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## INDUSTRY OVERVIEW

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*The information in the section below has been partly derived from various publicly available government sources, market data providers and other independent third party sources. In addition, this section and elsewhere in this prospectus contain information extracted from a commissioned report, or the Frost & Sullivan Report, prepared by Frost & Sullivan for inclusion in this prospectus. See the sub-section headed "Sources of Information" below in this section. We believe that the sources of information of this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters or any party or affiliate involved in the Placing, other than Frost & Sullivan and no representation is given as to its fairness, correctness and accuracy. Accordingly, you should not place undue reliance on such information or statistics.*

### OVERVIEW OF GLOBAL BACKUP MARKET

**Definition of Backup:** it refers to an information technology that realises copying, archiving and restoring the data for the purpose of preventing data loss, corruption and disclosure of sensitive information from unauthorised access, server crash, human error or natural disaster, etc.

#### Development Progress of Global Backup Market:

According to Frost & Sullivan, global backup media has experienced the start-up period, the development period, and entered into the innovation and growth period, in which the backup media has largely innovated and varied and in which the efficiency and safety of backup has been greatly improved.

Along with the evolution of network and Internet technologies, backup software has undergone vigorous growth momentum. Cloud backup is an emerging technology applied in backup software market. As the concept of cloud backup embedded, cloud-based backup software has gradually received wide market acceptance and application by SMEs worldwide and is expected to become the main development tendency of global backup market.

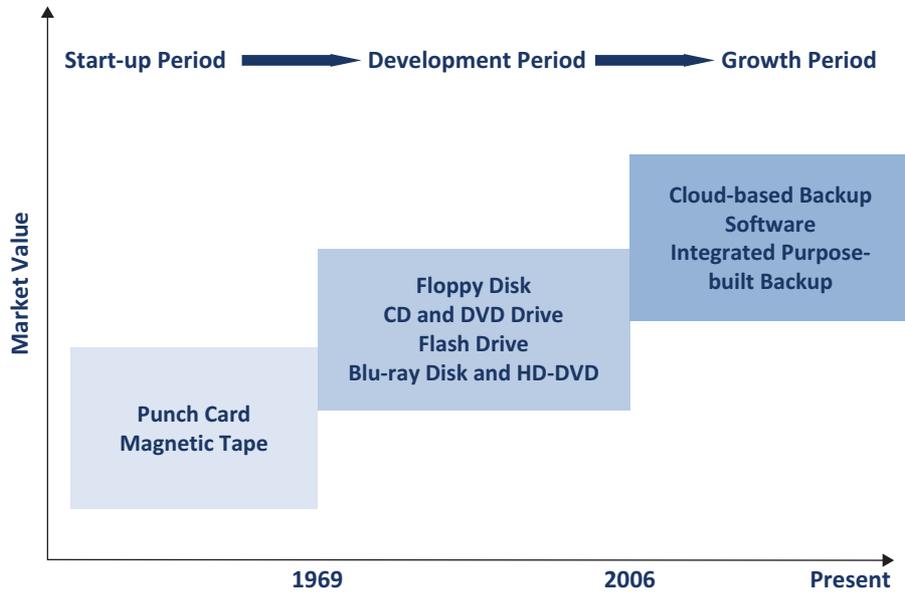
Cloud storage includes private cloud storage and public cloud storage. Private cloud storage, also known as internal cloud storage, implements storage virtualisation across an organisation, providing a centralised storage infrastructure that can only be accessed by authorised accounts. Private cloud storage operates by installing a data centre, which houses a series of storage clusters that are integrated with a storage virtualisation application. Private cloud storage is similar to public cloud storage in that it provides the usability, scalability and flexibility of the storage architecture. Unlike public cloud storage, it helps to resolve the potential issues of security and performance while still offering the benefits of cloud storage. Public cloud storage generally enables the sourcing of massive amounts of storage space on demand over the Internet, and is built over storage virtualisation, which logically distributes large storage arrays into a multitenant architecture shared among various users and applications. The type of content stored on the public clouds ranges from static non-core application data and archived content that needs to be available, to backup and disaster recovery data. Public cloud storage is not suitable for active content that is subject to changes all the time. Meanwhile, the primary concern of using public cloud storage in the enterprise is security and, to some extent, performance.

Ahsay™ Backup Software has been supporting private cloud storage since its introduction in 2003. AhsayCBS, a server-side component of the upcoming version 7 of our Ahsay™ Backup Software, is an integration of the technologies utilised in the current version of our Ahsay™ Backup Software and CloudBacko Backup Software, which will enable our Group's customers and the end-users to backup data to private cloud storage and/or public cloud storage of their choice. Hence AhsayCBS of the upcoming version 7 of our Ahsay™ Backup Software will provide a fuller spectrum of

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cloud storage feature. According to Frost & Sullivan, our Group's cloud feature in our backup software products is in-line with the industry.

### Development Progress of Backup Market

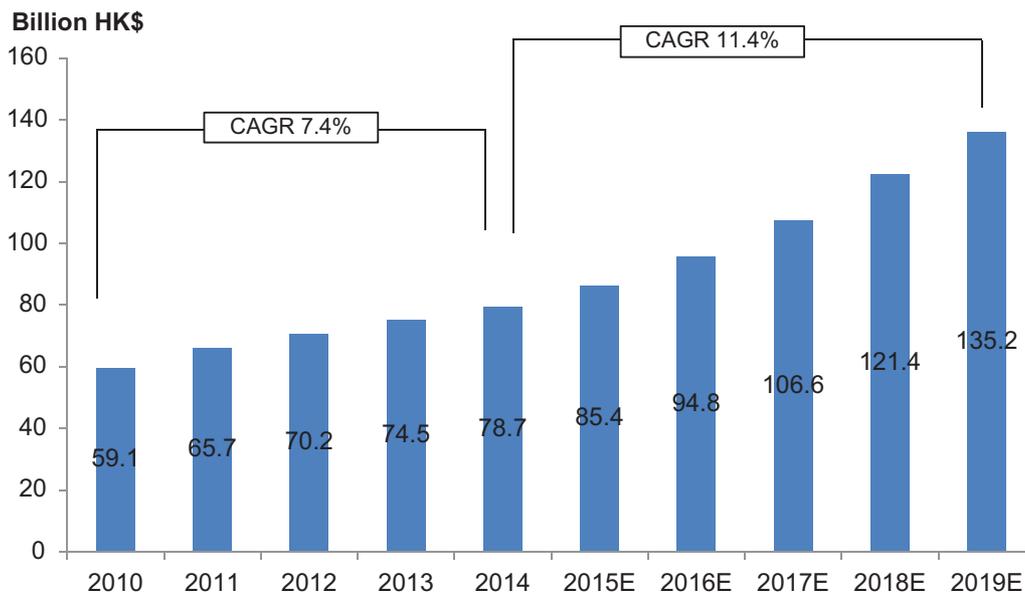


Source: Frost & Sullivan Report.

### Market Size of Global Backup Market:

Due to the steady growth of market demand, global backup market has witnessed healthy and stable development momentum in recent years. The market value has increased from HK\$59.1 billion in 2010 to HK\$78.7 billion in 2014, representing a CAGR of 7.4% from 2010 to 2014. Along with the prominent expansion of cloud-based online backup service, it is expected that the backup market will enjoy a rapid growth in the following years with a CAGR of 11.4% from 2014 to 2019.

### Market Size of Backup Market (Global), 2010-2019E



Source: Frost & Sullivan Report.

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### GLOBAL BACKUP SOFTWARE MARKET ANALYSIS

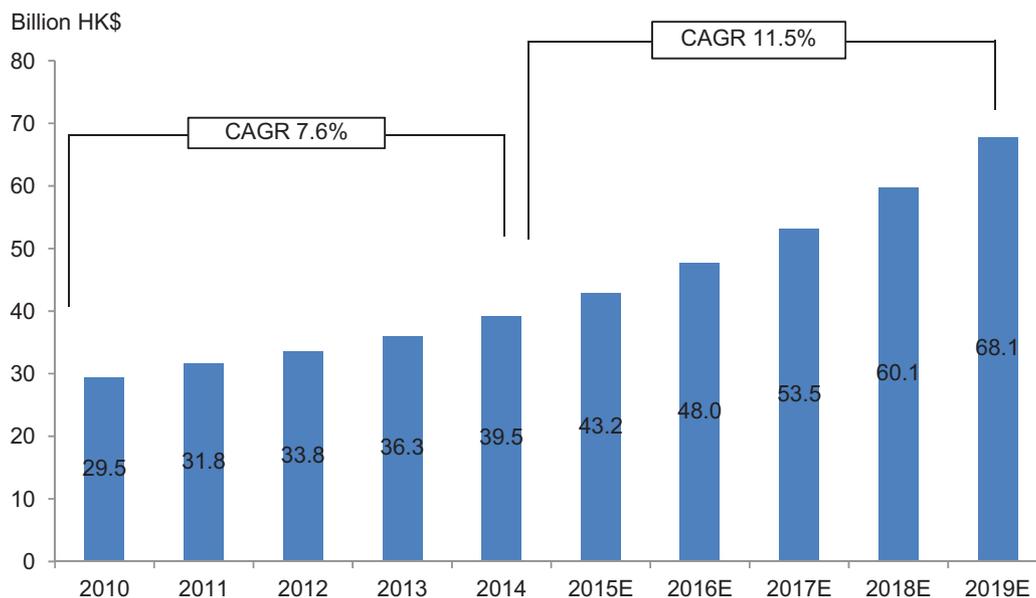
#### Market Opportunities of Global Backup Software Market:

- The development of virtualisation calls for technological upgrading of backup solution. Backup virtualisation has increased storage resource efficiency, flexibility and reliability. At the same time, the virtualisation of backup can largely save the costs to the beleaguered section of the datacentre.
- Cloud computing and Big Data bring new requirements of backup service. The capability to utilise Big Data has become a new competitiveness of a company or other organisations. Therefore, the importance of safe data backup service is self-evident. Besides the great capacity of storing large amount of data, cloud-based backup service also enjoys the advantages of making the process of backup more efficient, more user-friendly, cheaper and safer.

#### Market Size of Global Backup Software Market:

In the last four years, global and regional markets of backup software went through a relatively steady growth, with CAGRs of about 7% to 8%, among which North America (“NA”) augmented the fastest, with a CAGR of 7.9% from 2010 to 2014. In 2014, the global market size has reached HK\$39.5 billion. It could be expected that a robust long-term outlook for the next five years at a CAGR of 11.5% from 2014 to 2019 is on the run. Asia Pacific (“APAC”) is estimated to be the most promising region whose five-year revenue growth will presumably reach 13.3% because of the influences on technical progress and market consciousness. Europe, the Middle East and Africa (“EMEA”) is also expected to grow at a CAGR of 13.2% due to demand increase, and its revenue may achieve HK\$20.4 billion. Although North America is still going to be the market leader with estimated revenue of HK\$32.5 billion in 2019, its growth rate is slowing down as the market is being saturated.

**Market Size of Backup Software Market (Global), 2010-2019E**



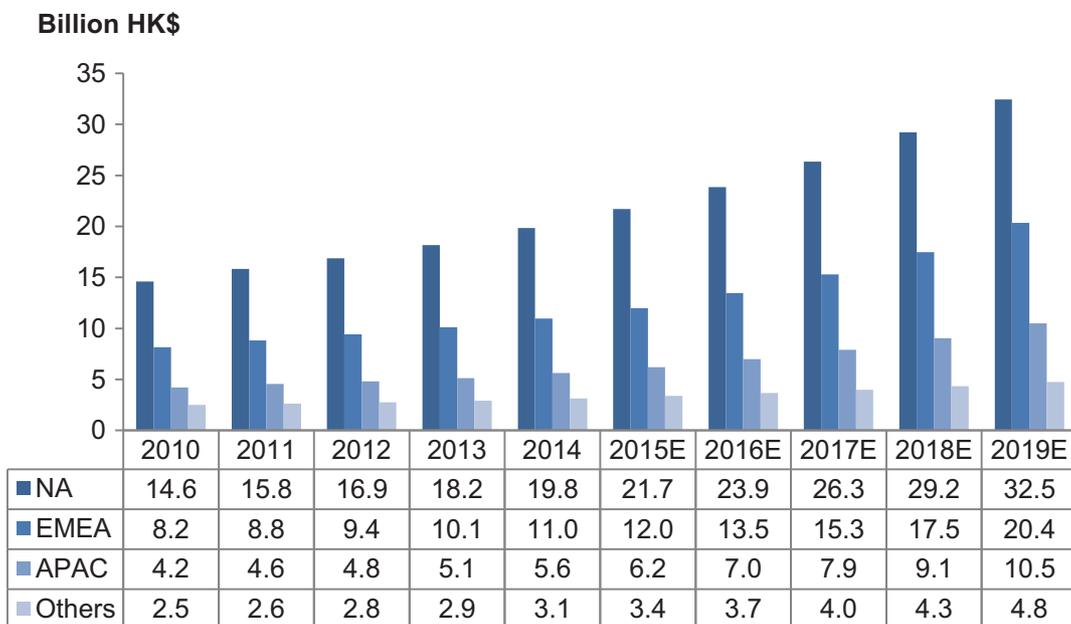
Source: Frost & Sullivan Report.

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### Breakdown of Global Backup Software Market by Regions

(NA, EMEA, APAC, Others)

2010-2019E



Source: Frost & Sullivan Report.

Regarding the target customers of the global backup software market, large-scale enterprises have occupied the largest proportion and reached HK\$18.0 billion globally in 2014. SMEs, which refers to the small and medium-sized enterprises with fewer than 500 employed staff or less than HK\$390 million generated annual revenue, have witnessed prominent growth in backup software application. The market size of SMEs segment has increased from HK\$4.6 billion in 2010 to HK\$6.8 billion in 2014, representing a CAGR of 10.5% in that period.

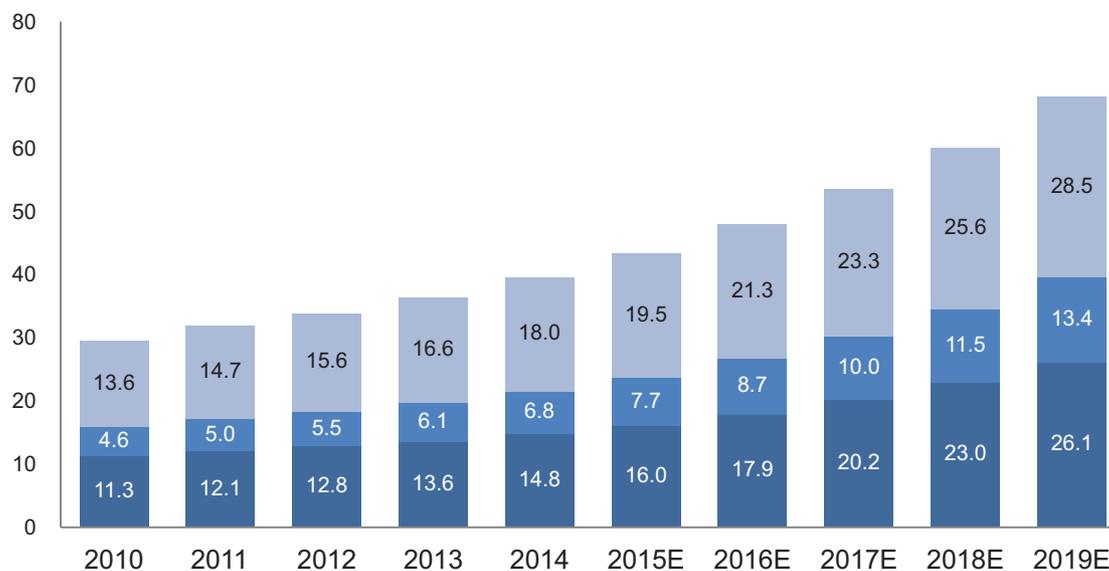
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### Breakdown of Global Backup Software Market

(Large-scale Enterprises, SMEs, Government and Other Institutions),

2010-2019E

Billion HK\$



■ Large-scale Enterprises ■ SMEs ■ Government and Other Institutions

<u>CAGR</u>	<u>2010-2014</u>	<u>2014-2019E</u>
Large-scale Enterprises	7.9%	10.4%
SMEs	10.5%	13.2%
Government and Other Institutions	7.4%	13.3%

Source: Frost & Sullivan Report.

**Market Drivers of Global Backup Software Market:** According to Frost & Sullivan, the development of global backup software market has been mainly driven by the following six aspects:

- **Explosive Data Growth and Increased Value of Data.** As the era of Big Data has come, data has become a new form of essential production factors. The value of data has been clearly demonstrated in daily economic activities such as revenue analysis and marketing promotion.
- **Rising Consciousness of Enterprise Data Protection.** Due to the potential loss when data is damaged, enterprises have largely raised their consciousness of data protection. Aside from big enterprises, an increasing number of SMEs also seek for ways to backup their valuable data.
- **Continuous Technology Innovation and Progress.** The emergence of Big Data, cloud computing, social media and smart mobile terminal has tremendously motivated the IT industry, including backup industry, to continuously facilitate significant innovation and progress.
- **Rapid Development of Cloud Services.** Along with the rapid development of cloud computing around the world, relevant cloud technologies and applications appear and

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various cloud-service-based products enter the market at a fast pace. Backup industry is no exception, and cloud has been applied in more and more online backup software service.

- **Wide Popularity of Mobile Devices.** Due to the relentless march of the Internet into people's daily life and the long-lasting development of manufacturing technologies at a fast pace, mobile devices have long gained wide popularity among people. This leads to a trend of cross-screen operation in online backup software market. Software users can log on their accounts across different mobile devices to get access to the same data base, greatly improving the convenience of managing data.
- **Pursuit of Customised and Differentiated Backup Service.** Despite the relatively developed market of online backup software, the enterprises in the industry have put in ceaseless effort to provide better service for the customers. A new focus in recent years is that enterprises start to pay closer attention to the differentiated needs of various customers. Enterprises customise the backup service and products in accordance with their customers' various needs so that the customers are able to achieve some specific aims respectively.

**Entry Barriers of Global Backup Software Market:** According to Frost & Sullivan, new entrants in the global backup software market are generally facing with entry barriers in the aspects of cooperative sales network, technical know-how, deep understanding on end-users' demand and talents with accurate market insight. Details of the entry barriers are as follows:

- **Cooperative Sales Network.** New comers intending to enter into the backup software market need to build their own distribution network and to establish a good cooperation relationship with its business partners, so as to better fit with different end-users' needs in the global market. As the leading enterprises in the backup software market have already built their stable and strong distribution network, it will be very hard for the new comers to push into the distribution network.
- **Technical Know-how.** Technical know-how is one of the most crucial elements in backup software market. Only with a strong grasp of technical know-how can a backup software company develop the right products with comprehensive functions for the users. Moreover, the technical development is not a once-and-for-all process. Apart from the initial product development, backup software companies need to provide upgrade regularly to ensure that their software products match the demand of their end-users. The leading enterprises in the backup software market are much more competitive against new comers in terms of technical know-how and product development due to their rich experience and professional developing teams.
- **Deep Understanding on End-users' Demand.** Understanding end-users' need is very important in the backup industry. The leading enterprises in the backup appliance market have rich database and experience in understanding their end-users' demand. Moreover, they provide different services based on different types of their end-users; some of the mature backup service providers even provide customised services to better meet the users' demand. On the contrary, new comers just start to adapt to the industry and they therefore lack a good command of the market and end-users. Therefore, it is hard for them to satisfy end-users' demands.
- **Talents with Accurate Market Insight.** Dedicated and experienced talents, who have accurate market insight, can generate infinite value in the backup software businesses. Large-scale backup service providers are committed to competing for excellent talents. It is, however, relatively hard for new comers to establish an efficient management team and talent pool, and to compete with larger established service providers in recruiting, especially to recruit those talents who are scarce globally.

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**Market Trends of Global Backup Software Market:** The global backup software market is expected to witness further technological upgrading and innovation within backup industry under the era of Big Data. Cloud computing technology is likely to enjoy extensive application and create much more value in the backup software market. Meanwhile, the awareness of data backup among various mobile devices such as cell-phone and laptop has been raised substantially. This leads to the trend that users attach more importance to the application of data backup on mobile devices. Users tend to demand higher requirements on backup software service such as the privacy and exclusivity of the data backed up.

### Industry Norm

As confirmed by Frost & Sullivan, for backup software developers, it is an industry norm to develop and sell a single product with continuously upgraded versions. Backup software developers such as our Group, Vembu Technologies Pvt. Ltd. and NovaStor Corporation have established remarkable market positions and received wide market acceptance with their simple product lines. Renowned backup software products, such as the Ahsay™ Backup Software, generally enjoy strong user-stickiness due to higher replacement cost of users compared with the cost due to product upgrading. When the further upgrade ceases or a new version of the existing software is launched, the former version is generally still available for business support. However, the support and functions of old version are limited, thus the customers usually choose to upgrade to new version approximately every 2 years. Thus according to industry norm, the life span of a backup software product after ceasing to be further developed by its developer is approximately two years.

### Cloud Computing and Security

According to Frost & Sullivan, while public cloud storage facilitates the easy access and sharing of information among different users, there are risks for the information to be leaked to the hands of unauthorised and unintended persons or even damaged. Confronted with the potential security threats, data encryption has been attached much more importance. Preferably, the backup software being used to transfer and encrypt data between the users' devices and cloud storage should be developed and maintained by an independent software vendor other than the cloud storage service provider. This segregates the cloud storage service provision function from the cloud storage service enabling function, i.e. the cloud data transfer software, and further reduces the possibility of data leakage.

Meanwhile, although it is generally believed that all cloud storage service providers would employ all necessary security measures to ensure that users' data stored on their cloud storages is not vulnerable to data losses, keeping an extra on-premises copy of cloud data has become a very common business practice for companies who concern much on data confidentiality, integrity and availability.

For backup software providers whose products enable customers to backup data on public cloud storage, should there be any leakage or damage of data stored in public cloud storage as a result of insufficient security measures, a loss of confidence in such products, or complaints or claims from customers of such backup software providers, may occur and may adversely affect the business of such backup software providers.

### Purchase and Leasing of Backup Software

Purchase and leasing of backup software are two modes of sales when potential customers are looking for data storage and backup software. In the initial period, customers mainly prefer leasing software due to the benefits of (i) less upfront cash outflow; (ii) tax deductions; (iii) flexible payment terms; and (iv) better cash flow management. Therefore, most of the backup software suppliers provide the leasing option in response to the market demand. With users' satisfaction and experience guaranteed, customers tend to purchase backup software in order to obtain permanent product ownership without recurring expense.

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As the market matures, customers become more familiar with the specific backup software, and more and more customers are willing to apply the specific backup software for long term usage; thus, there is an increasing trend for the purchase of backup software. As shown in the bar chart below, the percentage of leasing accounted for over 71.0% of the market size in 2013, 2014 and 2015, while the percentage of purchase gradually increased from 25.7% in 2013 to 28.2% in 2015 and is expected to gain a larger share of 35.1% in 2019.

**Market Size of Global Backup Software Market Breakdown by Modes of Sales,  
2013, 2014, 2015E & 2019E**



Source: Frost & Sullivan

### COMPETITIVE LANDSCAPE OF GLOBAL BACKUP SOFTWARE MARKET

**Competitive Landscape Overview:** The global backup software market has witnessed sustained development momentum and fierce competition status with various kinds and scales of enterprises. Generally, the enterprises that provide backup software service can be divided into three major categories.

- (1) The first category is the **comprehensive backup solution providers**, which accounts for approximately 35% of the total market size of global backup market in 2014. Their business involves a wide range of service and products regarding data backup. They do not only provide products including both hardware and software, but also offer integrated service to their clients. Many of them are even large-scaled listed companies with their operation spread around the world. Among them, EMC, Symantec, and NetApp are the three typical and large global players which are listed companies in this field, leading the global backup solution market.
- (2) The second category is the **backup service providers specialised in software**, occupying almost 45% of the total market size of global backup market in 2014. Instead of focusing on providing hardware service, some global companies deal professionally with software service regarding data storage, backup and recovery. Usually, their businesses cover various kinds of clients, ranging from large companies to SMEs. The typical backup service companies are Novastor, Comm Vault Systems, FalconStor Software and so on.
- (3) In addition, there stays the third category including the enterprises that are **backup software providers catering to SMEs**, with market share of approximately 20% of the total global backup market in 2014. Globally, there are some companies specialised in providing backup

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software service and received notable market performance in recent years. They usually possess flexible business operation and stable customer base, which mostly focus on SMEs. Meanwhile, companies like our Group provides all-in-one backup software products with rapid upgrading speed, which facilitates them to stably grasp certain market position globally.

### Ranking of Hong Kong Backup Software Companies Catering to SMEs Globally

For backup software companies catering to SMEs, Hong Kong companies have just occupied a small proportion of the global size. Amongst the market players, our Group has represented remarkable superiority with market share of 0.8%. According to Frost & Sullivan, our Group has a competitive edge over market players of the global backup software market catering to SMEs, as we (i) have a strong in-house R&D team; and (ii) run a strong technical knowledge base, Ahsay™ Knowledge Base, a website with a discussion forum at our sales website at [www.ahsay.com](http://www.ahsay.com), where first hand market information such as product development and technology advancement is provided to our customers. Company A, a company providing IT services including consultancy, support services and project management, and Company B, a company providing Internet roaming and line backup services to ensure connectivity to the Internet, have followed behind with market share of 0.2% and 0.2% of the global backup software market catering to SMEs in 2014.

Along with the further development of the market, the concentration level of the market competition is expected to further increase, as the leading market players are expected to take up more market share, with more advanced competitive advantages.

### Ranking of Hong Kong Backup Software Companies Catering to SMEs Globally, 2014

Ranking	Company	Principal Business	Revenue <sup>(1)</sup> (Million HK\$)	Market Share
1	Our Group <sup>(2)</sup>	Provision of backup software products and services	53.8	0.8%
2	Company A	Provision of IT services including consultancy, support services and project management	15.3	0.2%
3	Company B	Provision of Internet roaming and line backup services to ensure connectivity to the Internet	13.7	0.2%
4	Company C	Provision of IT services including computer support, online backup, network security and network support	7.2	0.1%
5	Company D	Provision of software products and IT services, such as online backup services, in conjunction with cloud-based applications and solutions	6.6	0.1%

Source: Frost & Sullivan Report.

Notes:

(1) The revenue excludes sale of hardware devices. During the year ended 31 December 2014, our total revenue was approximately HK\$54.0 million and our revenue from sale of hardware devices was approximately HK\$172,000.

(2) Our customers include IT consultants, web hosting companies, telecommunications companies and MSPs. To the best knowledge and information of our Directors, the respective customers of our customers are mainly SMEs.

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### Competition with Cloud Storage Service Providers

According to Frost & Sullivan, although public cloud storage service providers also provide backup software for users to back up their data to public cloud, such backup software generally provides basic backup features and is generally more suitable for personal and home users using desktop or laptop computers. Such software usually lacks many of the sophisticated features that are provided by leading backup software providers such as our Group, whose backup software is well capable of, amongst others, (i) supporting the backing up of various virtual machines and business applications; (ii) creating multiple backup sets for different backup sources; and (iii) providing flexible backup schedules for end-users. It costs much more for cloud storage providers to develop backup software that is comparable to our Group's backup software products than to purchase licences from our Group, not to mention the time required to develop backup software themselves and the uncertainties involved. Therefore, given the differences in target users and features provided, the cloud service providers have not formed sound threats to our Group's market position.

### RECENT UPDATES ON THE IT INDUSTRY

According to Frost & Sullivan, with the Edward Snowden scandal effect and devastating cyber-attacks on the rise, tech companies have attached much more importance to improving encryption technology with higher standards. However, having considered the increasing threats of cyber security and terrorists' activities, governments and law enforcement agencies are seeking for the right to use secret keys to monitor massive data. As such, the IT industry is facing a backlash from some users who suspect tech companies are complicit in allowing their data to be stored under surveillance. Although tech companies have adopted relatively complex encryption algorithm, users in general still consider themselves in unfavourable situations in respect of monitoring their own data due to the fact that only tech companies possess decryption knowledge.

At present, the heated debate on surveillance and privacy issues seems to have no obvious impact on tech companies' process of improving encryption technology. Meanwhile, regaining users' trust and guaranteeing the security of digital data and user privacy have become the new developing trend in the whole IT industry. The companies that sell IT and communications systems tend to allow users to have more control over encryption algorithm. IBM, for instance, opened its mainframe computer technology to allow users to adopt their own encryption algorithms this year. Big Blue has even licensed its server-chip technology to Chinese manufacturers in a way that gives them control over encryption. Tech companies such as Facebook, Apple and Microsoft have already adopted end-to-end encryption algorithm to some of their social network services, such as WhatsApp, iMessage, and Skype. Data storage services may take a similar way. Dropbox, one of the leading public cloud data storage service providers, has introduced a platform so that to allow users to bring their own encryption.

Since the debate on surveillance and privacy issues has not gained obvious effect, the IT industry will continue focusing more on the upgrading of encryption technology and no negative impacts appear to affect the further expansion of our Group's business.

### SOURCES OF INFORMATION

Our Group commissioned Frost & Sullivan, a market research consultant, to prepare an industry report for use in this prospectus (the "Frost & Sullivan Report"). Our Group has agreed to pay a fee of approximately HK\$744,000 for the Frost & Sullivan Report, which will be fully paid prior to the Listing. Our Group is of the view that the payment of such fee does not affect the fairness of the conclusions drawn in the Frost & Sullivan Report.

Established in 1961, Frost & Sullivan provides market research on a variety of industries, including software market. The Frost & Sullivan Report includes information on global backup

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software market. In preparing the Frost & Sullivan Report, Frost & Sullivan has conducted detailed primary research which involved discussing the status of the industry with certain leading industry participants. Frost & Sullivan has also conducted secondary research which involved reviewing company reports, independent research reports and data based on its own research database. Frost & Sullivan has obtained the figures for the estimated total market size from historical data analysis plotted against macroeconomic data as well as considered the industry key drivers.

Frost & Sullivan, the Sole Sponsor and we believe that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projections, are factual, correct and not misleading. Frost & Sullivan has independently analysed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected.