



Plover Bay Technologies Limited

玊灣科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1523)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017

SUMMARY

- Revenue for the six months ended 30 June 2017 was approximately US\$17,788,000, an increase of approximately 47.8% from approximately US\$12,033,000 for the six months ended 30 June 2016.
- Profit attributable to owners of the Company for the six months ended 30 June 2017 was approximately US\$4,135,000, while the profit attributable to owners of the Company for the six months ended 30 June 2016 was approximately US\$2,801,000, representing an increase of approximately 47.6%.
- Basic and diluted earnings per share for the six months ended 30 June 2017 was approximately US0.41 cents (for the six months ended 30 June 2016: basic earnings per share was approximately US0.37 cents).
- The Board has resolved to declare an interim dividend of HK2.58 cents per share for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK1.73 cents per share) be payable on Thursday, 24 August 2017 to the shareholders whose names appear in the register of members of the Company on Wednesday, 16 August 2017.

The board (the “Board”) of directors (the “Directors”) of Plover Bay Technologies Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2017, together with the comparative figures for the six months ended 30 June 2016. These condensed consolidated financial statements for the six months ended 30 June 2017 were unaudited, but have been reviewed by the audit committee (the “Audit Committee”) of the Company.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2017

	<i>Notes</i>	Six months ended 30 June	
		2017	2016
		US\$'000	US\$'000
		(unaudited)	(unaudited)
Revenue	4	17,788	12,033
Cost of sales		(7,286)	(4,110)
Gross profit		10,502	7,923
Other income	5	369	24
Selling and distribution expenses		(637)	(607)
Administrative expenses		(1,974)	(1,344)
Research and development expenses		(3,268)	(2,015)
Listing expenses		—	(537)
Finance costs	6	(11)	(14)
Profit before taxation	7	4,981	3,430
Income tax expenses	8	(846)	(629)
Profit for the period		4,135	2,801
Other comprehensive expense for the period:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(139)	(17)
Total comprehensive income for the period		3,996	2,784
Profit for the period attributable to owners of the Company		4,135	2,801
Total comprehensive income for the period attributable to owners of the Company		3,996	2,784
Earnings per share	9		
— basic (<i>US cents</i>)		0.41¢	0.37¢
— diluted (<i>US cents</i>)		0.41¢	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2017 <i>US\$'000</i> (unaudited)	At 31 December 2016 <i>US\$'000</i> (audited)
Non-current assets			
Property, plant and equipment	<i>11</i>	1,941	694
Intangible assets	<i>12</i>	431	383
Deposits paid for acquisition of property, plant and equipment		—	106
Total non-current assets		2,372	1,183
Current assets			
Inventories		8,970	6,678
Trade and other receivables	<i>13</i>	6,331	5,315
Pledged bank deposit		—	129
Bank balances and cash		17,296	19,193
Total current assets		32,597	31,315
Current liabilities			
Trade and other payables	<i>14</i>	1,100	1,884
Deferred revenue		3,921	3,551
Tax liabilities		1,595	1,589
Bank borrowings	<i>15</i>	690	318
Total current liabilities		7,306	7,342
Net current assets		25,291	23,973
Total assets less current liabilities		27,663	25,156

		At 30 June 2017 <i>US\$'000</i> (unaudited)	At 31 December 2016 <i>US\$'000</i> (audited)
Non-current liabilities			
Deferred tax liabilities		38	56
Deferred revenue		1,008	854
Bank borrowings	<i>15</i>	421	—
		<hr/>	<hr/>
Total non-current liabilities		1,467	910
		<hr/>	<hr/>
Net assets		26,196	24,246
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Capital and reserves			
Share capital	<i>16</i>	1,288	1,288
Reserves		24,908	22,958
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Equity attributable to owners of the Company		26,196	24,246
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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital	Share premium	Exchange reserve	Share options reserve	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2016 (audited)	—	—	64	—	7,049	7,113
Profit for the period	—	—	—	—	2,801	2,801
Other comprehensive expense for the period	—	—	(17)	—	—	(17)
Total comprehensive income for the period	—	—	(17)	—	2,801	2,784
Dividend	—	—	—	—	(998)	(998)
At 30 June 2016 (unaudited)	—	—	47	—	8,852	8,899
At 1 January 2017 (audited)	1,288	13,413	77	407	9,061	24,246
Profit for the period	—	—	—	—	4,135	4,135
Other comprehensive expense for the period	—	—	(139)	—	—	(139)
Total comprehensive income for the period	—	—	(139)	—	4,135	3,996
Recognition of equity-settled share-based payments	—	—	—	438	—	438
Dividend	—	—	—	—	(2,484)	(2,484)
At 30 June 2017 (unaudited)	1,288	13,413	(62)	845	10,712	26,196

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June	
	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(unaudited)
Operating activities		
Cash generated from operations	2,010	3,554
Tax paid	(850)	(164)
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Net cash from operating activities	1,160	3,390
Cash flows from investing activities		
Additions to intangible assets	(158)	(92)
Purchases of property, plant and equipment	(1,353)	(225)
Release/(placement) of pledged bank deposit	129	(129)
Interests received	68	—
Other investing activities	17	—
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Net cash used in investing activities	(1,297)	(446)
Cash flows from financing activities		
Dividend paid	(2,484)	(998)
Interests paid	(11)	(14)
New bank loans raised	1,091	—
Repayment of bank borrowings	(293)	(272)
Repayment of advances from a director	—	(1,794)
Other financing activities	—	444
	<hr/>	<hr/>
Net cash used in financing activities	(1,697)	(2,634)
Net (decrease) increase in cash and cash equivalents	(1,834)	310
Cash and cash equivalents at the beginning of the period	19,193	6,062
Effect of foreign exchange rate change	(63)	(19)
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Cash and cash equivalents at the end of the period, represented by bank balances and cash	17,296	6,353
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2015 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 13 July 2016 (the “Listing”). The immediate and ultimate controlling party of the Company is Mr. Chan Wing Hong Alex (“Mr. Chan”).

The Company is an investment holding company. The principal activities of its subsidiaries are the designing, development and marketing of software defined wide area network (the “SD-WAN”) routers and provision of software licences and warranty and support services.

The condensed consolidated financial statements are presented in United States dollars (“US\$”), which is also the Company’s functional currency.

2. REORGANISATION AND BASIS OF PREPARATION

In preparation for the Listing, the Company and its subsidiaries (the “Group”) underwent a group reorganisation (the “Reorganisation”). Details of the Reorganisation are set out in the paragraph headed “Reorganisation” in Appendix IV to the prospectus dated 30 June 2016 issued by the Company (the “Prospectus”). The Reorganisation, which was completed on 15 June 2016 involved business combination of entities under common control and the Group is regarded and accounted for as a continuing entity using the merger accounting method. Accordingly, the condensed consolidated statement of profit and loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2016 have been prepared as if the current group structure had been in existence beginning on 1 January 2016, or since their respective dates of incorporation, whichever is the shorter period. All significant intra-group transactions and balances have been eliminated on consolidation in full.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016.

3. PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those set out in the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Accounting Standards ("HKASs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of deferred tax assets for unrealised losses</i>

The application of the above amendments to HKASs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Group's revenue represents amounts received or receivable for sale of SD-WAN routers and provision of software licences and warranty and support services, net of discounts and sales related taxes.

The table below sets out the breakdown of revenue by nature of products and services:

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Sale of SD-WAN routers:		
Wired	4,067	3,273
Wireless	9,832	5,685
Warranty and support services	3,114	2,536
Software licences	775	539
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Total	17,788	12,033
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Segment information about these reportable and operating segments is presented below, software licences and warranty and support services are aggregated into a single reportable segment as they have similar economic characteristics:

Six months ended 30 June 2017 (unaudited)

	Sale of SD-WAN routers		Software licences and warranty and support services <i>US\$'000</i>	Total <i>US\$'000</i>
	Wired routers	Wireless routers		
	<i>US\$'000</i>	<i>US\$'000</i>		
External sales and segment revenue	4,067	9,832	3,889	17,788
Segment profit	1,934	2,438	2,754	7,126
Other income				369
Selling and distribution expenses				(637)
Unallocated administrative expenses				(1,866)
Finance costs				(11)
Profit before taxation				<u>4,981</u>

Six months ended 30 June 2016 (unaudited)

	Sale of SD-WAN routers		Software licences and warranty and support services <i>US\$'000</i>	Total <i>US\$'000</i>
	Wired routers	Wireless routers		
	<i>US\$'000</i>	<i>US\$'000</i>		
External sales and segment revenue	3,273	5,685	3,075	12,033
Segment profit	1,612	2,019	2,209	5,840
Other income				24
Selling and distribution expenses				(607)
Unallocated administrative expenses				(1,276)
Listing expenses				(537)
Finance costs				(14)
Profit before taxation				<u>3,430</u>

The principal assets employed by the Group are located in Hong Kong. Therefore, no segment information based on the geographical location of assets is presented.

Revenue from external customers is presented based on location of customers as follows:

	Six months ended 30 June	
	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(unaudited)
North America	8,771	5,972
EMEA	3,837	3,158
Asia	3,901	2,350
Others	1,279	553
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Total	17,788	12,033
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Information about major customers

For the six months ended 30 June 2017, each of the Group's two largest customer accounted for more than 10% of the Group's total revenue. For the six months ended 30 June 2016, only one customer accounted for more than 10% of the Group's total revenue.

5. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(unaudited)
Sales of parts material	109	18
Foreign exchange gain, net	136	6
Bank interest income	68	—
Others	56	—
	<hr/>	<hr/>
	369	24
	<hr/> <hr/>	<hr/> <hr/>

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(unaudited)
Interests on bank borrowings	11	14
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7. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	6,649	3,697
Amortisation of intangible assets	108	67
Depreciation of property, plant and equipment	188	135
Provision of inventories	139	4
Foreign exchange gain, net	(136)	(6)
	<u> </u>	<u> </u>

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Current tax in Hong Kong:		
Current period	901	654
(Overprovision)/underprovision in prior years	(37)	2
Deferred tax	(18)	(27)
	<u> </u>	<u> </u>
Income tax expenses	<u>846</u>	<u>629</u>

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

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

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share, representing profit for the period attributable to owners of the Company	<u>4,135</u>	<u>2,801</u>

Six months ended 30 June**2017** 2016

'000 '000

(unaudited) (unaudited)**Number of shares**

Weighted average number of ordinary shares for the purpose of basic earnings per share

1,000,000 750,000

Effect of dilutive potential ordinary shares in respect of options

16,533 N/A

Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share

1,016,533 N/A

The weighted average number of shares for the purpose of calculating basic earnings per share for the six months ended 30 June 2016 has been adjusted for the effect of 749,999,998 shares to be allotted and issued, credited as fully paid to the then shareholders pursuant to the Capitalisation Issue (as defined in the Prospectus) immediately preceding the completion of the Global Offering (as defined in the Prospectus).

No diluted earnings per share were presented as there were no potential dilutive shares during the six months ended 30 June 2016.

10. DIVIDEND

The Board has resolved to declare an interim dividend of HK2.58 cents per share, payable on Thursday, 24 August 2017 to the shareholders whose names appear in the register of members of the Company on Wednesday, 16 August 2017.

During the six months ended 30 June 2016, a subsidiary of the Company distributed a final dividend of approximately US\$998,000 for the year ended 31 December 2015 to its then shareholder prior to the Reorganisation.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, additions to property, plant and equipment amounted to approximately US\$1,459,000 (six months ended 30 June 2016: approximately US\$225,000) primarily due to the purchase of land and building of approximately US\$1,226,000 during the period.

12. INTANGIBLE ASSETS

During the six months ended 30 June 2017, additions to intangible assets amounted to approximately US\$158,000 (six months ended 30 June 2016: approximately US\$92,000) primarily due to more patents were granted during the period.

13. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 US\$'000 (unaudited)	At 31 December 2016 US\$'000 (audited)
Trade receivables	4,670	4,026
Less: Allowance for doubtful debts	(92)	(79)
	<u>4,578</u>	<u>3,947</u>
Other receivables	491	297
Trade deposits paid	517	384
Utility and deposits	179	232
Prepaid expenses	566	455
	<u>6,331</u>	<u>5,315</u>

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

Ageing of trade receivables

	At 30 June 2017 US\$'000 (unaudited)	At 31 December 2016 US\$'000 (audited)
1–30 days	2,794	2,272
31–60 days	1,141	1,030
61–90 days	442	494
over 90 days	201	151
	<u>4,578</u>	<u>3,947</u>
Total	<u>4,578</u>	<u>3,947</u>

14. TRADE AND OTHER PAYABLES

	At 30 June 2017 <i>US\$'000</i> (unaudited)	At 31 December 2016 <i>US\$'000</i> (audited)
Trade payables	218	725
Deposits received from customers	197	260
Accruals	667	835
Other payables	18	64
	<u>1,100</u>	<u>1,884</u>

All trade payables were aged within 1–30 days based on the invoice date at the end of each reporting period.

15. BANK BORROWINGS

	At 30 June 2017 <i>US\$'000</i> (unaudited)	At 31 December 2016 <i>US\$'000</i> (audited)
Secured bank loans	1,111	318
Less: secured bank loans, non-current portion	(421)	—
	<u>690</u>	<u>318</u>

During the six month ended 30 June 2017, the Group obtained new bank borrowings amounting to US\$1,091,000. Approximately US\$446,000 are mortgage loans obtained for financing the acquisition of two properties and are secured by the two properties. The mortgage loans are repayable in instalments over 20 years from their respective commencement dates and interest bearing at prime rate of a commercial bank less 2.50% per annum. Other bank borrowings are obtained for working capital needs at a prevailing market interest rate and are repayable within one year. All bank borrowings together with a facility granted by bank were guaranteed by the Company and secured by the two properties.

The bank loans as at 31 December 2016 at a floating rate of 1.5% over LIBOR per annum were secured by a pledged bank deposit of approximately US\$129,000 which was released and fully repaid during the six month ended 30 June 2017.

16. SHARE CAPITAL

The movements of share capital of the Company are as follows:

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2016	38,000,000	380,000
Increased on 21 June 2016 (<i>note a</i>)	3,962,000,000	39,620,000
	<u>4,000,000,000</u>	<u>40,000,000</u>
At 31 December 2016 and 30 June 2017		
Issued and fully paid:		
At 1 January 2016	1	0.01
Issue of share on 15 June 2016 (<i>note b</i>)	1	0.01
Issue of shares by capitalisation of share premium (<i>note c</i>)	749,999,998	7,499,999.98
Issue of shares in the global offering (<i>note d</i>)	250,000,000	2,500,000.00
	<u>1,000,000,000</u>	<u>10,000,000.00</u>
At 31 December 2016 and 30 June 2017		
		<i>US\$'000</i>
Shown in the financial statements		<u>1,288</u>

Notes:

- (a) On 21 June 2016, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares to HK\$40,000,000 divided into 4,000,000,000 shares by the creation of an additional 3,962,000,000 ordinary shares.
- (b) On 15 June 2016, the Company allotted and issued one share to Mr. Chan credited as fully paid in consideration of Mr. Chan transferring the entire interest in Protean Holdings Limited, the then holding company of the Group's subsidiaries before the Reorganisation, to the Company.
- (c) Pursuant to the written resolutions of the sole shareholder passed on 21 June 2016, conditional upon the share premium account of the Company being credited as a result of the Listing, the directors were authorised to capitalise the amount of HK\$7,499,999.98 from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par 749,999,998 shares for allotment and issue to Mr. Chan on 13 July 2016.
- (d) On 13 July 2016, the Company issued 250,000,000 shares of HK\$0.01 each at HK\$0.50 per share upon the completion of its global offering. On the same date, the Company's shares were listed on the Stock Exchange.

All ordinary shares issued in 2016 rank *pari passu* with the then existing ordinary shares in all respects.

17. CONTINGENCIES AND COMMITMENTS

The Group did not have any contingent liabilities as at 30 June 2017 (31 December 2016: nil).

As at 30 June 2017, the Group's operating lease commitment for future minimum lease payments under non-cancellable operating leases amounted to approximately US\$1,019,000 (31 December 2016: approximately US\$1,344,000).

18. RELATED PARTIES TRANSACTIONS

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

(a) Transactions with related companies

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Rental expenses:		
PBS Ventures Limited	37	34
Nice Achieve Limited	24	21
Talent Trend International Limited	26	24
Open Gain Limited	17	15
Advance Action Limited	26	24
Perfect Giant Limited	26	24
Plan Smart Limited	70	64
Real Energy Limited	14	—
Rise Gold Limited	67	—
	<u>307</u>	<u>206</u>
Dividends paid:		
Mr. Chan	—	998
	<u>—</u>	<u>998</u>

The related companies are companies in which Mr. Chan has beneficial interests.

(b) Remuneration of key management personnel of the Group

	Six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Short term employee benefits	912	544
Contribution to retirement benefit scheme	5	6
	<u>917</u>	<u>550</u>

19. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the “Share Option Scheme”) was conditionally adopted by the Company on 21 June 2016 and became effective on 13 July 2016. Details of the terms of the Share Option Scheme were disclosed in the annual report of the Company for the year ended 31 December 2016.

The following table discloses movements of the number of the Company’s share options held by the eligible participants during the six months ended 30 June 2017:

Category of participants	Outstanding at 1 January 2017	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30 June 2017
Directors	30,000,000	—	—	—	30,000,000
Employees	45,300,000	13,600,000	—	(4,100,000)	54,800,000
Consultants	2,700,000	—	—	—	2,700,000
	<u>78,000,000</u>	<u>13,600,000</u>	<u>—</u>	<u>(4,100,000)</u>	<u>87,500,000</u>
Exercisable at the end of the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Weighted average exercise price (HK\$)	0.483	0.720	—	0.512	0.518

During the six months ended 30 June 2017, 13,600,000 share options were granted on 5 April 2017. The estimated fair values of the share options granted on that date was approximately HK\$2,001,000 (equivalent to approximately US\$257,000).

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

Share price	HK\$0.72
Exercise price	HK\$0.72
Expected volatility	41.718%
Expected life	4.998 years
Risk-free rate	1.279%
Expected dividend yield	7.837%

Expected volatility was determined by using the historical volatility of the Company’s comparable companies’ share price over the previous five years. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

20. EVENTS AFTER THE END OF THE REPORTING PERIOD

There have been no other material events occurring after 30 June 2017 and up to the date of this interim report.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Revenue

For the six months ended 30 June 2017, the revenue of the Group was approximately US\$17,788,000, representing an increase of approximately 47.8% from approximately US\$12,033,000 for the six months ended 30 June 2016. We continue to experience an overall increase in revenue from all of our products and service categories during the current period and revenue derived from sales of wireless SD-WAN routers outperformed other revenue sources. Global awareness of SD-WAN technologies has increased, helping to unlock new market opportunities such as rapidly-deployed high-definition video surveillance, high-speed Internet access from remote locations and smart city applications. These applications generate strong market demand for high performance Internet connectivity, which in turn benefits our business.

Gross profit

For the six months ended 30 June 2017, the gross profit was approximately US\$10,502,000, with gross profit margin of approximately 59.0%, while the gross profit and gross profit margin for the six months ended 30 June 2016 were approximately US\$7,923,000 and approximately 65.8%, respectively, representing an increase of approximately 32.6% in gross profit. This was mainly due to increase in gross profit of SD-WAN routers and of warranty and support services. Gross profit margin for wired SD-WAN routers and service categories remain stable while gross profit margin for wireless SD-WAN routers decreased when compared to same period in 2016. During the current period, we introduced various new relatively lower margin wireless models (including the MAX BR1 Mini) to the market which contributed to our gross profit increase on one hand, but reduced our overall gross profit margin on the other. Since our gross profit margin depends on a combination of factors, including product mix, pricing and cost of sales, we expect that as we refine our pricing and market penetration strategies from time to time, our gross profit margin will fluctuate within a reasonable range.

Other income

For the six months ended 30 June 2017, other income of the Group was approximately US\$369,000, representing an increase of approximately US\$345,000 from approximately US\$24,000 for the six months ended 30 June 2016. The increase was mainly attributable to an increase in (a) net gain on foreign exchange of approximately US\$130,000, (b) bank interest income of approximately US\$68,000 and (c) net gain on sales of parts material to our contract manufacturers of approximately US\$91,000.

Selling and distribution expenses

Selling and distribution expenses comprise mainly salaries and benefits of our sales and marketing staff, advertising and promotion expenses incurred to promote our products and other expenses relating to our sales and marketing activities.

Selling and distribution expenses for the six months ended 30 June 2017 and the six months ended 30 June 2016 was approximately US\$637,000 and approximately US\$607,000, respectively, representing an increase of approximately US\$30,000 or approximately 4.9%. The increase was mainly attributable to 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 selling and distribution staff during the six months ended 30 June 2017.

Administrative expenses

Administrative expenses mainly represented salaries and benefits of our administrative, finance and other supporting staff, legal and professional fee, depreciation and amortisation, rental expenses and other office expenses.

Administrative expenses for the six months ended 30 June 2017 and the six months ended 30 June 2016 was approximately US\$1,974,000 and approximately US\$1,344,000, respectively, representing an increase of approximately US\$630,000 or approximately 46.9%. This was mainly due to (i) an increase in average salaries and wages of our supporting staff and of a director and (ii) an increase of legal and professional fees incurred after the Listing.

Research and development expenses

Research and development expenses represented mainly salaries and benefits of our engineering, testing and supporting staff, product testing fee, certification costs, tooling, components and parts used for product research and development purpose.

Research and development expenses for the six months ended 30 June 2017 and the six months ended 30 June 2016 was approximately US\$3,268,000 and approximately US\$2,015,000, respectively, representing an increase of approximately US\$1,253,000 or approximately 62.2%. This was mainly due to (i) an increase in average salaries and wages and an increase in the total number of our R&D staff and (ii) an increase of components and parts used for new product research and development purpose.

Finance costs

Finance costs mainly represented interests on bank borrowings during the six months ended 30 June 2017.

Finance costs for the six months ended 30 June 2017 and the six months ended 30 June 2016 was approximately US\$11,000 and approximately US\$14,000, respectively, representing a slight decrease of approximately US\$3,000. This was mainly due to the new bank loans amounted to approximately US\$1,091,000 were raised during February and March 2017, as compared to the six months ended 30 June 2016, a new bank loan amounted to approximately US\$1,239,000 was raised in December 2015.

Income tax expenses

We provided for Hong Kong profits tax at a rate of 16.5% on our estimated assessable profits arising in Hong Kong. The increase in income tax expenses corresponded to the increase of revenue and profit during the period.

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the six months ended 30 June 2017 was approximately US\$4,135,000, while the profit attributable to owners of the Company for the six months ended 30 June 2016 was approximately US\$2,801,000, representing an increase of approximately 47.6%. The increase was mainly due to an overall increase in revenue from our products and service categories, which was, partly offset by the increase in administrative expenses, research and development expenses and income tax expenses.

Non-current assets

The increase of property, plant and equipment was mainly due to the acquisition of land and buildings of approximately US\$1,226,000 during the six months ended 30 June 2017.

Current assets

Current assets increased approximately US\$1,282,000 or approximately 4.1%, from approximately US\$31,315,000 as at 31 December 2016 to approximately US\$32,597,000 as at 30 June 2017. The increase was mainly due to the combined effect of the following:

- Increase in inventory to cope with expected increase in sale of products;
- Increase in trade receivables which was in line with the increase in revenue;
- Increase in deposits paid to contract manufacturers for purchases of products;
- Increase in other receivables arised from the increase in sales of parts material to contract manufacturers; and
- Decrease in bank balances mainly due to increased net cash used in investing activities.

Current liabilities

Current liabilities decreased slightly by approximately US\$36,000 or approximately 0.5%, from approximately US\$7,342,000 as at 31 December 2016 to approximately US\$7,306,000 as at 30 June 2017. The slight decrease was mainly due to the combined effect of the following:

- Decrease in trade payables due to settlement to suppliers according to credit periods;
- Increase in deferred revenue, which represents payments in advance from customers for the provision of warranty and support services, was in line with the increase in sale volume of our SD-WAN routers; and
- New bank loans raised during the period (as stated in note 15 to the condensed consolidated financial statement).

Non-current liabilities

Non-current liabilities increased approximately US\$557,000 or approximately 61.2%, from approximately US\$910,000 as at 31 December 2016 to approximately US\$1,467,000 as at 30 June 2017, mainly due to (i) the increase in deferred revenue resulted from the increase in payments in advance from customers for the provision of warranty and support services during the period and (ii) the increase in bank borrowings for the acquisition of property, plant and equipment (as stated in note 15 to the condensed consolidated financial statement).

Net cash from operating activities

Net cash from operating activities decreased approximately US\$2,230,000 or approximately 65.8%, from approximately US\$3,390,000 for the six months ended 30 June 2016 to approximately US\$1,160,000 for the six months ended 30 June 2017. The decrease was mainly due to an increase in inventories as a result of the increased purchase of components, raw materials and finished goods made according to our manufacturing demands during the six months ended 30 June 2017.

Net cash used in investing activities

Net cash used in investing activities increased approximately US\$851,000 or approximately 190.8%, from approximately US\$446,000 for the six months ended 30 June 2016 to approximately US\$1,297,000 for the six months ended 30 June 2017. The increase was mainly due to the acquisition of property, plant and equipment during the period.

Net cash used in financing activities

Net cash used in financing activities decreased approximately US\$937,000 or approximately 35.6%, from approximately US\$2,634,000 for the six months ended 30 June 2016 to approximately US\$1,697,000 for the six months ended 30 June 2017. The decrease was mainly due to the dividend paid in March 2017, partially offset by the new bank loans raised during the period.

Prospect

The SD-WAN market continues to grow strongly from a small base. Industry reports from various leading market research firms project market size to grow at a compound annual growth rate of 30%–90% in 2016–2020. Regardless of the wide range in those projections, it is clear SD-WAN adoption will continue to increase in the coming years.

We foresee that the three key factors that are driving demand for our products will remain valid and strong.

First, we sell our products to a number of specialised verticals. These verticals include public safety, broadcasting, transportation, maritime, construction and unmanned systems such as autonomous vehicles, automated teller machines (ATMs) and self service kiosks. The emergence of SD-WAN has enabled many applications that were deemed technologically or financially infeasible in the past. Working with our global channel partners, we will continue to explore and grow into new specialised verticals.

Secondly, our proprietary SD-WAN bandwidth bonding technology, SpeedFusion, will continue to gain traction. This patented technology allows unbreakable connectivity using multiple wired and wireless connections for greater throughput and network reliability. This technology is key to deliver rapid deployable high definition video surveillance, rapid deployable high bandwidth branch network (such as construction sites, events and exhibitions venues) in hours instead of weeks. SpeedFusion technology will also benefit the next generation of high definition connected camcorders and smart cities.

Lastly, cost savings and improved efficiency in corporate branch network infrastructure remain strong factors that drive SD-WAN adoption. With a growing number of connectivity options at their disposal, enterprises are now able to use SD-WAN to pick the best connectivity technology to reduce overall network connectivity cost. For example, a leading supermarket chain in Mexico has migrated to SD-WAN to save significant network connectivity cost while having faster bandwidth among their branch network.

Moving forward, we see tremendous opportunities in SD-WAN market. We will continue our leadership in delivering disruptive Internet connectivity technologies to industrial, enterprise and service provider customers. At the same time we will continue to open up new markets via innovative new products to deliver unbreakable mobility to Internet of Things (IoT) and cloud-based subscription services.

New products

We will continue our focus in developing new products to meet market needs. We will be launching the industry's very first Advanced Performance SD-WAN (APX) product which is capable of supporting up to eighteen LTE-A connections. This product addresses the increased demand for having a rapid deployable, high bandwidth, full network redundancy SD-WAN products for construction sites, events, mobile command center, mobile healthcare, public safety and cruise ships.

In addition, we will launch the industry's smallest SD-WAN product, the SpeedFusion Engine. This compact, small footprint product will allow system builders to integrate SD-WAN capability into their products such as robotics, drones, payment terminals, kiosks and 4K UHD digital signages easily.

New partnership

We believe there will be growing demand from product and service providers to add SD-WAN capabilities into their offerings. We foresee there will be new partnerships with leading companies in different areas including video surveillance, smart cities, maritime, fixed and mobile operators. These partnership would allow us to further scale the deployment of SpeedFusion SD-WAN, our industrial IoT products and cloud services globally.

Liquidity, financial resources and capital structure

During the six month ended 30 June 2017, the Group obtained new bank borrowings amounting to approximately US\$1,091,000 for financing the acquisition of two properties and working capital needs of our operations. For details of our bank borrowings, please refer to note 15 of the condensed consolidated financial statements.

As at 30 June 2017, the Group had gearing ratio (which is defined as total borrowings over total equity) of approximately 4.2% (as at 31 December 2016: approximately 1.3%). The Directors confirm that the Group financed its operations principally from cash generated from its business operations and expect that it will continue in the coming year. We did not experience any significant liquidity problem during the six months ended 30 June 2017.

Aged analysis of trade receivables and trade payables

For details of our aged analysis of trade receivables and trade payables, please refer to note 13 and note 14 of the condensed consolidated financial statements, respectively.

Foreign currency exposure

Most of the Group's sales and purchases, receipts and payments as well as most of our bank balances and cash are denominated in US\$. Our bank loans and our operating expenses are mainly denominated in US\$ or Hong Kong dollars ("HK\$") which is pegged to US\$. In this respect, there is no significant currency mismatch in operational cashflows and the Group is not exposed to any significant foreign currency exchange risk in its operations.

Employee and salary policies

The Directors consider the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers remuneration packages with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 30 June 2017, the Group had 106 full-time employees.

The Company also conditionally adopted a share option scheme on 21 June 2016 and became effective on 13 July 2016 (the "Share Option Scheme") for the purpose of, among other things, recognition of employees' contribution. Details have been set out in the paragraph headed "Share option scheme" below and note 19 to the condensed consolidated financial statements.

Retirement benefits plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contribution per employee is HK\$1,500 per month. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. The expenses arising from the MPF Scheme for the six months ended 30 June 2017 were approximately US\$93,000.

The employees in the Group's subsidiary in Malaysia are members of the state-managed retirement benefit scheme, the Employees Provident Fund (the "EPF") operated by the Malaysia government. The subsidiary is required to contribute a certain percentage of payroll costs to the EPF. The only obligation of the Group with respect to the retirement

benefit scheme is to make specified contributions. The retirement benefit scheme contribution arising from the EPF charged to profit or loss for the six months ended 30 June 2017 were approximately US\$19,000.

Significant investments held and future plan for material investment

As at 30 June 2017, the Group had no significant investment held and material investment plan.

Material acquisitions and disposals

For the six months ended 30 June 2017, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

Contingent liabilities and commitments

Save as disclosed in note 17 of the condensed consolidated financial statements, we do not have other contingent liabilities or commitments as at 30 June 2017.

Pledge of assets

Save as disclosed in note 15 of the condensed consolidated financial statements, we do not have other pledge of assets as at 30 June 2017.

Share capital

Details please refer to note 16 of the condensed consolidated financial statements.

Segment information

Details please refer to note 4 of the condensed consolidated financial statements and the paragraphs headed “Revenue” and “Gross profit” above.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571) (the “SFO”)) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or (ii) required to be recorded in the register kept by the Company pursuant to Section 352 of

the SFO, or (iii) otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules, were set out below:

Long positions in shares

(a) Long positions in shares

Name of Directors	Nature of interest	Number of shares held	Approximate percentage of shareholding %
Chan Wing Hong Alex	Beneficial owner	750,000,000	75

(b) Long positions in underlying shares

Name of Directors	Nature of interest	Number of underlying shares held under Share Option Scheme	Approximate percentage of shareholding %
Chan Wing Hong Alex	Beneficial owner	6,000,000	0.6
Chau Kit Wai	Beneficial owner	6,000,000	0.6
Yip Kai Kut Kenneth	Beneficial owner	6,000,000	0.6
Chong Ming Pui	Beneficial owner	6,000,000	0.6
Yeung Yu	Beneficial owner	6,000,000	0.6

Save as disclosed above, as of 30 June 2017, so far as is known to any Director or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or (ii) required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or (iii) otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed “Share Option Scheme” below, at no time during the period was the Group a party to any arrangements to enable the Directors, supervisors or chief executives of the Company, to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SHARE OPTION SCHEME

Details of movements of the share options granted under the Share Option Scheme for the six months ended 30 June 2017 are as follows:

Grantee	Date of grant	Exercise price per share	Exercise period	Number of shares issuable under the share options				
				As at 1 January 2017 <i>(note 2(i))</i>	Granted during the period <i>(note 3)</i>	Exercised during the period	Lapsed/cancelled during the period <i>(note 4)</i>	As at 30 June 2017
Directors								
Mr. Chan Wing Hong Alex <i>(note 1)</i>	20/7/2016	HK\$0.483	20/7/2017–19/7/2021	6,000,000	—	—	—	6,000,000
Mr. Chau Kit Wai	20/7/2016	HK\$0.483	20/7/2017–19/7/2021	6,000,000	—	—	—	6,000,000
Mr. Yip Kai Kut Kenneth	20/7/2016	HK\$0.483	20/7/2017–19/7/2021	6,000,000	—	—	—	6,000,000
Mr. Chong Ming Pui	20/7/2016	HK\$0.483	20/7/2017–19/7/2021	6,000,000	—	—	—	6,000,000
Mr. Yeung Yu	20/7/2016	HK\$0.483	20/7/2017–19/7/2021	6,000,000	—	—	—	6,000,000
Consultants of the Group in aggregate	20/7/2016	HK\$0.483	20/7/2017–19/7/2021	2,700,000	—	—	—	2,700,000
Employees of the Group in aggregate								
	20/7/2016	HK\$0.483	20/7/2017–19/7/2021	45,300,000	—	—	(3,600,000)	41,700,000
	5/4/2017	HK\$0.720	5/4/2018–4/4/2022 <i>(note 2(ii))</i>	—	8,400,000	—	—	8,400,000
	5/4/2017	HK\$0.720	5/4/2019–4/4/2022 <i>(note 2(iii))</i>	—	5,200,000	—	(500,000)	4,700,000
			Total:	78,000,000	13,600,000	—	(4,100,000)	87,500,000

Note:

- Mr. Chan Wing Hong Alex is also a controlling shareholder of the Company.
- (i) The vesting period of share options are as follows: 25% of the share options are exercisable from 20 July 2017 to 19 July 2021, 25% of the share options are exercisable from 20 July 2018 to 19 July 2021, 25% of the share options are exercisable from 20 July 2019 to 19 July 2021 and 25% of the share options are exercisable from 20 July 2020 to 19 July 2021.

- (ii) The vesting period of share options are as follows: 25% of the share options are exercisable from 5 April 2018 to 4 April 2022, 25% of the share options are exercisable from 5 April 2019 to 4 April 2022, 25% of the share options are exercisable from 5 April 2020 to 4 April 2022 and 25% of the share options are exercisable from 5 April 2021 to 4 April 2022.
 - (iii) The vesting period of share options are as follows: 50% of the share options are exercisable from 5 April 2019 to 4 April 2022, 25% of the share options are exercisable from 5 April 2020 to 4 April 2022 and 25% of the share options are exercisable from 5 April 2021 to 4 April 2022.
3. The closing price of the share immediately before the date on which the options were granted was HK\$0.690.
4. The share options held by employees were lapsed due to cessation of the relevant options holders as eligible person by reason of resignation of employment.

Further details of the Share Option Scheme are set out in note 19 to the condensed consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Other than as disclosed in the paragraph headed "Directors' and chief executives' interests and short position in shares, underlying shares and debentures" above, as at 30 June 2017, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares which shall be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the six months ended 30 June 2017, so far as the Directors were aware, none of the Directors and their respective associates (as defined under the Listing Rules) had any interest in a business that competed or was likely to compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such persons had or may have with the Group.

AUDIT COMMITTEE

The Board has established the Audit Committee which comprises three independent non-executive Directors, namely Mr. Wan Sze Chung, Dr. Yu Kin Tim and Mr. Ho Chi Lam. Mr. Wan Sze Chung is the chairman of the Audit Committee. The Audit Committee together with the management of the Company have reviewed the accounting policies and

practices adopted by the Group and discussed, among other things, the financial reporting matters including a review of the unaudited interim results of the Group for the six months ended 30 June 2017.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.58 cents per share for the six months ended 30 June 2017. The interim dividend is expected to be paid on Thursday, 24 August 2017 to the shareholders whose names appear in the register of members of the Company on Wednesday, 16 August 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Wednesday, 16 August 2017 for the purpose of determining the entitlement to the interim dividend. The record date for entitlement to receive the interim dividend is Wednesday, 16 August 2017. In order to be qualified for the interim dividend, all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15 August 2017. The cheques for dividend payment will be sent on Thursday, 24 August 2017.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance, and is committed to maintaining high standards of corporate governance as well as transparency. The Company has complied with all applicable code provisions of the CG Code for the six months ended 30 June 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiries has been made of all the Directors and they have confirmed that they have complied with the Model Code for the six months ended 30 June 2017.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Listing (“Net Proceeds”) received by the Company after deducting underwriting fees and estimated expenses was approximately HK\$108.39 million (approximately US\$13.98 million). Unutilised Net Proceeds as at 30 June 2017 amounted to approximately HK\$86.5 million (equivalent to approximately US\$11.11 million), is deposited in a licensed bank in Hong Kong as short-term deposits. The Company intends to use the remaining net proceeds in the coming years in accordance with the purposes set out in the Prospectus.

As at 30 June 2017, the Group has utilised the Net Proceeds as follows:

	Percentage to total amount	Net proceeds <i>US\$ million</i>	Utilised amount <i>US\$ million</i>	Unutilised amount <i>US\$ million</i>
Strengthen our R&D capabilities:				
Expansion of R&D team	22%	3.12	0.41	2.71
Upgrade R&D facilities	13%	1.74	0.05	1.69
Establishment of a R&D centre	13%	1.75	1.22	0.53
Promotional and marketing activities	15%	2.10	0.32	1.78
Improving marketing capabilities	13%	1.87	0.03	1.84
Improve brand awareness	3%	0.48	0.05	0.43
Install an enterprise resource planning system	1%	0.12	—	0.12
Strengthen patent portfolio	10%	1.40	0.26	1.14
Working capital and general corporate purposes	10%	1.40	0.53	0.87
	100%	13.98	2.87	11.11

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this interim report, there was sufficient public float of the Company as required under the Listing Rules.

By order of the Board
Plover Bay Technologies Limited
Chan Wing Hong Alex
Chairman

Hong Kong, 1 August 2017