross profit was approximately US\$8.65 million, US\$11.04 million and US\$12.69 million, respectively, and our overall gross profit margin was approximately 65.0%, 61.5% and 58.1%, respectively.

The table below sets out our Group's gross profit and gross profit margin by product/service category during the Track Record Period:

	For the year ended 31 December					
	2013		2014		2015	
	Gross profit US\$'000	Gross profit margin %	Gross profit US\$'000	Gross profit margin %	Gross profit US\$'000	Gross profit margin %
SD-WAN routers:						
Wired	4,547	70.1	5,227	69.8	4,687	67.1
Wireless	2,088	46.4	3,411	44.7	4,350	40.7
Warranty and support services	1,532	83.6	2,161	83.7	3,374	86.4
Software licences	484	100.0	237	100.0	282	100.0
<b>Total</b>	<b>8,651</b>	<b>65.0</b>	<b>11,036</b>	<b>61.5</b>	<b>12,693</b>	<b>58.1</b>

Our wireless routers recorded the lowest profit margin among all of our products and services while the profit margins of our wired routers, warranty and support services and software licences were higher than our overall gross profit margin during the Track Record Period. Our business was not affected by seasonality and our gross profit margin depends on a combination of factors, including the sales volume of our products, the prices at which we charge for our products, the discount level that we offer to our distributors, and the cost of raw materials and components.



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The table below sets out the sales volume, average selling price, average unit cost, average gross profit and gross profit margin of wired and wireless routers during the Track Record Period:

	For the year ended 31 December														
	2013					2014					2015				
	Sales volume	Average selling price	Average unit cost	Average gross profit	Gross profit margin	Sales volume	Average selling price	Average unit cost	Average gross profit	Gross profit margin	Sales volume	Average selling price	Average unit cost	Average gross profit	Gross profit margin
	units	US\$	US\$	US\$	%	units	US\$	US\$	US\$	%	units	US\$	US\$	US\$	%
SD-WAN routers:															
Wired . . . . .	9,685	670	200	470	70.1%	9,464	792	239	553	69.8%	9,928	704	232	472	67.1%
Wireless . . . . .	21,188	213	114	99	46.4%	29,078	263	145	118	44.7%	45,485	235	139	96	40.7%
<b>Total . . . . .</b>	<b>30,873</b>					<b>38,542</b>					<b>55,413</b>				
Overall gross profit margin of SD-WAN routers . .					<b>60.4%</b>					<b>57.1%</b>					<b>51.1%</b>

Our product portfolio covers low-priced to high-priced range products in order to meet customer demand for different degree of product functionality, connectivity and stability. Wired routers comprise our Balance series and MediaFast series which are capable of connecting multiple devices and end users’ networks to the Internet through multiple WAN connections. Wireless routers mainly comprise our MAX BR series and MAX HD series and other series (which include a variety of miscellaneous low-priced wireless models) which are capable of connecting multiple devices and end users’ networks to the Internet through wireless connections.

Our gross profit increased by approximately US\$1.65 million from approximately US\$11.04 million in 2014 to approximately US\$12.69 million in 2015. This was mainly contributed by increase in sale of wireless routers and warranty and support services which was partially offset by decrease in gross profit from sale of wired routers. Due to strong U.S. dollars in 2015, the sale of our wired router, especially the high-priced wired models, in the Asian region was affected. In response to the currency fluctuation and our continuous effort to expand market share, we adjusted our pricing strategy in order to make our products more competitive especially in the Asian region. As a result, the average selling price, average gross profit and gross profit margin of our wired routers in 2015 were lower than those of 2014. Our sales in the Asian region only recorded a low growth of approximately 2.9% in 2015.

For our wireless routers, in additions to the above change of pricing strategy, the sale of lower margin wireless models in our product mix of our wireless routers increased from approximately 57.1% in 2014 to approximately 64.5% in 2015 and also contributed the decrease in the average selling price, average gross profit and gross profit margin of our wireless routers in 2015. Although the average selling price of our wireless products sold decreased in 2015, the significant increase in sales volume offset and overrode the negative effect to our gross profit caused by the decrease in the average selling price, which resulted in an increase in our gross profit of wireless products in 2015. The decrease in our gross profit margin in 2015 was mainly contributed by an increase in the sale of our lower margin product mix. The impact from the increase in the sale of our lower margin product mix was greater than the impact from strong U.S. dollars as the impact caused by strong U.S. dollars affected mainly the Asian region which contributed approximately 21.4% of our total revenue in 2015.

In 2014, our gross profit increased by approximately US\$2.39 million to approximately US\$11.04 million. This was mainly contributed by increase in gross profit of wired routers, wireless routers and warranty and support services. In 2014, the sale of lower margin wireless models (mainly MAX BR series) in our product mix of our wireless routers increased from approximately 54.0% in 2013 to approximately 57.1% in 2014 and accounted for a higher portion of revenue from sale of our wireless routers, the gross profit margin of wireless routers decreased from approximately 46.4% in 2013 to approximately 44.7% in 2014.

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All R&D costs of software licences are recognised as R&D expenses when incurred. Therefore, the gross profit margin of software licences was 100% during the Track Record Period.

For illustration purpose only, the table below sets out sensitivity analysis of our net profit for the year with reference to the fluctuation on the average selling price of routers and total cost of inventories sold during the Track Record Period:

	Hypothetical increase/ decrease in average selling price of routers by 5%	Hypothetical increase/ decrease in average selling price of routers by 10%	Hypothetical increase/ decrease in total cost of inventories sold by 5%	Hypothetical increase/ decrease in total cost of inventories sold by 10%
	US\$'000	US\$'000	US\$'000	US\$'000
Decrease/Increase in our net profit for the year:				
Year ended 31 December				
2013 .....	459	918	170	340
Year ended 31 December				
2014 .....	632	1,263	253	506
Year ended 31 December				
2015 .....	738	1,476	351	702

It demonstrates the impact of the hypothetical increase or decrease in the average selling price of routers and total cost of inventories sold on our net profit for the year, while all other factors remain unchanged.

### Other Income

Other income comprises mainly (i) bank interest income; and (ii) net gain on sales of parts material to contract manufacturers. For more details, please refer to the section headed “Business — Suppliers” in this document.

### Allowance for (Reversal of Allowance for) Doubtful Debts

The allowance for doubtful debts is provided on an individual basis for those trade debtors which have either been in severe financial difficulties or default payments. For the year ended 31 December 2013, approximately US\$147 allowance for doubtful debts was recognised on trade receivables and for the year ended 31 December 2014, a reversal of allowance for doubtful debts of approximately US\$0.18 million was recognised. Other than the above, no other allowance for (reversal of allowance for) doubtful debts was noted during the Track Record Period.

### Selling and Distribution Expenses

Selling and distribution expenses comprise mainly (i) salaries and benefits of our sales and marketing staff; (ii) advertising and promotion expenses incurred to promote our products; and (iii) others represent entertainment and overseas travelling expenses relating to our sales and marketing activities.



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The table below sets out the breakdown of selling and distribution expenses during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Staff costs. . . . .	350	495	536
Advertising and promotion expenses. . . . .	360	425	408
Others. . . . .	120	115	59
<b>Total. . . . .</b>	<b>830</b>	<b>1,035</b>	<b>1,003</b>

### Administrative Expenses

Administrative expenses comprise mainly (i) salaries and benefits of our administrative, finance and other supporting staff; (ii) depreciation and amortisation; (iii) office and rental expenses; (iv) computer expenses; (v) exchange difference, net; and (vi) miscellaneous expenses.

The table below sets out the breakdown of administrative expenses during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Staff costs. . . . .	748	740	1,062
Depreciation and amortisation. . . . .	201	244	332
Office and rental expenses . . . . .	493	651	843
Computer expenses . . . . .	50	107	62
Exchange difference, net . . . . .	49	123	217
Others <sup>(Note)</sup> . . . . .	165	184	194
<b>Total. . . . .</b>	<b>1,706</b>	<b>2,049</b>	<b>2,710</b>

*Note: Others mainly include bank charges, audit fee and office expenses.*

### Research and Development Expenses

R&D expenses comprise mainly (i) salaries and benefits of our engineering, testing and supporting staff; (ii) R&D costs including product testing fee, certification cost, tooling, components and parts used for product research and development purpose; and (iii) consultancy fee incurred for research and development purpose.

The table below sets out the breakdown of R&D expenses during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Staff costs. . . . .	2,428	3,208	3,104
R&D costs. . . . .	549	493	517
Consultancy fee. . . . .	159	268	286
<b>Total. . . . .</b>	<b>3,136</b>	<b>3,969</b>	<b>3,907</b>

For each of the three years ended 31 December 2015, approximately US\$21,000, US\$78,000 and US\$0.27 million of our R&D expenses were capitalised as intangible assets for development and protection of our intellectual properties.

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### [REDACTED]

[REDACTED] represent the legal, professional and other fees with respect to the [REDACTED]. We recorded [REDACTED] of approximately US\$1.00 million for the year ended 31 December 2015.

### Finance Costs

Finance costs consist of interest on bank borrowings incurred in connection with the credit facilities provided by commercial banks in Hong Kong.

### Income Tax Expenses

During the Track Record Period, we provided for Hong Kong profits tax at a rate of 16.5% on our estimated assessable profits arising in Hong Kong. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Our income tax expenses consist primarily of corporate income tax and movements in deferred tax assets and liabilities. For each of the three years ended 31 December 2015, our income tax expenses were approximately US\$0.44 million, US\$0.54 million and US\$0.78 million, respectively, and our effective income tax rate was approximately 14.8%, 12.6% and 18.9%, respectively. For the years ended 31 December 2013 and 2014, the effective tax rates were lower than 2015 due to the utilisation of tax loss carried forward from the previous financial years before the Track Record Period. The related tax losses arose in the previous financial years in which Pepwave made adjusted accumulated tax losses of approximately US\$1,154,000 due to Pepwave spent several years since its incorporation in developing and marketing the wireless broadband devices and solutions so as to penetrate the market, and Pismo Labs made adjusted accumulated tax losses of approximately US\$806,000 due to the intra-group income earned by Pismo Labs not sufficient in fully covering the R&D expenses and other administrative expenses incurred. The tax losses of approximately US\$268,000 and US\$12,000 in 2013, and approximately US\$886,000 and US\$55,000 in 2014, were subsequently utilised to offset against taxable income which were computed based on profit before tax of Pepwave and Pismo Labs, respectively, adjusted by income not taxable and expenses not deductible for tax purposes, in years 2013 and 2014.

For the year ended 31 December 2015, the higher effective tax rate than the domestic income tax rate of 16.5% was mainly due to the [REDACTED] incurred not deductible for tax purposes. In addition, Pismo Research (Malaysia) made adjusted loss of approximately US\$117,000 due to the intra-group income earned by Pismo Research (Malaysia) not sufficient in fully covering the supporting services and administrative expenses incurred and Peplink International made adjusted loss of approximately US\$42,000 due to lesser sale orders were concluded during the year by Peplink International. Pismo Labs used its tax losses of approximately US\$538,000 carried forward from previous years to set off against its taxable income in year 2015.

As at the Latest Practicable Date, we had paid or made provisions for all taxes and did not have any material disputes with tax authorities.

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### RESULTS OF OPERATIONS

#### Year Ended 31 December 2015 Compared with Year Ended 31 December 2014

##### *Revenue*

Our revenue increased by approximately US\$3.91 million or 21.8% from US\$17.95 million for the year ended 31 December 2014 to approximately US\$21.86 million for the year ended 31 December 2015. The increase was mainly attributable to an increase of approximately US\$3.05 million and US\$1.37 million in the sale of wireless routers, software licences, and warranty and support services, respectively, which was partially offset by a decrease of approximately US\$0.50 million in the sales of wired routers. General increase in sales was primarily due to (i) increasing demand from our distributors in North American and EMEA regions; and (ii) an increase in the sale volume in our products, in particular, the increase in sales driven by the MAX BR and MAX HD series for use in transportation passenger Wi-Fi services found in buses, coaches and ferries. This was in line with the industry trend of expanding 4G LTE networks globally and the decrease of such network costs. The resulting increase in sales from increased sales volume outweighed the impact of decrease in average selling price of products.

##### *Cost of Sales*

Our cost of sales increased by approximately US\$2.26 million or approximately 32.7% from US\$6.91 million for the year ended 31 December 2014 to approximately US\$9.17 million for the year ended 31 December 2015. The increase in our total cost of sales was generally in line with the increase in our sales volume.

Our total cost of sales for wired routers increased slightly by approximately 1.3% to approximately US\$2.30 million for the year ended 31 December 2015 from approximately US\$2.27 million for the year ended 31 December 2014 and are in line with the increase in sales volume of wired routers. Our total cost of sales for wireless routers increased by approximately 50.2% to approximately US\$6.34 million for the year ended 31 December 2015 from approximately US\$4.22 million for the year ended 31 December 2014 as a result of increase in sales volume.

##### *Gross Profit and Gross Profit Margin*

As a result of the foregoing, our gross profit increased by approximately US\$1.65 million or 14.9% from approximately US\$11.04 million for the year ended 31 December 2014 to approximately US\$12.69 million for the year ended 31 December 2015. Our overall gross profit margin decreased from approximately 61.5% for the year ended 31 December 2014 to approximately 58.1% for the year ended 31 December 2015.

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The table below sets out the breakdown of our gross profit and gross profit margin of each product/service category for the year ended 31 December 2014 and 2015, as well as the percentages of change in gross profit from the year ended 31 December 2014 to the year ended 31 December 2015:

	For the year ended 31 December						Change in gross profit %
	2014			2015			
	Gross profit		Gross profit margin	Gross profit		Gross profit margin	
	US\$'000	% of total %	%	US\$'000	% of total %	%	
SD-WAN routers:							
Wired . . . . .	5,227	47.4	69.8	4,687	36.9	67.1	(10.3)
Wireless . . . . .	3,411	30.9	44.7	4,350	34.3	40.7	27.5
Warranty and support services. . . . .	2,161	19.6	83.7	3,374	26.6	86.4	56.1
Software licences. . . . .	237	2.1	100.0	282	2.2	100.0	19.0
<b>Total. . . . .</b>	<b>11,036</b>	<b>100.0</b>	<b>61.5</b>	<b>12,693</b>	<b>100.0</b>	<b>58.1</b>	<b>15.0</b>

The gross profit for wired routers decreased from approximately US\$5.23 million for the year ended 31 December 2014 to approximately US\$4.69 million for the year ended 31 December 2015 where the gross profit margin decreased from approximately 69.8% to 67.1% during the same period. A majority of our products was priced and traded in U.S. dollars. Due to strong U.S. dollars in 2015, the sale of our wired routers, especially those high-priced models, in the Asian region was affected. In response to the currency fluctuation and our continuous effort to expand market share, we adjusted our pricing strategy in order to make our products more competitive especially in the Asian region. As a result, the average selling price, average gross profit and gross profit margin of our wired routers in 2015 were lower than those of 2014. Our sales in the Asian region only recorded a low growth of approximately 2.9% in 2015.

The gross profit for wireless routers increased from approximately US\$3.41 million for the year ended 31 December 2014 to approximately US\$4.35 million for the year ended 31 December 2015 where the gross profit margin decreased from approximately 44.7% to 40.7% in the same period. The increase in the gross profit was primarily due to an increase in the sale volume of our lower margin wireless products. In addition to the impact from the above change of pricing strategy, the decrease in our gross profit margin of wireless routers in 2015 was also contributed by an increase in the sale of our lower margin product mix. The impact from the increase in the sale of our lower margin product mix was greater than the impact from strong U.S. dollars as the impact caused by strong U.S. dollars affected mainly the Asian region which only contributed approximately 21.4% of our total revenue in 2015.

The gross profit for warranty and support services increased from approximately US\$2.16 million for the year ended 31 December 2014 to approximately US\$3.37 million for the year ended 31 December 2015, and the gross profit margin increased from approximately 83.7% to 86.4% in the same period. The increase in the gross profit was mainly due to the increase in the product warranty service fee along with our increase in sale volume of routers.

The gross profit for software licences increased slightly from approximately US\$0.24 million for the year ended 31 December 2014 to approximately US\$0.28 million for the year ended 31 December 2015. All R&D costs of software licences are recognised as R&D expenses when incurred. Therefore, the gross profit margin of software licences is 100% during the Track Record Period.

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### *Other Income*

Other income decreased by approximately US\$0.06 million from approximately US\$0.13 million for the year ended 31 December 2014 to approximately US\$0.07 million for the year ended 31 December 2015. The decrease was mainly due to the decrease in net gain from the sale of parts material.

### *Allowance for (Reversal of Allowance for) Doubtful Debts*

Reversal of allowance for doubtful debts of approximately US\$0.18 million was recognised for the year ended 31 December 2014 due to receipt of settlement for trade receivables for which allowance for doubtful debts had previously been made, and no such amount was noted for the year ended 31 December 2015.

### *Selling and Distribution Expenses*

Our selling and distribution expenses decreased slightly by approximately US\$0.04 million or approximately 3.9% from approximately US\$1.04 million for the year ended 31 December 2014 to US\$1.00 million for the year ended 31 December 2015. The decrease was mainly attributable to decrease in overseas travelling expenses as we mainly invited customers to visit our office in Hong Kong for product updates and technical training in 2015.

### *Administrative Expenses*

Our administrative expenses increased by approximately US\$0.66 million or approximately 32.2% from approximately US\$2.05 million for the year ended 31 December 2014 to approximately US\$2.71 million for the year ended 31 December 2015. The increase in the administrative expenses was in line with our expansion of business scale and was mainly attributable to (i) the increase in staff costs as a result of the combined effect of an increase in the average salaries and wage and an increase in the total number of our administrative and operation staff; (ii) the increase in office and rental expenses as we expanded our office space during second half of 2014; (iii) the exchange loss resulted from currency fluctuation; and (iv) the increase in depreciation and amortisation as a result of the increase in our property, plant and equipment and intangible assets.

### *Research and Development Expenses*

Our R&D expenses decreased slightly by approximately US\$0.06 million or 1.5% from approximately US\$3.97 million for the year ended 31 December 2014 to approximately US\$3.91 million for the year ended 31 December 2015. The decrease was primarily due to the decrease in performance bonus distributed to engineering staff.

### *[REDACTED]*

[REDACTED] represent the legal, professional and other fees with respect to the [REDACTED]. We recorded [REDACTED] of nil and approximately [REDACTED] for the two years ended 31 December 2015, respectively.

### *Finance Costs*

Our finance costs decreased by approximately US\$3,000 or approximately 75.0% from approximately US\$4,000 for the year ended 31 December 2014 to approximately US\$1,000 for the year ended 31 December 2015.

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### *Income Tax Expenses*

Our income tax expenses increased by approximately US\$0.24 million or approximately 44.4% from approximately US\$0.54 million for the year ended 31 December 2014 to approximately US\$0.78 million for the year ended 31 December 2015. Our effective income tax rate increased from approximately 12.6% for the year ended 31 December 2014 to approximately 18.9% for the year ended 31 December 2015, primarily due to utilisation of tax loss by Pismo Labs for the year ended 31 December 2014 and the increase in non-deductible [REDACTED] for year ended 31 December 2015.

### *Profit for the Year*

As a result of the foregoing, our profit for the year decreased by approximately US\$0.38 million, or approximately 10.2% from approximately US\$3.74 million for the year ended 31 December 2014 to approximately US\$3.36 million for the year ended 31 December 2015.

## **Year ended 31 December 2014 compared with year ended 31 December 2013**

### *Revenue*

Our revenue increased by approximately US\$4.64 million or approximately 34.9% from approximately US\$13.31 million for the year ended 31 December 2013 to US\$17.95 million for the year ended 31 December 2014. The increase was mainly attributable to an increase of approximately US\$1.00 million, approximately US\$3.14 million and approximately US\$0.50 million in the sale of wired routers, wireless routers and software licences and warranty and support services, respectively. General increase in sales was primarily due to introduction of new products, such as high end MediaFast series and sales volume of products, particularly, the increase in sale driven by the MAX BR and MAX HD series which was in line with the industry trend of expanding 4G LTE networks globally.

### *Cost of Sales*

Our cost of sales increased by approximately US\$2.25 million or approximately 48.3% from approximately US\$4.66 million for the year ended 31 December 2013 to approximately US\$6.91 million for the year ended 31 December 2014. The increase in our total cost of sales was mainly due to the increase in the sale volume of wireless routers contributed by MAX series.

Our cost of sales for wired routers increased by approximately US\$0.33 million or approximately 17.0% to approximately US\$2.27 million for the year ended 31 December 2014 from approximately US\$1.94 million for the year ended 31 December 2013 and were in line with the increase in revenue of wired routers. Our total cost of sales for wireless routers increased by approximately US\$1.80 million or approximately 74.4% to approximately US\$4.22 million for the year ended 31 December 2014 from approximately US\$2.42 million for the year ended 31 December 2013 as a result of the increase in the sale volume.

### *Gross Profit and Gross Profit Margin*

As a result of the foregoing, our gross profit increased by approximately US\$2.39 million or 27.6% from approximately US\$8.65 million for the year ended 31 December 2013 to approximately US\$11.04 million for the year ended 31 December 2014. Our overall gross profit margin decreased from approximately 65.0% for the year ended 31 December 2013 to approximately 61.5% for the year ended 31 December 2014.



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The table below sets out the breakdown of our gross profit and gross profit margin of each product/service category for the year ended 31 December 2013 and 2014, as well as the percentages of change in gross profit, from the year 2013 to year 2014:

	For the year ended 31 December						Change in gross profit %
	2013			2014			
	Gross profit		Gross profit margin	Gross profit		Gross profit margin	
	US\$'000	% of total %	%	US\$'000	% of total %	%	
SD-WAN routers:							
Wired . . . . .	4,547	52.6	70.1	5,227	47.4	69.8	15.0
Wireless . . . . .	2,088	24.1	46.4	3,411	30.9	44.7	63.4
Warranty and support services . . . . .	1,532	17.7	83.6	2,161	19.6	83.7	41.1
Software licences . . . . .	484	5.6	100.0	237	2.1	100.0	(51.0)
<b>Total . . . . .</b>	<b>8,651</b>	<b>100.0</b>	<b>65.0</b>	<b>11,036</b>	<b>100.0</b>	<b>61.5</b>	<b>27.6</b>

The gross profit for wired routers increased from approximately US\$4.55 million for the year ended 31 December 2013 to approximately US\$5.23 million for the year ended 31 December 2014, where the gross profit margin remained stable during the same period. The increase in the gross profit was primarily due to the increase in sale volume of high-priced wired routers.

The gross profit for wireless routers increased from approximately US\$2.09 million for the year ended 31 December 2013 to approximately US\$3.41 million for the year ended 31 December 2014, where the gross profit margin decreased slightly from approximately 46.4% to 44.7% during the same period. The increase in gross profit was primarily due to an increase in sale volume. The decrease in gross profit margin of wireless router was mainly due to the sale of lower margin wireless models (mainly MAX BR series) in our product mix of our wireless routers increased from approximately 54.0% in 2013 to approximately 57.1% in 2014 and accounted for a higher portion of revenue from sale of our wireless routers in 2014.

The gross profit for warranty and support services increased from approximately US\$1.53 million for the year ended 31 December 2013 to approximately US\$2.16 million for the year ended 31 December 2014, and the gross profit margin increased slightly from approximately 83.6% to approximately 83.7% during same period. The increase in the gross profit was mainly due to the increase in product warranty service fee along with the increase in our sale volume of routers.

The gross profit for software licences decreased from approximately US\$0.48 million for the year ended 31 December 2013 to approximately US\$0.24 million for the year ended 31 December 2014. All R&D costs of software licences are recognised as R&D expenses when incurred. Therefore, the gross profit margin of software licences is 100% during the Track Record Period.

### *Other Income*

Our other income increased by approximately US\$0.10 million from approximately US\$0.03 million for the year ended 31 December 2013 to approximately US\$0.13 million for the year ended 31 December 2014. The increase was mainly due to the increase in the net gain from the sale of parts material.

### *Allowance for (Reversal of Allowance for) Doubtful Debts*

Allowance for doubtful debts of approximately US\$147 was recognised for the year ended 31 December 2013 and reversal of allowance for doubtful debts of approximately US\$0.18 million was recognised for the year ended 31 December 2014 due to receipt of settlement for trade receivables for which allowance for doubtful debts had previously been made.

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### *Selling and Distribution Expenses*

Our selling and distribution expenses increased by approximately US\$0.21 million or approximately 25.3% from approximately US\$0.83 million for the year ended 31 December 2013 to approximately US\$1.04 million for the year ended 31 December 2014. The increase was mainly attributable to (i) an increase in the average salaries and wages of our selling and distribution staff; and (ii) an increase in advertising and promotion expenses as a result of our increased efforts, including overseas exhibitions and fees paid to a marketing agency, to promote our products.

### *Administrative Expenses*

Our administrative expenses increased by approximately US\$0.34 million or approximately 19.9% from approximately US\$1.71 million for the year ended 31 December 2013 to approximately US\$2.05 million for year ended 31 December 2014. The increase in administrative expenses was in line with our expansion of business scale and was mainly attributable to (i) the increase in office and rental expenses as we expanded our office space in Hong Kong during second half of year 2014; (ii) exchange loss resulted from currency fluctuation; and (iii) the increase in amortisation as a result of the increase in amortisation for our intangible assets.

### *Research and Development Expenses*

R&D expenses increased by approximately US\$0.83 million or approximately 26.4% to approximately US\$3.97 million for the year ended 31 December 2014 from approximately US\$3.14 million for the year ended 31 December 2013. The increase was primarily due to (i) the increase in average salaries and wages of engineering, testing and supporting staff; and (ii) the increase in consultancy fee for product testing activities of new development projects.

### *Finance Costs*

Our finance costs remained stable at approximately US\$4,000 for each of the two years ended 31 December 2014.

### *Income Tax Expenses*

Our income tax expenses increased by approximately US\$0.1 million or approximately 22.7% from approximately US\$0.44 million for the year ended 31 December 2013 to approximately US\$0.54 million for the year ended 31 December 2014, primarily due to the increase in profit before taxation. Our effective income tax rate decreased from approximately 14.8% in year 2013 to approximately 12.6% in year 2014, mainly due to utilisation of tax loss by Pepwave and Pismo Labs in year 2014.

### *Profit for the Year*

As a result of the foregoing, the profit for the year increased by approximately US\$1.17 million or approximately 45.5% to approximately US\$3.74 million for the year ended 31 December 2014 from US\$2.57 million for the year ended 31 December 2013.

## LIQUIDITY AND CAPITAL RESOURCES

We have historically met our liquidity requirements through cash flows from operations and bank borrowings. Our primary liquidity requirements are to fund working capital, capital expenditures and payments of principal and interest due on our borrowings. Going forward, we

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expect these requirements to continue to be our principal requirements of liquidity and we may use a portion of the [REDACTED] from the [REDACTED] to finance some of our capital requirements.

### Cash Flows

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

	For the year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Net cash flows from operating activities . . . . .	3,076	3,093	3,019
Net cash flows (used in) from investing activities . . . . .	(19)	130	(915)
Net cash flows (used in) from financing activities . . . . .	(1,291)	(3,639)	202
Net increase/(decrease) in cash and cash equivalents. . .	1,766	(416)	2,306
Cash and cash equivalents at the beginning of the year .	2,365	4,133	3,696
Effect of foreign exchange rate changes on cash and cash equivalents. . . . .	2	(21)	60
<b>Cash and cash equivalents at the end of the year . . .</b>	<b><u>4,133</u></b>	<b><u>3,696</u></b>	<b><u>6,062</u></b>

#### *Net Cash Flow from Operating Activities*

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

Cash generated from operating activities reflects our profit before taxation, adjusted for (i) non-cash items and all other items for which the cash effects are non-operating (such as depreciation of property, plant and equipment, amortisation of intangible assets, provision of inventories, allowance for doubtful debts); and (ii) the effects of changes in working capital, such as changes in inventories, trade and other receivables, trade and other payables, deferred revenue and amount due to related companies. Cash flows from operating activities can be significantly affected by factors such as the timing of collections of trade receivables from customers and payments of trade payables to suppliers during the ordinary course of business.

For the year ended 31 December 2015, we recorded net cash inflows from operating activities of approximately US\$3.02 million, primarily as a result of the cash inflow from operating activities before movements in working capital of approximately US\$4.51 million. Working capital adjustments reflected: (i) an increase in trade and other receivables of approximately US\$0.53 million mainly due to the revenue generated during year 2015 which was not yet due for settlements; (ii) an increase in inventories of approximately US\$0.52 million due to the purchase of components, raw materials and finished goods made in 2015 according to our manufacturing demands; and (iii) a decrease in trade and other payables of approximately US\$0.94 million due to decrease in trade deposits received from customers upon fulfilment of sales orders before end of 2015. Such negative adjustments were partially offset by an increase in deferred revenue of approximately US\$1.21 million due to the fact that more customers purchase our warranty and support services, which was in line with increased sales volume. We paid income tax of approximately US\$0.78 million for the year ended 31 December 2015.

For the year ended 31 December 2014, net cash generated from operating activities was approximately US\$3.09 million. Our operation cash flow before working capital adjustments was approximately US\$4.58 million. Working capital adjustments reflected (i) an increase in trade and other receivables of approximately US\$1.01 million due to the increase in sale during the last two

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months in 2014 compared with the same period in 2013; (ii) an increase in inventories of approximately US\$1.30 million; and (iii) a decrease of amount due to related companies of approximately US\$0.20 million which was partially offset by (a) an increase in trade and other payables of approximately US\$0.47 million and primarily due to increase in accruals and trade deposits received from customers for purchase of products; and (b) an increase in deferred revenue of approximately US\$0.91 million due to the fact that more customers purchased warranty and support services which was in line with increased sales volume. We paid income tax of approximately US\$0.36 million for the year ended 31 December 2014.

For the year ended 31 December 2013, net cash generated from operating activities was approximately US\$3.07 million. Our operation cash flow before working capital adjustments was approximately US\$3.40 million. Working capital adjustments reflected (i) an increase in trade and other receivables of approximately US\$1.20 million due to the increased sales during the last two months in 2013 compared with the same period in 2012; and (ii) an increase in inventories of approximately US\$0.58 million which was partially offset by (a) an increase in trade payables and advances from customers of approximately US\$0.86 million, primarily due to an increase in the sale and purchase volume; and (b) an increase in the deferred revenue of approximately US\$0.69 million. We paid income tax of approximately US\$0.10 million for the year ended 31 December 2013.

### *Net Cash Flow used in/from Investing Activities*

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

For the year ended 31 December 2015, we recorded net cash outflows from investing activities of approximately US\$0.91 million, primarily due to (i) payments for acquisition of property, plant and equipment of approximately US\$0.21 million; (ii) payments of application cost for patent, trademark, test and certificate of approximately US\$0.26 million; and (iii) repayment of borrowings on behalf of the related companies of approximately US\$0.52 million.

For the year ended 31 December 2014, we recorded net cash inflows from investing activities of approximately US\$0.13 million, primarily due to (i) payments for acquisition of property, plant and equipment of approximately US\$0.35 million; and (ii) advances to a director of approximately US\$2.53 million, which was offset by receipts on advances to a director of approximately US\$3.19 million.

For the year ended 31 December 2013, we recorded net cash outflows from investing activities of approximately US\$0.02 million, primarily due to (i) payments for acquisition of property, plant and equipment of approximately US\$0.24 million; and (ii) advances to a director of approximately US\$1.05 million, which was partially offset by receipts on advances to a director of approximately US\$1.32 million.

### *Net Cash Flow used in/from Financing Activities*

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

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For the year ended 31 December 2015, we recorded net cash from financing activities of approximately US\$0.20 million, primarily due to dividends paid to a Shareholder of approximately US\$2.80 million which was offset by (i) new bank loans of approximately US\$1.24 million; and (ii) advances from a director of approximately US\$2.15 million which were subsequently fully settled in June 2016.

For the year ended 31 December 2014, we recorded net cash used in financing activities of approximately US\$3.64 million, primarily due to dividends paid to a Shareholder of approximately US\$3.70 million, which was partially offset by the net advances from related companies of approximately US\$0.06 million.

For the year ended 31 December 2013, we recorded net cash used in financing activities of approximately US\$1.29 million, primarily due to the dividends paid to a Shareholder of approximately US\$1.30 million, which was partially offset by the net advances from related companies of approximately US\$0.01 million.

### **Working Capital**

Taking into account the financial resources available to our Group, including the internally generated funds, available banking facility and the estimated [REDACTED] of the [REDACTED], our Directors are of the opinion that our Group has sufficient working capital for our present requirements, that is, for at least the next 12 months from the date of this document.

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### Net Current Assets

The table below sets out our combined current assets, current liabilities and net current assets as at the dates indicated extracted from the combined statements of financial position:

	As at 31 December			As at 30 April
	2013	2014	2015	2016
	US\$'000	US\$'000	US\$'000	US\$'000 (unaudited)
<b>Current Assets</b>				
Inventories . . . . .	2,585	3,651	4,138	4,263
Trade and other receivables . . . . .	2,136	3,328	3,857	4,505
Amount due from a director . . . . .	665	—	—	—
Amounts due from related companies . . . . .	728	816	459	494
Bank balance and cash . . . . .	4,133	3,696	6,062	5,397
<b>Total Current Assets . . . . .</b>	<b>10,247</b>	<b>11,491</b>	<b>14,516</b>	<b>14,659</b>
<b>Current Liabilities</b>				
Trade and other payables . . . . .	1,514	1,983	1,045	1,298
Amount due to a director . . . . .	—	2	1,794	20
Amounts due to related companies . . . . .	246	152	15	15
Deferred revenue . . . . .	1,257	1,768	2,852	2,837
Tax liabilities . . . . .	342	499	516	725
Bank borrowings . . . . .	59	60	1,239	1,010
<b>Total Current Liabilities . . . . .</b>	<b>3,418</b>	<b>4,464</b>	<b>7,461</b>	<b>5,905</b>
<b>Net Current Assets . . . . .</b>	<b>6,829</b>	<b>7,027</b>	<b>7,055</b>	<b>8,754</b>

As at 31 December 2013, 2014 and 2015 and 30 April 2016, our net current assets amounted to approximately US\$6.83 million, US\$7.03 million, US\$7.06 million and US\$8.75 million, respectively. Our net current assets position as at each of these dates was mainly attributable to our inventories, trade and other receivables and cash and cash equivalents, partially offset by our trade and other payables, deferred revenue, bank borrowings and amounts due to a director and related companies which were subsequently settled in June 2016.

Our net current assets increased by approximately 23.9% from US\$7.06 million as at 31 December 2015 to US\$8.75 million as at 30 April 2016, primarily due to (i) an increase in inventories of approximately US\$0.12 million resulted from our purchase of raw materials and finished goods to fulfil estimated demand for our products; (ii) an increase in trade and other receivables of approximately US\$0.65 million due to increase in prepayment for deferred [REDACTED]; and (iii) a decrease in amount due to a director of approximately US\$1.77 million due to settlement of dividend declared for year 2015, partially offset by an increase in trade and other payables of approximately US\$0.25 million mainly resulted from increase in trade deposits received from customers for purchase of products.

Our net current assets increased slightly by approximately 0.4% to approximately US\$7.06 million as at 31 December 2015 from approximately US\$7.03 million as at 31 December 2014. This increase in net current assets was primarily due to (i) an increase in bank balance and cash of approximately US\$2.36 million resulting from the increase in our revenue earned during the year 2015 and bank borrowing of approximately US\$1.24 million obtained in December 2015; (ii) an increase in inventories of approximately US\$0.49 million primarily as a result of an increase in raw materials and finished goods to fulfil estimated demand for our products; (iii) an increase in trade and other receivables of approximately US\$0.53 million due to increase in trade receivables resulted from (a) delay in settlement from some of our customers and majority of which was subsequently settled up to the Latest Practicable Date; and (b) increase in prepayment for



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deferred [REDACTED] during the year; and (iv) a decrease in trade and other payables of approximately US\$0.93 million resulting from settlement to suppliers and decrease in deposits received from customers since most orders were fulfilled before end of 2015; partially offset by an increase in amount due to a director of approximately US\$1.79 million mainly related to dividend declared for year 2015.

Our net current assets increased slightly by approximately 2.9% from approximately US\$6.83 million as at 31 December 2013 to approximately US\$7.03 million as at 31 December 2014, primarily due to (i) an increase in trade and other receivables of approximately US\$1.19 million resulted from the increase in our sale during the last two months of 2014; and (ii) an increase in inventories of approximately US\$1.06 million which was mainly caused by the fact that we purchased more inventories to prepare for the increase in sales orders and partially offset by (a) a decrease in amount due from a director of approximately US\$0.67 million; (b) an increase of approximately US\$0.51 million in deferred revenue in relation to the provision of warranty and support services; and (c) an increase in trade and other payables of approximately US\$0.47 million due to increase in accruals and trade deposits received from customers for purchase of products.

### DESCRIPTION OF CERTAIN ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

#### Inventories

Inventories comprise raw materials and consumables and finished goods. As at 31 December 2013, 2014 and 2015, our inventories amounted to approximately US\$2.59 million, US\$3.65 million and US\$4.14 million. Our raw materials mainly include CPUs and wireless communication modules. Finished goods represent SD-WAN routers ready to be sold.

The table below sets out the components of our inventories as at the dates indicated:

	As at 31 December		
	2013 US\$'000	2014 US\$'000	2015 US\$'000
Raw materials and consumables . . . . .	1,057	1,618	1,866
Finished goods . . . . .	1,528	2,033	2,272
<b>Total</b> . . . . .	<b>2,585</b>	<b>3,651</b>	<b>4,138</b>

We adopt stringent inventory control through effective inventory management. We also periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. Provision is made when the net realisable value of inventories falls below the cost or any of the inventories is identified obsolete at period end. The net amount of our impairment of inventories for each of the three years ended 31 December 2015 was approximately US\$0.19 million, US\$0.24 million and US\$0.04 million, respectively.

Our Group does not have manufacturing plant and relies on the supply of inventory from our suppliers in order to secure our product supply and shorten our lead time to customers, our Group maintains an inventory level to cope with approximately four to six months market demand. Our management constantly adjust the purchase and stock of inventories according to the market demands of our products. Our balance of inventories increased by approximately US\$1.06 million from approximately US\$2.59 million as at 31 December 2013 to approximately US\$3.65 million as at 31 December 2014, and by approximately US\$0.49 million to approximately US\$4.14 million as at 31 December 2015, primarily as a result of the increase in our raw materials, consumables and finished goods which are in line with the increase in our sales volume.

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The table below sets out our inventory turnover days during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
Average inventory turnover days <sup>(1)</sup> . . . . .	187	165	155

*Note:*

(1) Average inventory turnover days equal to the average of the opening and closing inventories balances of the relevant year divided by the cost of sales of the relevant year multiplied by 365 days.

Average inventory turnover days indicates the average time required for us to sell the inventories. Our average inventory turnover days decreased from 187 days for the year ended 31 December 2013 to 165 days for the year ended 31 December 2014, then further decreased to 155 days for the year ended 31 December 2015, primarily due to (i) having better inventory management and purchase plan after frequent communication with major distributors for sales forecast; and (ii) greater demands for our products as a result of increasing use of business Internet and mobile connectivity. As at the Latest Practicable Date, approximately 60.1% of inventories as at 31 December 2015 was subsequently utilised.

### Trade and Other Receivables

As at 31 December 2013, 2014 and 2015, our trade and other receivables amounted to approximately US\$2.14 million, US\$3.33 million and US\$3.86 million, respectively.

The table below sets out the components of our trade and other receivables as at the dates indicated:

	As at 31 December		
	2013 US\$'000	2014 US\$'000	2015 US\$'000
Trade receivables. . . . .	1,448	2,398	2,702
Other receivables. . . . .	261	230	183
Trade deposits paid . . . . .	232	359	206
Utility and deposits . . . . .	61	103	100
Prepaid expenses . . . . .	134	238	376
Deferred [REDACTED] . . . . .	—	—	290
<b>Total.</b> . . . . .	<b>2,136</b>	<b>3,328</b>	<b>3,857</b>

Trade receivables comprise amounts receivable from the sales and distribution of routers and income from software licences and provision of warranty and support services. Our trade receivables increased by approximately US\$0.95 million from approximately US\$1.45 million as at 31 December 2013 to approximately US\$2.40 million as at 31 December 2014, and by approximately US\$0.3 million to approximately US\$2.70 million as at 31 December 2015, of which approximately 99.96% had been settled as at the Latest Practicable Date. During the Track Record Period, the increase in our trade receivables was generally in line with the increase in our revenue.

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. We may extend credit to certain of customers on a case-by-case basis. Credit terms for periods ranging from 30 days to 60 days may generally be granted based on their prior relationship with us as well as potential business opportunities, their order size and their creditworthiness. We review the credit limits granted to our customers periodically.

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We seek to maintain strict control over our outstanding receivables. Our management regularly reviews the recoverability of our overdue balances and when appropriate, provide for impairment of our trade receivables. In determining whether impairment is required, our management takes into account the aging and recoverability of the trade receivables on a case-by-case basis.

The table below sets out an aging analysis of our trade receivables based on the invoice date and net of provisions for impairment, as at the dates indicated:

	As at 31 December		
	2013 US\$'000	2014 US\$'000	2015 US\$'000
1 to 30 days . . . . .	1,103	1,653	1,587
31 to 60 days . . . . .	331	492	572
61 to 90 days . . . . .	12	78	434
91 to 120 days . . . . .	2	175	109
<b>Total</b> . . . . .	<b>1,448</b>	<b>2,398</b>	<b>2,702</b>

The table below sets out our average trade receivables turnover days during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
Average trade receivables turnover days <sup>(Note)</sup> . . . .	28	39	43

*Note:*

Average trade receivables turnover days equal to the average of the opening and closing balances of net trade receivables of the relevant year divided by the revenue of the relevant year multiplied by 365 days.

Average trade receivables turnover days indicates the average time required for us to collect cash payments from our customers. Our average trade receivables turnover days increased from 28 days for the year ended 31 December 2013 to 39 days for the year ended 31 December 2014, and further increased to 43 days for the year ended 31 December 2015. The increase in average trade receivables turnover days in year 2014 was mainly resulted from increase in sales incurred in last two months of year 2014 compared to the same period in year 2013. The increase in average trade receivables turnover days in year 2015 was primarily due to delay in settlement from some of our customers which resulted in increase in trade receivables with aging from 31 days to 90 days, all of them was subsequently settled.

For the year ended 31 December 2013, allowance for doubtful debts of approximately US\$147 was recognised on trade receivables and for the year ended 31 December 2014, a reversal of impairment losses on trade receivables of approximately US\$0.18 million was recognised. Other than the above, no other allowance for/reversal of doubtful debts was noted during the Track Record Period.

Trade deposits paid represent prepayments to our raw materials suppliers and contract manufacturers for purchase of raw materials and finished goods. As at 31 December 2013, 2014 and 2015, our trade deposits paid amounted to approximately US\$0.23 million, US\$0.36 million and US\$0.21 million, respectively. Fluctuation in trade deposits paid during the Track Record Period was related to the amount of unfulfilled purchase orders without credit terms as at relevant year end dates.

Prepaid expenses mainly include prepaid insurance premium and prepayment of application cost for patent, trademark, test and certification, registration of which were not yet completed. Prepaid expenses increased from approximately US\$0.13 million as at 31 December 2013 to

## FINANCIAL INFORMATION

approximately US\$0.24 million as at 31 December 2014, and further to approximately US\$0.38 million as at 31 December 2015. The increase was in line with our focus to strengthen our intellectual property protection and growth in our product portfolio.

### Trade and Other Payables

Trade payables represent the amounts due to our suppliers from which we are granted credit terms generally ranging from 30 days to 60 days. Advance and deposit received from customers were mainly for sales orders without credit terms. Accruals mainly comprise accrued staff salary and bonus, accrued audit fees and other accruals for office expenses. As at 31 December 2013, 2014 and 2015, our trade and other payables amounted to approximately US\$1.51 million, US\$1.98 million and US\$1.05 million, respectively.

The table below sets out the components of our trade and other payables as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Trade payables . . . . .	712	588	223
Advance and deposits received from customer . .	393	631	192
Accruals and other payables . . . . .	409	764	630
<b>Total</b> . . . . .	<b>1,514</b>	<b>1,983</b>	<b>1,045</b>

Our balance of trade payables decreased by approximately US\$0.12 million from approximately US\$0.71 million as at 31 December 2013 to approximately US\$0.59 million as at 31 December 2014, then further decreased by approximately US\$0.37 million to approximately US\$0.22 million as at 31 December 2015. During the Track Record Period, the decrease in our trade payables was primarily due to better purchase plan after frequent communication with our major distributors for sales forecast, we are able to purchase adequate inventory in the third quarter of 2015 to meet the demand from the estimated peak season in the last quarter of 2015.

The table below sets out an aging analysis of our trade payables as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Within 30 days . . . . .	623	574	208
31 to 90 days . . . . .	89	14	15
<b>Total</b> . . . . .	<b>712</b>	<b>588</b>	<b>223</b>

Normally, our trade payables are generally settled within credit period. During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not default in payment of any trade and non-trade payables.

The table below sets out our average trade payables turnover days during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
Average trade payables turnover days <sup>(Note)</sup> . . . . .	35	34	16

*Note:*

Average trade payables turnover days equal to the average of opening and closing balances of trade payables of the relevant year divided by the cost of sales of the relevant year multiplied by 365 days.

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Average trade payables turnover days indicates the average time we take to make cash payments to suppliers. The average turnover days of trade payables remained relatively stable in 2013 and 2014. The decrease in average trade payables turnover days in year 2015 was mainly due to our purchase of adequate inventory in the third quarter of 2015 to meet the demand from the estimated peak season in the last quarter of 2015.

### Deferred Revenue

Deferred revenue represents payments in advance from customers for the provision of warranty and support services which include email response, telephone support and defective hardware repair service. Our warranty and support services include a one-year embedded warranty that comes with the sale of SD-WAN routers, and additional warranty and support services to end users who require a longer warranty and support period. Revenue allocated to the undelivered warranty and support services is deferred and recognised on a straight-line basis over the estimated period of the warranty and support services to be provided to the SD-WAN routers, which normally ranges from one to three years. Our deferred revenue increased by approximately US\$0.91 million from approximately US\$1.47 million as at 31 December 2013 to approximately US\$2.38 million as at 31 December 2014 and by approximately US\$1.21 million to approximately US\$3.59 million as at 31 December 2015. During the Track Record Period, the increase in our deferred revenue was generally in line with the increase in our sales volume.

### INDEBTEDNESS

The table below sets out our interest-bearing bank borrowings as at the dates indicated:

	As at 31 December					
	2013		2014		2015	
	Amount US\$'000	Effective interest rate %	Amount US\$'000	Effective interest rate %	Amount US\$'000	Effective interest rate %
Secured bank loans . . . .	<u>577</u>	<u>2.5</u>	<u>516</u>	<u>2.5</u>	<u>1,239</u>	<u>2.75</u>
Carrying amount						
repayable within one						
year . . . . .	59		60		1,239	
More than one year, but						
not exceeding two						
years . . . . .	61		62		—	
More than two years but						
not more than five						
years . . . . .	191		196		—	
More than five years. . . .	<u>266</u>		<u>198</u>		<u>—</u>	
	<u>577</u>		<u>516</u>		<u>1,239</u>	
Less: Amounts shown						
under current						
liabilities . . . . .	<u>59</u>		<u>60</u>		<u>1,239</u>	
Amounts shown under						
non-current liabilities. .	<u>518</u>		<u>456</u>		<u>—</u>	

The borrowings are mortgage loans, carrying interest at rate of 2.5% per annum with outstanding amount of approximately US\$0.58 million and US\$0.52 million as at 31 December 2013 and 2014, respectively, and are repayable in instalments over ten years from their respective commencement dates. Pursuant to the bank loan agreement, such mortgage loans are borrowed by our Group and drawn are solely for the usage by the related companies (in which Mr. Chan has

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beneficial interest) to purchase the properties and therefore are secured by that properties held by related companies. The related companies repaid the bank borrowings to the lending bank through our Group’s bank accounts. The borrowings were fully settled on 30 September 2015.

Our Group’s bank borrowings as at 31 December 2013 and 2014 were supported by limited guarantee of approximately HK\$10.00 million (equivalent to approximately US\$1.29 million) provided by Mr. Chan. Such guarantee were released subsequently in March 2016.

In December 2015, our Group newly raised a bank loan for estimated working capital needs of our operations at a prevailing market interest rate and is repayable within one year. The borrowing together with the facility granted by the bank were guaranteed by our Company and secured by a limited guarantee of approximately HK\$20.60 million (equivalent to approximately US\$2.66 million) provided by Mr. Chan.

Based on the bank facilities letter signed with the bank, the limited guarantee of approximately HK\$20.60 million provided by Mr. Chan is expected to be released upon the [REDACTED].

At the close of business on 30 April 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of our Group prior to the printing of this document, we had total bank facilities available to our Group of approximately US\$2.25 million, of which approximately US\$1.01 million was unutilised.

The table below sets out our amounts due to a director and related companies as at the dates indicated:

	As at 31 December		
	2013	2014	2015
	US\$000	US\$000	US\$000
Amount due to a director . . . . .	—	2	1,794
Amounts due to related companies . . . . .	246	152	15

The amount due to a director and amounts due to related companies are unsecured, unguaranteed, interest-free and repayable on demand. The increase in the amount due to a director as at 31 December 2015 was mainly due to the dividend declared for year 2015. The related companies are companies in which our Controlling Shareholder, Mr. Chan has beneficial interest. The amounts were subsequently fully settled in June 2016.

There were no material restrictive covenants relating to any of our outstanding debts. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not breach any restrictive covenants.

### Contingent Liabilities

As at the Latest Practicable Date, we did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations of any third parties.



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### Statement of Indebtedness as at 30 April 2016

At the close of business on 30 April 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of our Group prior to the printing of this document, our Group had outstanding indebtedness of US\$1,045,416, which consisted of (i) unsecured and guaranteed bank borrowings denominated in Hong Kong dollars of HK\$6,428,860 (equivalent to approximately US\$829,070); (ii) unsecured and guaranteed invoice financing bank loan denominated in U.S. dollars of US\$180,873; (iii) unsecured and unguaranteed amounts due to a related company of HK\$113,973 (equivalent to approximately US\$14,698); and (iv) unsecured and unguaranteed amount due to a director of HK\$161,096 (equivalent to approximately US\$20,775). Both the bank borrowings and invoice financing bank loan were guaranteed by our Company and secured by a limited guarantee of HK\$20,600,000 (equivalent to approximately US\$2,656,591) provided by Mr. Chan.

Save as disclosed above and apart from intra-group liabilities, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantee or other material contingent liabilities at the close of business on 30 April 2016.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

During the Track Record Period, we did not have any contractual obligations or capital commitments.

### Capital Expenditures during the Track Record Period

Our capital expenditures principally consisted of payment for intangible assets for development and protection of our intellectual properties and acquisition of property, plant and equipment for our operations. For each of the three years ended 31 December 2015, we incurred capital expenditures of approximately US\$0.26 million, US\$0.43 million and US\$0.48 million, respectively. Between 1 January 2016 and the Latest Practicable Date, we did not make any material capital expenditures.

The table below sets out our capital expenditures during the Track Record Period:

	For the year ended 31 December		
	2013	2014	2015
	US\$'000	US\$'000	US\$'000
Additions of property, plant and equipment . . . . .	238	353	215
Additions of intangible assets . . . . .	21	78	265
Total . . . . .	<u>259</u>	<u>431</u>	<u>480</u>

### Operating Leases Commitments

We lease our office premises under operating leases arrangement. Operating leases payment represents rental payable by us for certain of our office premises. Leases are negotiated for an average term of three years and the rent under such leases is generally fixed for a lease term.

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The table below sets out our commitments for future minimum lease payments under non-cancellable operating leases which fall due as at the dates indicated:

	As at 31 December		
	2013 US\$'000	2014 US\$'000	2015 US\$'000
Within one year . . . . .	63	26	89
In the second to fifth year inclusive . . . . .	28	—	55
Total . . . . .	91	26	144

## RELATED PARTY TRANSACTIONS

As at 31 December 2013, 2014 and 2015, amounts due from related companies were approximately US\$0.73 million, US\$0.82 million and US\$0.46 million, respectively. As at 31 December 2013, 2014 and 2015, amounts due to related companies were approximately US\$0.25 million, US\$0.15 million and US\$0.01 million, respectively. As at 31 December 2013 amount due from a director were approximately US\$0.67 million. As at 31 December 2014 and 2015, amount due to a director were approximately US\$2,000 and US\$1.79 million, respectively. All non-trade balances with related parties were subsequently fully settled in June 2016.

With respect to the related party transactions set out in Note 27 in the Accountants’ Report in Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Company and our Shareholders as a whole. Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period.

All the above related parties transactions were connected transactions or continuing connected transactions of our Group.

## OFF BALANCE SHEET TRANSACTIONS

We had no material off-balance sheet arrangements as at 31 December 2015, being the date of our most recent financial statements.

## FINANCIAL RATIOS

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

	As at 31 December		
	2013	2014	2015
Current ratio <sup>(Note 1)</sup> . . . . .	3.0	2.6	1.9
Quick ratio <sup>(Note 2)</sup> . . . . .	2.2	1.8	1.4
Gearing ratio (%) <sup>(Note 3)</sup> . . . . .	8.8	7.8	17.4

  

	For the year ended 31 December		
	2013	2014	2015
Return on assets (%) <sup>(Note 4)</sup> . . . . .	27.9	32.7	24.4
Return on equity (%) <sup>(Note 5)</sup> . . . . .	43.1	56.8	49.0

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Notes:

- (1) *Current ratio is calculated by dividing total current assets by total current liabilities as at the respective dates.*
- (2) *Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the respective dates.*
- (3) *Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank and other borrowings) by total equity as at the respective dates.*
- (4) *Return on assets is calculated by dividing profit for the year by the arithmetic mean of the opening and closing balances of total assets in the relevant year.*
- (5) *Return on equity is calculated by dividing profit for the year by the arithmetic mean of the opening and closing balances of total equity in the relevant year.*

### Current and Quick Ratios

Our current ratio as at 31 December 2013, 2014 and 2015 was approximately 3.0, 2.6 and 1.9, respectively and our quick ratio as at those dates was approximately 2.2, 1.8 and 1.4, respectively. The general decrease in current and quick ratios during the Track Record Period was primarily due to the percentage of increase in current liabilities outpaced the percentage of increase in current assets, mainly resulted from payment of dividends to our Shareholder during Track Record Period.

### Gearing Ratio

Our gearing ratio as at 31 December 2013, 2014 and 2015 was approximately 8.8%, 7.8% and 17.4%, respectively. Our gearing ratio as at 31 December 2014 was slightly lower than that as at 31 December 2013, primarily due to the repayment of bank borrowings during year 2014. Our gearing ratio as at 31 December 2015 increased, primarily due to new bank borrowing of approximately US\$1.24 million obtained during year 2015.

### Return on Assets

Our return on assets for each of the three years ended 31 December 2015 were approximately 27.9%, 32.7% and 24.4%, respectively. The increase in our return on total assets from the year ended 31 December 2013 to the year ended 31 December 2014 was mainly attributable to the fact that the increase in profitability of our Group outweighed the increase in our Group's total assets.

The decrease in return on assets for the year ended 31 December 2015 when compared to year ended 31 December 2014 was primarily due to decrease in profit for the year resulted from [REDACTED] incurred.

### Return on Equity

Our return on equity for each of the three years ended 31 December 2015 were approximately 43.1%, 56.8 and 49.0%, respectively. The increase in return on equity from the year ended 31 December 2013 to the year ended 31 December 2014 was attributable to increasing profitability of our business. The decrease in return on equity for the year ended 31 December 2015 when compared to year ended 31 December 2014 was primarily due to decrease in profit for the year resulted from [REDACTED] incurred.

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### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, including credit risk, liquidity risk and foreign currency risk. Our Directors review and agree policies for managing each of these risks.

#### Credit Risk

Our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets, which mainly comprise cash and cash equivalents and trade and other receivables, as stated in the combined statements of financial position.

We only offer credit terms to third parties that we consider recognised and creditworthy. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. All of our cash at bank are deposited in regulated banks in U.S., Hong Kong and Malaysia for which we believe the credit risk is insignificant.

Trade receivables due from our five largest debtors as at 31 December 2013, 2014 and 2015 represented approximately 64.8%, 66.3% and 69.3% of our total trade receivables, respectively, while as at the same dates, the receivables due from our largest debtor accounted for approximately 24.1%, 35.4% and 42.2% of our total trade receivables, respectively.

#### Liquidity Risk

We believe our Group’s exposure to liquidity risk is minimal. We manage liquidity risk by maintaining a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the impacts of fluctuations in cash flows. In addition, we ensure the continuity of sufficient funding and flexibility by utilising a variety of bank facilities in order to meet our liquidity requirements in the short and long term.

#### Foreign Currency Risk

Our Group undertakes certain operating transactions in foreign currencies and most of our sales and purchases were settled in U.S. dollars, the functional currency of relevant group entities.

Our operating expenses are mainly denominated in Hong Kong dollars. Our Directors consider that our Group’s exposure to foreign currency risk is insignificant on the ground that Hong Kong dollars are pegged to U.S. dollars.

Certain subsidiaries of our Group have financial assets denominated in other currencies such as Renminbi and Malaysian Ringgit, other than the functional currency of the relevant group entities. We have a low level bank balance denominated in Renminbi and have small amount of Malaysian Ringgit for maintaining the small scale of our Malaysian office. Due to the insignificant and immaterial amount of Renminbi and Malaysian Ringgit involved, we currently do not have a foreign currency hedging policy or use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

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### DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had [REDACTED].

### PROPERTY INTERESTS

As at the Latest Practicable Date, we did not own any property and all of our places of operations are leased properties. We had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Chapter 5 of Listing Rules to include in this document any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

### [REDACTED]

The total [REDACTED] (including [REDACTED] commissions) payable by our Company are estimated to be approximately US\$3.84 million (based on midpoint of our indicative [REDACTED] for the [REDACTED] and assuming that the [REDACTED] is not exercised and without taking into account any discretionary incentive fees, if applicable). For the year ended 31 December 2015, we incurred [REDACTED] of approximately [REDACTED], of which [REDACTED] was charged to our combined statements of profit or loss and other comprehensive income and the remaining amount of approximately [REDACTED] was recorded as deferred [REDACTED] which is to be net off with share premium after the [REDACTED]. We expect to further incur [REDACTED] (including [REDACTED] commissions) of approximately [REDACTED] by the completion of the [REDACTED], of which an estimated amount of approximately [REDACTED] will be charged to our combined statements of profit or loss and other comprehensive income for the year ending 31 December 2016 and an estimated amount of approximately [REDACTED] will be [REDACTED]. These [REDACTED] mainly comprise professional fees paid and payable to the professional parties and [REDACTED] commissions payable to the [REDACTED] for their services rendered in relation to the [REDACTED].

### DIVIDENDS

We declared dividends of approximately US\$1.30 million, US\$3.70 million and US\$2.80 million for each of the three years ended 31 December 2015, respectively, which we had paid the dividends declared in full. On 14 June, 2016, we declared a dividend of approximately US\$1.00 million as the final dividend for the year ended 31 December 2015 and this amount of dividend was paid in June 2016.

As at the Latest Practicable Date, our Company had not adopted any dividend policy. Any declaration of dividends, however, is subject to the discretion of our Directors, depending on our results of operations, working capital and cash position, future business and earnings, capital requirements any contractual restrictions, if any, as well as any other factors which our Directors may consider relevant. Our Company’s past dividend payment history is not, and should not be taken as, an indication of our potential future practice on dividend payments. Our Board has the absolute discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

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### DISTRIBUTABLE RESERVES

Our Company was incorporated on 5 May 2015 and is an investment holding company. There were no reserves for distribution to our Shareholders as at the Latest Practicable Date.

### NO MATERIAL ADVERSE CHANGE

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

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF OUR GROUP ATTRIBUTABLE TO OWNERS OF OUR COMPANY

The unaudited pro forma statement of adjusted combined net tangible assets of our Group attributable to owners of our Company is prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the [REDACTED] on the combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2015 as if the [REDACTED] had taken place on 31 December 2015.

The unaudited pro forma statement of adjusted combined net tangible assets of our Group attributable to owners of our Company which is prepared based on the audited combined net tangible assets of our Group as at 31 December 2015 as shown in the Accountants’ Report, the text of which is set out in Appendix I to this document, and adjusted as described below. The unaudited pro forma statement of adjusted combined net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group as at 31 December 2015 following the [REDACTED] or as at any subsequent dates.

	Audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2015 US\$’000 (Note 1)	Estimated net [REDACTED] from the [REDACTED] US\$’000 (Note 2)	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company US\$’000	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share	
				US\$ (Note 3)	HK\$ (Note 4)
Based on an [REDACTED] of HK\$[REDACTED] per Share .....	6,836	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share .....	6,836	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Notes:**

- The audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2015 is based on the combined net assets of our Group as at 31 December 2015 of approximately US\$7.11 million after deducting intangible assets of approximately US\$0.28 million, as extracted from the Accountants’ Report on the financial information of our Group which is set out in Appendix I to this document.



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## FINANCIAL INFORMATION

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2. The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] Shares to be issued at the [REDACTED] of lower limit and upper limit of HK\$[REDACTED] and HK\$[REDACTED] per Share, respectively, after deduction of the estimated [REDACTED] fees and related expenses expected incurred or to be incurred by our Group (excluding approximately US\$1.00 million [REDACTED] which has been charged to profit or loss up to 31 December 2015 paid/payable by our Company) and assuming that [REDACTED] is not exercised. It does not take into account of any Shares (i) which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme; or (ii) which may be allotted and issued or repurchased pursuant to our Company's general mandate. For the purpose of the estimated [REDACTED] from the [REDACTED], the amount stated in Hong Kong dollars is converted into US\$ at the rate of US\$1.00 to HK\$7.7502, being the spot exchange rate as at 31 December 2015. No representation is made that the HK\$ amounts have been, could have been or may be converted to US\$, or vice versa, at the rate or at all.
3. The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share is arrived at after making the adjustments referred to in note (2) above and on the basis of [REDACTED] in total, assuming that [REDACTED] to be issued pursuant to the [REDACTED], [REDACTED] of [REDACTED] of our Company and one Share allotted to Mr. Chan on 15 June 2016 had all been completed on 31 December 2015. It does not take into account of any Shares which may be issued upon the exercise of the [REDACTED], any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme, or any Shares which could be issued or repurchased pursuant to our Company's general mandate.
4. For the purpose of the unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share, the amount stated in US\$ is converted into Hong Kong dollars at the rate of US\$1.00 to HK\$7.7502, being the spot exchange rate as at 31 December 2015. No representation is made that the HK\$ amounts have been, could have been or could be converted to US\$, or vice versa, at the rate or at all.
5. No adjustment has been made to the audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2015 to reflect any trading result or other transactions entered into by our Group subsequent to 31 December 2015.