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ZIONCOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8287)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**") of Zioncom Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

RESULTS

The board (the "**Board**") of Directors of the Company presents the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018, together with the comparative audited figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	*5*	**573,709**	578,358
Cost of sales		**(482,577)**	(488,478)
Gross profit		**91,132**	89,880
Other income	*6*	**10,962**	7,416
Changes in fair value of financial assets at fair value through profit or loss		**(682)**	–
Selling and distribution expenses		**(19,718)**	(11,861)
Administrative expenses		**(69,489)**	(55,888)
Research and development expenses		**(24,914)**	(22,564)
(Loss)/profit from operations		**(12,709)**	6,983
Finance costs	*7*	**(2,531)**	(3,077)
(Loss)/profit before taxation	*8*	**(15,240)**	3,906
Taxation	*9*	**(2,648)**	(3,186)
(Loss)/profit for the year		**(17,888)**	720
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of properties		**2,866**	2,654
Deferred tax liabilities arising from revaluation of properties		**(247)**	(612)
		2,619	2,042
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating of foreign operation		**(6,805)**	7,755
Gain arising from changes in fair value of available-for-sale financial assets		**–**	120
		(6,805)	7,875
Other comprehensive (loss)/income for the year		**(4,186)**	9,917
Total comprehensive (loss)/income for the year		**(22,074)**	10,637
(Loss)/profit for the year attributable to the owners of the Company		**(17,888)**	720
Total comprehensive (loss)/income attributable to owners of the Company		**(22,074)**	10,637
(Loss)/earnings per share attributable to the owners of the Company			
Basic and diluted (*HK cents*)	*11*	**(2.75)**	0.16

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**133,381**	129,470
Prepaid lease payments		**8,393**	8,790
Available-for-sale financial assets		**–**	6,505
Financial assets at fair value through profit and loss		**21,965**	–
Other financial assets		**–**	10,088
		163,739	154,853
Current assets			
Inventories		**181,837**	146,247
Trade and bills receivables	*12*	**62,101**	81,170
Prepaid lease payments		**219**	224
Prepayments, deposits and other receivables		**61,530**	72,230
Amount due from directors		**2,222**	–
Pledged bank deposits		**30,549**	25,676
Cash and bank balances		**4,787**	32,634
		343,245	358,181
Current liabilities			
Trade and bills payables	*13*	**202,406**	239,860
Accruals, deposits received and other payables		**25,023**	61,490
Contract liabilities		**30,446**	–
Bank borrowings		**59,035**	57,832
Obligations under finance leases		**1,648**	2,282
Tax payables		**1,098**	1,069
		319,656	362,533
Net current assets/(liabilities)		**23,589**	(4,352)
Total assets less current liabilities		**187,328**	150,501
Non-current liabilities			
Obligations under finance leases		**2,535**	4,187
Deferred tax liabilities		**3,496**	3,266
		6,031	7,453
Net assets		**181,297**	143,048
Capital and reserves			
Share capital	*14*	**6,600**	9
Reserves		**174,697**	143,039
Total equity attributable to owners of the Company		**181,297**	143,048

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital *HK$'000*	**Share premium** *HK$'000* *(Note a)*	**Other reserve** *HK$'000* *(Note b)*	**Surplus reserve** *HK$'000* *(Note c)*	**Exchange reserve** *HK$'000* *(Note d)*	**Revaluation surplus reserve** *HK$'000* *(Note e)*	**Available-for-sale financial assets reserve** *HK$'000* *(Note f)*	**Retained earnings** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	32,001	–	–	2,279	(712)	16,684	(54)	82,213	132,411
Profit for the year	–	–	–	–	–	–	–	720	720
Other comprehensive income for the year	–	–	–	–	7,755	2,042	120	–	9,917
Profit and total comprehensive income for the year	–	–	–	–	7,755	2,042	120	720	10,637
Effect of reorganisation	(31,992)	–	31,992	–	–	–	–	–	–
At 31 December 2017	9	–	31,992	2,279	7,043	18,726	66	82,933	143,048
Impact on initial application of HKFRS 9	–	–	–	–	–	–	(66)	(5,126)	(5,192)
Restated balance at 1 January 2018	9	–	31,992	2,279	7,043	18,726	–	77,807	137,856
Loss for the year	–	–	–	–	–	–	–	(17,888)	(17,888)
Other comprehensive income/(loss) for the year	–	–	–	–	(6,805)	2,619	–	–	(4,186)
Loss and total comprehensive loss for the year	–	–	–	–	(6,805)	2,619	–	(17,888)	(22,074)
Transfer to surplus reserve	–	–	–	680	–	–	–	(680)	–
Capitalisation issue *(Note 14)*	4,611	(4,611)	–	–	–	–	–	–	–
Placing and public offer of shares upon listing *(Note 14)*	1,980	83,160	–	–	–	–	–	–	85,140
Expenses in connection with the issue of shares	–	(19,625)	–	–	–	–	–	–	(19,625)
At 31 December 2018	6,600	58,924	31,992	2,959	238	21,345	–	59,239	181,297

Notes:

(a) Share premium represented the excess of share issue over the par value.

(b) Other reserve represented the difference between the Group's share of nominal values of the paid-up capital of the subsidiary acquired over the Group's cost of acquisition of the subsidiary under common control upon Reorganisation.

(c) Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

(d) Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.

(e) Revaluation surplus reserve represents the revaluation gains or losses arising on the Land and Building situated in the PRC, for such reclassifications, the cumulative increase in fair value at the date of reclassification in excess of any previous accumulative depreciation and impairment losses is included in the property revaluation reserve, and will be transferred to retained earnings upon the retirement or disposal of the relevant property.

(f) Available-for-sale financial assets reserve represents cumulative net change in the fair value of available-for sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to the profit or loss when those investments have been disposed of or are determined to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 January 2016. The respective addresses of the registered office and the principal place of business of the Company are set out in "Corporate Information" of the Annual Report for the year ended 31 December 2018.

The Company's immediate and ultimate holding company is Lincats (BVI) Limited, a company incorporated in the British Virgin Islands ("**BVI**"). Lincats (BVI) Limited is controlled by Mr. Kim Byung Kwon, an executive director of the Company.

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and sales of networking products and non-networking products.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). The functional currency of the Company and its principal subsidiaries are Hong Kong dollars and U.S. dollars and all values are rounded to the nearest thousands (HK$'000), unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, HKASs and Interpretations issued by the **HKICPA**, and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the **HKICPA**. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements has been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year:

HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related amendments
HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HK(IFRIC) Int 22	Foreign currency transactions and advance consideration

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

(a) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated statement of financial position (extract)	At 31 December 2017 *HK$'000*	HKFRS 9 *HK$'000*	HKFRS 15 *HK$'000*	At 1 January 2018 *HK$'000*
Non Current assets				
Available-for-sale financial assets	**6,505**	**(6,505)**	**–**	**–**
Financial assets at fair value through profit or loss	**–**	**16,593**	**–**	**16,593**
Other financial assets	**10,088**	**(10,088)**	**–**	**–**
Current assets				
Trade and bills receivables	**81,170**	**(5,136)**	**–**	**76,034**
Prepayment, deposits and other receivables	**72,230**	**(56)**	**–**	**72,174**
Current liabilities				
Accruals, deposit received and other payables	**61,490**	**–**	**(31,178)**	**30,312**
Contract liabilities	**–**	**–**	**31,178**	**31,178**
Net current liabilities	**(4,352)**	**(5,192)**	**–**	**(9,544)**
Total assets less current liabilities	**150,501**	**(5,192)**	**–**	**145,309**
Net assets	**143,048**	**(5,192)**	**–**	**137,856**
Capital and reserves				
Reserves	**143,039**	**(5,192)**	**–**	**137,847**
Total equity	**143,048**	**(5,192)**	**–**	**137,856**

(b) **HKFRS 9 Financial Instruments**

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 disclosed in Note 4 to consolidated financial statements.

Summary of effecting arising from initial application of HKFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

Classification and measurement

	At 31 December 2017	**Impact on initial application of HKFRS 9**	**At 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Available-for-sale financial assets	**6,505**	**(6,505)**	**–**
Other financial assets	**10,088**	**(10,088)**	**–**
Financial assets at fair value through profit or loss	**–**	**16,593**	**16,593**

Note:

(i) *Reclassification from available-for-sale financial assets to FVTPL*

The unlisted bonds and club membership of the Group with aggregated fair value of HK$6,505,000 as at 1 January 2018 were reclassified from available-for-sale financial assets to FVTPL. It does not meet the HKFRS 9 criteria for classification at amortised cost and FVTOCI, as its cash flow do not represent solely payments of principal and interest. Related cumulative fair value gain HK$66,000 were transferred from available-for-sale financial assets reserve to retained earnings on 1 January 2018.

(ii) *Reclassification from other financial assets to FVTPL*

The key management personnel life insurance policies amount of approximately HK$10,088,000 as at 1 January 2018 were reclassified from other financial assets to financial assets at fair value through profit or loss ("**FVTPL**"). It does not meet the HKFRS 9 criteria for classification at amortised cost and FVTOCI, as its cash flow do not represent solely payments of principal and interest.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on internal credit rating and/or past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including deposit, other receivables, amount due from directors, pledged bank deposits and cash and bank balances, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

All loss allowances including trade receivables and deposits and other receivables at amortised cost as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables	**Deposits and other receivables**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2017 – HKAS 39	–	–	–
Amounts re-measured through opening retained earnings	**5,136**	**56**	**5,192**
At 1 January 2018 – HKFRS 9 (restated)	**5,136**	**56**	**5,192**

The impact of these changes on the group's equity is as follows:

	Available-for-sale financial assets reserve *HK$'000*	Retained earning *HK$'000*
At 31 December 2017 – HKAS 39	66	82,933
Reclassify from available-for-sale financial assets to FVTPL	(66)	66
Impairment under ECL model	–	(5,192)
At 1 January 2018 – HKFRS 9 as restated	–	77,807

(c) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 15, prior period comparative figures have not been restated. The Group recognises revenue mainly from the following major sources which arise from contracts with customers:

(i) Sales of networking and non-networking products

(ii) Revenue from consignment sales for networking and non-networking products

(iii) Processing services income

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Note 4 to consolidated financial statements.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018). Line items that were not affected by the changes have not been included.

	HKAS 18 carrying amount 31 December 2017	Reclassification	HKFRS 15 carrying amount 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
Contract liabilities	**–**	**31,178**	**31,178**
Accruals, deposits received and other payables	**61,490**	**(31,178)**	**30,312**

Presentation of assets and liabilities related to contracts with customers

The Group has also changed the presentation of the following amounts in the consolidated statement of financial position to reflect the terminology of HKFRS 15:

- Contract liabilities in relation to networking and non-networking products sales contracts was previously included in deposits receipts in advance (approximately HK$31,178,000 as at 1 January 2018).

Timing of revenue recognition

Except for the reclassification of the contract liabilities from receipt in advance of HK$31,178,000 at initial application, HKFRS 15 was generally adopted without restating any other comparative information. HKFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under HKFRS 15 resulted in immaterial impact to the financial statements as the timing of revenue recognition over sales of goods and services is nearly unchanged. Thus, there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

New and revised HKFRSs issued but not yet effective

The Group has not early adopted the following new and revised HKFRSs that have been issued but not yet effective:

HKFRSs (Amendments)	Annual improvement to HKFRSs 2015-2017 cycle[1]
HKFRS 3 (Amendments)	Definition of Business[4]
HKFRS 9 (Amendments)	Prepayment Feature with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HKAS 1 and HKAS 8 (Amendments)	Definition of materials[5]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
HK(IFRIC) Int 23	Uncertainty over Income Tax Treatment[1]

[1] *Effective for annual periods beginning on or after 1 January 2019.*
[2] *Effective for annual periods beginning on or after 1 January 2021.*
[3] *Effective for annual periods beginning or after a date to be determined.*
[4] *Effective for business combinations and asset acquisition for which acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.*
[5] *Effective for annual periods beginning on or after 1 January 2020.*

4. SEGMENT INFORMATION

During the years ended 31 December 2018 and 2017, the Group operates in one operating segment which is the manufacturing and sales of electronic networking products. A single management team reports to the Directors of the Group (being the chief operating decision-maker) who comprehensively manages the entire business. Accordingly, the Group does not present separately segment information.

Geographical information

The Group's revenue from external customers based on the locations of the customers is detailed as below:

	2018	2017
	HK$'000	*HK$'000*
Korea	**398,055**	382,716
The People's Republic of China (the "**PRC**")	**21,609**	23,193
Vietnam	**30,572**	28,424
Other Asia (excluding Korea, the PRC and Vietnam)	**79,852**	82,341
Europe	**17,754**	27,561
South America	**2,097**	10,475
Africa	**3,157**	2,765
North America	**20,613**	20,832
Central America	**–**	51
	573,709	578,358

The following is an analysis of the carrying amount of non-current assets, excluding financial assets at fair value through profit or loss, available-for-sale financial assets and other financial assets, analysed by the geographical areas in which the assets are located:

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**157**	24
Mainland China	**85,599**	86,559
Vietnam	**55,456**	51,198
Others	**562**	479
	141,774	138,260

Information about major customers

Revenues from customers contributing over 10% of the total revenue of the Group during the reporting period are as follows:

	2018	2017
	HK$'000	*HK$'000*
Customer A (Note i)	**302,577**	302,024

Note:

(i) Revenue from manufacturing and trading of networking products including routers, switches and LAN cards.

5. REVENUE

Revenue represents the aggregate of the amounts received and receivable from third parties, income from sales of networking products and non-networking products and processing services income. Revenue recognised during the year are as following:

(a) Disaggregation of revenue from contracts with customers

The Group revenue is disaggregated by the type of goods or services provided to customers, the geographical market, and the timing of goods and services transferred.

	2018	2017
	HK$'000	*HK$'000*
Type of goods or service		
Goods transferred at a point in time		
Sales of router products	**414,785**	400,884
Sales of switch products	**51,994**	46,425
Sales of other networking products	**70,055**	72,125
Sales of non-networking products	**34,507**	42,571
Processing service income	**2,368**	16,353
Total revenue from contracts with customers	**573,709**	578,358

The Group operates in one operating segment for the manufacturing and sales of electronic networking product. Set out below is the revenue from contracts with customers with the amounts disclosed in the segment information.

	2018	2017
	HK$'000	*HK$'000*
Geographical markets		
Korea	**398,055**	382,716
The People's Republic of China (the "**PRC**")	**21,609**	23,193
Vietnam	**30,572**	28,424
Other Asia (excluding Korea, the PRC and Vietnam)	**79,852**	82,341
Europe	**17,754**	27,561
South America	**2,097**	10,475
Africa	**3,157**	2,765
North America	**20,613**	20,832
Central America	**–**	51
Total revenue from contracts with customers	**573,709**	578,358

(b) Performance obligations for contracts with customers

Details of performance obligations for contracts with customers for the year ended 31 December 2018 are set out in Note 4 to consolidated financial statements.

(c) Transaction price allocated to the remaining performance obligation for contracts with customers

All revenue from sales of networking products and non-networking products and processing services income are for the periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Government grant	**1,232**	2,070
Reversal of loss allowance for trade and other receivables	**3,725**	–
Bank interest income	**235**	202
Exchange gain, net	**3,639**	–
Investment income	**249**	236
Interest income on life insurance policies	**407**	395
Sales of parts material	**–**	938
Product development income	**–**	2,535
Gain on disposal of property, plant and equipment	**180**	–
Sundry income	**1,295**	1,040
	10,962	7,416

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expenses on bank borrowings wholly repayable within five years	**2,258**	1,724
Interest expenses on obligations under finance leases	**273**	1,353
	2,531	3,077

8. (LOSS)/PROFIT BEFORE TAXATION

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit for the year has been arrived at after charging/(crediting):		
Directors' emoluments	**6,318**	4,347
Other staff costs:		
Salaries and other benefits	**80,390**	71,172
Bonuses	**717**	145
Retirement scheme contributions	**8,546**	9,282
	89,653	80,599
Auditors' remuneration		
– audit services	**1,200**	800
– listing services (included in listing expenses)	**93**	1,237
Amortisation of land use right	**222**	226
Written off of trade receivables	**101**	644
Depreciation of property, plant and equipment		
– selling and distribution expenses	**12**	18
– administrative expenses	**4,904**	4,279
– cost of sales	**6,506**	4,578
– research and development expenses	**2,307**	2,036
	13,729	10,911
Cost of inventories recognised as an expenses	**394,200**	426,476
Changes in fair value of financial assets at fair value through profit or loss	**682**	–
Gain/(loss) on disposal of property, plant and equipment	**180**	(3)
Exchange loss, net	**–**	1,297
Compensation expenses	**1,344**	–
Loss allowance for credit loss	**5,851**	–
Operating lease rental expenses in respect of rented premises	**9,115**	7,058
Listing expenses *(Note)*	**483**	13,414

Note: The listing expenses are included in "Administrative expenses".

9. TAXATION

	2018	2017
	HK$'000	*HK$'000*
Current taxation:		
Provision for the year		
– Hong Kong Profits tax	**966**	436
– Other than Hong Kong	**1,699**	2,753
Over-provision in prior years	**–**	(20)
	2,665	3,169
Deferred taxation:		
(Charged)/credited for the year	**(17)**	17
	2,648	3,186

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2017.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the year ended 31 December 2018.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

In 2015, 吉翁電子(深圳)有限公司 was a High and New Technology Enterprise defined by Shenzhen Finance Bureau, Administrator of Local Taxation of Shenzhen Municipality and Shenzhen Municipal office of the State Administration of Taxation (the "**Authority**") and therefore was entitled to 15% preferential tax rate from PRC enterprise income tax for three years starting from year ended 31 December 2015 and renewed on 16 October 2018, according to the New PRC Enterprise Income Tax Law.

Taiwan Corporate Income Tax is calculated at 17% of the estimated assessable profit the years ended 31 December 2018 and 2017.

Vietnam Corporate Income Tax is calculated at 20% of the estimated assessable profit for the years ended 31 December 2018 and 2017. No provision of Profits Tax for the subsidiary in Vietnam as no assessable profit the years ended 31 December 2018 and 2017.

No provision for taxation has been recognised for companies incorporated in the Cayman Islands andthe BVI as they are not subject to any tax during the years ended 31 December 2018 and 2017.

10. DIVIDENDS

The Directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

11. (LOSS)/EARNINGS PER SHARE

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit attributable to the owners of the Company	**(17,888)**	720
Weighted average number of ordinary shares in issue	**650,778,082**	462,000,000
Basic and diluted (loss)/earnings per share *(HK cents)*	**(2.75)**	0.16

The calculation of basic loss per share for the year ended 31 December 2018 is calculated by dividing the loss for the year attributable to the owners of the Company over the weighted average number of ordinary shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit attributable to the owners of the Company for the year ended 31 December 2017 and on the assumption that 462,000,000 ordinary shares had been issued, comprising 858,000 ordinary shares in issue and 461,142,000 ordinary shares to be issued pursuant to the capitalization issue as if the shares had been outstanding throughout the entire reporting period.

Diluted (loss)/earnings per share were same as the basic (loss)/earnings per share as there were no potential dilutive ordinary shares in existences during the years ended 31 December 2018 and 2017.

12. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**69,346**	81,145
Less: Allowance for credit losses	**(7,267)**	–
	62,079	81,145
Bills receivables	**22**	25
	62,101	81,170

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to approximately HK$62,079,000 and approximately HK$81,145,000 respectively.

The following is an ageing analysis of trade receivables net off allowance for credit losses presented based on the invoice date at the end of the reporting periods:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**10,260**	27,010
31 to 60 days	**9,989**	18,053
61 to 90 days	**2,483**	1,909
91 to 180 days	**9,318**	7,484
Over 180 days	**30,029**	26,689
	62,079	81,145

The Group generally allows an average credit period range from 30 to 180 days to its customers. Receivables that were neither past due nor impaired related to customers for whom there was no default. Receivables that were past due but not impaired related to customers that have good creditworthiness. Based on past experience, the management considered no impairment is necessary as there has not been a significant change in credit quality of these balances, which are still considered fully recoverable.

13. TRADE AND BILLS PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**126,120**	165,440
Bills payables	**76,286**	74,420
	202,406	239,860

The average credit period from suppliers is up to 30 to 120 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**44,234**	67,164
31 to 60 days	**22,674**	65,003
61 to 90 days	**15,567**	20,156
91 to 180 days	**35,541**	12,079
Over 180 days	**8,104**	1,038
	126,120	165,440

Bills payables are all mature within 150 days.

14. SHARE CAPITAL

	Number of Shares	Amount
		HK$
Authorised:		
As at 1 January 2017	50,000	387,500
Increased and redenomination of authorised share capital *(Note b)*	49,999,950,000	499,612,500
Ordinary share of HK$0.01 each as at 31 December 2017, 1 January 2018, and 31 December 2018	50,000,000,000	500,000,000
Issued and fully paid:		
As at 1 January 2017	100	775
Issue of shares upon reorganisation *(Note b)*	1,000	7,750
Redenomination of authorised share capital *(Note b)*	(1,100)	(8,525)
Issue of shares *(Note b)*	858,000	8,580
As at 31 December 2017 and 1 January 2018	858,000	8,580
Capitalisation issue *(Note c)*	461,142,000	4,611,420
Issue of new shares under the Share Offer *(Note c)*	198,000,000	1,980,000
As at 31 December 2018	660,000,000	6,600,000

Note:

(a) The Company was incorporated in the Cayman Islands with limited liability as an investment holding company on 29 January 2016, the initial authorised share capital of US$50,000 divided into 50,000 Shares of US$1 each. Upon its incorporation, one subscriber share was allotted and issued, to the subscriber, which transferred to Lincats (BVI) Limited and 99 Shares were allotted and issued to Lincats (BVI) Limited at par value credited as fully paid.

(b) On 3 March 2017, the shareholder of the Company resolved to redenominated its authorised share capital from US dollars to HK dollars and increased its authorised share capital from US$50,000 divided into 50,000 ordinary shares of US$1.00 each to HK$500,000,000 by (1) the creation of 50,000,000,000 Shares with a par value of HK$0.01 each; (2) issuing 858,000 Shares at HK$0.01 each to Lincats and repurchasing the 1,100 shares in US$1.00 denominated share held by Lincats; and (3) cancelling all authorised US$denominated share capital so that the authorised share capital of the Company became HK$500,000,000 divided into 50,000,000,000 Shares with a par value of HK$0.01 each and ranking pari passu with the shares then in issue in all respects.

(c) On 18 January 2018, the Company issued new shares through the placing of 138,600,000 ordinary shares of HK$0.01 each and the public offer of 59,400,000 ordinary shares of HK$0.01 each at the price of HK$0.43 per share.

Conditional upon the share premium account of the Company being credited as a result of the allotment and issue of the offer Shares pursuant to the Share Offer, our Directors were authorised to capitalise an amount of HK$4,611,420 from the share premium account of the Company by applying such sum towards the paying up in full at par a total of 461,142,000 additional Shares for allotment and issue to the existing shareholders on the register of members of the Company immediately prior to the Listing as at 18 January 2018, credit as fully paid and on a pro rata and pari passu basis.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in manufacturing and sales of networking products, specialising in the design and development of wireless networking products which are primarily targeted for home use and small scale commercial applications. The Group also manufactures and sells wired and wireless networking products such as Ethernet switches, LAN cards, Wi-Fi modules and Access Points as well as non-networking products, such as power banks and USB hubs. Its operations are mainly based in the PRC. Its main products are routers, which provide for wired and wireless transmission of data to devices while maintaining wired connection with modems.

The success of listing (the "**Listing**") of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited on 18 January 2018 was an important milestone for the Group, improving its capital strength and increasing the Group's resources for market penetration, production capacity and research and development.

The Group recorded a significant net loss of approximately HK$17.9 million attributable to equity holders of the Company for the year ended 31 December 2018. The Board considers that this is primarily attributable to (a) the impact of the challenging global economic environment due to the uncertain global trade prospects and the weak performance of the global economy; (b) selling expenses related to overseas market development; and (c) administrative expenses of the Group.

During the year ended 31 December 2018, approximately 27.9% of revenue of the Group was generated from its own branded products under the brand *TOTOLINK*. The Group sold its branded products mainly on a wholesale basis through its distributors covering over 40 countries and regions including Korea, the PRC, Vietnam, Hong Kong, Thailand and Brazil, etc. In addition, the Group has subsidiaries in Taiwan and Vietnam with strong sales team working closely with its distributors. The revenue contributed from the Group's Taiwan and Vietnam operations were approximately HK$32.9 million and HK$39.7 million respectively for the year ended 31 December 2018, which in aggregate contributed approximately 12.7% of the Group's revenue. The Group is looking forward to the growth in the Asia-pacific market including Vietnam and Taiwan in the coming years.

Including the revenue from the Group's largest customer, which represented approximately 52.7% of the Group's total revenue for the year ended 31 December 2018, approximately 69.4% of the revenue was generated from the Group's largest market, Korea for the year ended 31 December 2018. The Group recorded a year-on-year growth in revenue generated from Korea by approximately 4.0%. Any change in economic conditions of the Group's export countries, such as interest rates, currency exchange rates, inflation, deflation, political uncertainty, taxation, stock market performance and general consumer confidence, may affect the volume of purchase of the Group's customers. Any change in the sales orders from the Group's customers in the Group's export countries resulting from any change in global or regional economic conditions may also affect the Group's business operations and financial performance.

OUTLOOK

The Group's business objective is to strengthen the Group's position as a networking products manufacturer specialising in the design and development of wireless networking products by enhancing recognition of the Group's own brand and increasing the Group's profitability. In support of the Group's business objective, the Group will continue to implement the business strategies of increasing the Group's growth in the emerging markets in Asia and other markets with good potential, increasing the Group's production capacity and broadening its product offerings, enhancing its overall competitiveness and market share.

We expect the global markets to be full of challenges in the near future with the irksome development of the trade war between the United States and the PRC as the United States government may again impose large tariffs on PRC products. On 6 July 2018, the United States imposed 25% tariffs on US$34 billion worth of PRC goods as part of the United States government's tariffs policy. In turn, the PRC responded with similarly sized tariffs on United States' products. On 24 September 2018, the United States government imposed 10% tariffs on approximately US$200 billion worth of PRC goods and plans to further increase the rate to 25% if trade talks between the United States and the PRC fails. In return, the PRC responded with tariffs on US$60 billion of United States' goods. This escalating tit for tat and the accompanying rhetoric between the two parties encompasses the trade war. Both sides have recently agreed to a truce and resumed trade negotiations but it is unclear if and when a trade deal can be achieved. An amicable resolution remains elusive, and the lasting impacts of any trade war on the PRC economy remain uncertain.

Due to these reasons, the Group will continue to adopt and maintain a conservative but proactive investment approach so as to bring better returns for its shareholders. As tariffs are imposed, companies with manufacturing lines outside the PRC will gain an advantage over product prices. As the Group has production lines in Vietnam, the Group has the capacity to shift the production activities from the PRC to Vietnam and may be able to avoid such heavy tariffs. Hence, the Group is expecting increasing demands of its products in the future under such circumstances.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group recorded revenue of approximately HK$573.7 million, representing an decreased of approximately 0.8% comparing with that of approximately HK$578.4 million for the year ended 31 December 2017. Set out below is the revenue breakdown of the Group for the years ended 31 December 2018 and 2017:

	For the year ended 31 December			
	2018		2017	
	HK$'000	*%*	*HK$'000*	*%*
Type of goods or service				
Goods transferred at a point in time				
Sales of router products	**414,785**	**72.3%**	400,884	69.3%
Sales of switch products	**51,994**	**9.1%**	46,425	8.0%
Sales of other networking products	**70,055**	**12.2%**	72,125	12.5%
Sales of non-networking products	**34,507**	**6.0%**	42,571	7.4%
Processing service income	**2,368**	**0.4%**	16,353	2.8%
Total revenue from contracts with customers	**573,709**	**100%**	578,358	100%

The revenue from router products increased by approximately 3.5% for the year ended 31 December 2018 as comparing with that of the previous year. The increase was mainly due to the increase of orders from the Group's customers on 4G LTE routers during the year ended 31 December 2018. The revenue from non-networking products and processing services income decreased by approximately 18.9% and 85.5% respectively. The decreases were mainly due to the Group's adjustment of strategy focussing on networking products and our own brand TOTOLINK respectively. The Group will continue to put more resources to expand the emerging markets in Asia and other markets with good potential in order to enhance the Group's revenue base.

Cost of sales and gross profit

During the year ended 31 December 2018, the Group's gross profit increased by approximately 1.4% from approximately HK$89.9 million for the year ended 31 December 2017 to approximately HK$91.1 million for the year ended 31 December 2018. The Group's cost of sales comprises costs of materials, direct labour, manufacturing overhead, subcontracting services fee and other overheads. The cost of sales decreased by approximately 1.2% from approximately HK$488.5 million for the year ended 31 December 2017 to approximately HK$482.6 million for the year ended 31 December 2018.

The gross profit margin remained stable at approximately 15.9% for the year ended 31 December 2018 (2017: approximately 15.5%). The increase of gross profit is in line with the decrease of cost of sales.

Other income

Other income increased by approximately 47.8% to approximately HK$11.0 million for the year ended 31 December 2018 from approximately HK$7.4 million for the year ended 31 December 2017, primarily attributable to the increase in net foreign exchange gain and the reversal of loss allowance for trade and other receivables which arose by the initial application of HKFRS 9.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 66.2% to approximately HK$19.7 million for the year ended 31 December 2018 from approximately HK$11.9 million for the year ended 31 December 2017, which was mainly due to the aggregate increase in the selling and distribution expenses incurred by the Group's subsidiary in Vietnam and the increase in transportation fee of the Group. The selling and distribution expenses in Vietnam had increased by approximately HK$4.4 million from approximately HK$2.1 million for the year ended 31 December 2017 to approximately HK$6.5 million for the year ended 31 December 2018 due to expansion of sales team and the increase of sales generated from the Group's Vietnam operation of approximately HK$39.7 million for the year ended 31 December 2018 (2017: approximately HK$28.4 million). The increase in transportation fee by approximately HK$0.8 million was mainly due to the increasing sales volume which involved courier of samples or promotion materials to the Group's customers or distributors.

Administrative expenses

The administrative expenses of the Group for the year ended 31 December 2018 amounted to approximately HK$69.5 million, representing a substantial increase of approximately HK$13.6 million as compared with approximately HK$55.9 million for the year ended 31 December 2017. The increase was mainly attributable to the impairment loss on trade receivables amounting to approximately HK$5.9 million for the year ended 31 December 2018 (2017: Nil), salaries and allowances amounted to approximately HK$12.7 million for the year ended 31 December 2018 (2017: approximately HK$9.5 million), legal and professional fees amounted to approximately HK$4.1 million for the year ended 31 December 2018 (2017: approximately HK$1.1 million), compensation expenses amounted to approximately HK$1.3 million for the year ended 31 December 2018 (2017: Nil), other tax expenses amounted to approximately HK$3.4 million for the year ended 31 December 2018 (2017: HK$1.1 million).

Research and development expenses

Research and development expenses increased by approximately 10.4% to approximately HK$24.9 million for the year ended 31 December 2018 from approximately HK$22.6 million for the year ended 31 December 2017, which was mainly due to the increase in expenses of salaries and social insurance by approximately HK$3.0 million from approximately HK$12.5 million for the year ended 31 December 2017 to approximately HK$15.5 million for the year ended 31 December 2018 as the number of staff of research and development department increased.

Finance costs

Finance costs decreased by approximately 17.7% to approximately HK$2.5 million for the year ended 31 December 2018 from approximately HK$3.1 million for the year ended 31 December 2017, which was mainly due to the decrease of interest expenses on obligations under finance leases which decreased by approximately HK$1.1 million from approximately HK$1.4 million for the year ended 31 December 2017 to approximately HK$0.3 million for the year ended 31 December 2018 as certain finance lease liabilities were repaid during the year ended 31 December 2018.

(Loss)/profit for the year

As a result of the foregoing, the loss for the year ended 31 December 2018 amounted to approximately HK$17.9 million, compared with the profit of approximately HK$0.7 million for the year ended 31 December 2017. The loss for the year is aggregated from the increase of expenses stated above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, total borrowings of the Group amounted to approximately HK$63.2 million (2017: approximately HK$64.3 million) which represented the interest bearing bank loans at floating rates, interest bearing bank loans on fixed terms and finance leases of motor vehicle and machines. As at 31 December 2018, the cash and bank balances and pledged bank deposit of the Group amounted to approximately HK$35.3 million (2017: approximately HK$58.3 million).

As at 31 December 2018, debt to equity ratio of the Group was 15.4% (2017: 4.2%). Debt to equity ratio is calculated by dividing the net debt, which is defined to include bank borrowings and obligations under finance leases net of pledged bank deposits and cash and bank balances, by total equity at the end of the financial year. Current ratio as at 31 December 2018 was approximately 1.1 time (2017: approximately 1.0 time).

As at 31 December 2018, gearing ratio of the Group was 34.9% (2017: 45.0%). Gearing ratio is calculated based on total debt for the financial year divided by total equity as of the end of the financial year.

The Group maintained sufficient working capital as at 31 December 2018 with cash and bank balances of approximately HK$4.8 million (2017: approximately HK$32.6 million).

As at 31 December 2018, the Group's net current assets amounted to approximately HK$23.6 million (2017: net current liabilities approximately HK$4.4 million). The increase was mainly due to the contributed capital received and the paid listing expenses. The Group's operations are financed principally by revenue generated from its business operation, available cash and bank balances as well as bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (2017: Nil).

CAPITAL COMMITMENTS

The Group had no significant capital commitments as at 31 December 2018 (2017: Nil).

PLEDGE OF ASSETS

As at 31 December 2018, pledged bank deposits of approximately HK$30.5 million (2017: approximately HK$25.7 million), property, plant and equipment with a carrying value of approximately HK$75.5 million (2017: approximately HK$79.9 million), financial assets at fair value through profit or loss with a carrying value of approximately HK$21.4 million (2017: approximately HK$16.0 million) of the Group were pledged to secure the Group's bank borrowings. Bank borrowings guaranteed by personal guarantee have been replaced by a corporate guarantee on the date of Listing.

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2018, there were financial assets at fair value through profit or loss held by the Group.

Financial assets at fair value through profit or loss/other financial assets/available-for-sale financial assets

As at 31 December 2018, we recorded financial assets of approximately HK$22.0 million (2017: approximately HK$16.6 million). The table below sets forth a breakdown of the Group's financial assets at fair value through profit or loss/other financial assets/available-for-sale financial assets as at the dates indicated:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Key management personnel life insurance policies	**15,913**	10,088
Bonds	**5,460**	5,881
Club membership	**592**	624
Total	**21,965**	16,593

The bonds classified as financial assets are stated at fair value. The fair values of the Group's investments in bonds are determined by reference to the quoted price from the financial institution. For the year ended 31 December 2018, the Group invested in HSBC Global Investment Funds – Global High Income Bond (the "**Fund**") which was authorised by the Securities and Futures Commission. The Fund invested in a diversified portfolio of bonds, which may include Investment Grade bond, high yield bonds and Asian and emerging markets debt instruments. The Directors were of the view that the Group's investment in the bonds would be fully recoverable after taking into consideration that (i) the Fund received a relatively high rating from an established rating agency; (ii) the unit price of the Fund increased as at each of the year end dates previously; and (iii) the Group recorded increase in the fair value of the Group's investment in the Fund for the year ended 31 December 2018. The Directors believe that any losses arising from such investments would not have any material adverse impact on the Group due to the insignificant amount involved. The club membership represented the indefinite useful life golf club membership. The club membership, classified as financial assets at fair value through other profit or loss, is stated at fair value.

The Group purchased certain life insurance policies (the "**Policies**") for certain Directors in year 2010, year 2012 and year 2018. Under the Policies, the Company is the beneficiary and policy holder and the total insured sum is approximately US$5.8 million (equivalent to approximately HK$45.0 million).

The Group's financial assets at fair value through profit or loss remained relatively stable at approximately HK$22.0 million as at 31 December 2018 and approximately HK$16.6 million including an amount of approximately HK$10.1 million which classified as other financial assets and an amount of approximately HK$6.5 million which classified as available-for-sale investments as at 31 December 2017.

The Group has established a financial management policy, pursuant to which we would make investments when the management considers necessary to the Group's operational needs. The Group generally only purchases investment products incidental to requirements from banks when we obtain loans. For the previous years, the Group purchased investment products primarily with guaranteed investment return from the banks that we intended to borrow from in order to facilitate the process of granting loans to the Group.

The bonds and club membership classified as available-for-sale investments are stated at fair values as at 31 December 2017 and reclassified to financial assets at fair value through profit or loss at 1 January 2018 upon initial application of HKFRS 9.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at the date of this announcement, the Group did not have any other plans for material investments and capital assets except for those disclosed in the section headed "Future Plan and Use of Proceeds" in the prospectus of the Company dated 28 December 2017 (the "**Prospectus**").

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2018, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies, save as disclosed in the Prospectus.

EMPLOYEES AND EMOLUMENT POLICIES

The Group had 878 employees (including Directors) as at 31 December 2018 (2017: 915 employees) in Hong Kong, the PRC, Taiwan and Vietnam. The Group places emphasis on work experience in the networking industry in hiring its research and development staff, designers, merchandising staff and quality control staff. In order to recruit, develop and retain talented employees, the Group offers competitive remuneration packages to its staff, including internal promotion opportunities and performance based bonus. The Group enters into standard employment contracts with its staff which contain provisions on intellectual property rights and confidentiality.

The Group also reviews the performance of the Group's staff periodically and consider the result of such review for staff's annual bonus, salary review and promotion appraisal. The Company has also adopted a share option scheme, details of which are set out in the section headed "Statutory and General Information – D. Share Option Scheme" in Appendix IV to the Prospectus.

The Group provides different trainings to each department from time to time to enhance their industry, technical and product knowledge, as well as their familiarity with industry quality standards and work safety standards.

The remuneration committee of the Company (the "**Remuneration Committee**") reviews the terms of remuneration packages, bonuses and other compensation payable to the Directors and the senior management personnel of the Group from time to time. The remunerations of the Directors, senior management and employees of the Group are generally determined with reference to their duties, responsibilities and performance.

USE OF PROCEEDS

According to the Allotment Announcement and the Interim Results Announcement, the actual amount of the net proceeds from the Share Offer after deducting underwriting commission and other expenses in relation thereto, was approximately HK$42.5 million (the "**Net Proceeds**").

CHANGE OF USE OF PROCEEDS

There have been changes to the use of the Net Proceeds (the "**Actual Change**") and at the date of this announcement, all the Net Proceeds has been utilised.

The changes to and the utilization of the Net Proceeds from the Share Offer is set out below:

Uses of the Net Proceeds	**Planned use of the Net Proceeds as of the date of the Interim Results Announcement**	**Utilised Net Proceeds as of the date of this announcement**	**Planned unutilised Net Proceeds as of the date of this announcement**	**Revised allocation and actual utilised amount of the Net Proceeds as of the date of this announcement**	**Revised actual use of the Net Proceeds**	**Remaining balance of the Net Proceeds as of the date of this announcement**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
1. To increase market penetration of our Branded Products in emerging markets in Asia and other markets with good potential	3.9	3.9	–	0.8	4.7	–
2. To introduce automation system to our Shajing Production Facilities in order to lower our production costs	28.1	10.2	17.9	–	10.2	–
3. To enlarge our research and development ("**R&D**") capacity	4.5	3.5	1.0	–	3.5	–
4. To reduce our gearing ratio by repaying finance lease facilities	6.0	2.3	3.7	–	2.3	–
5. To outsource to external R&D company	–	–	–	3.0	3.0	–
6. To source raw materials to increase production volume	–	–	–	18.8	18.8	–
Total	42.5	19.9	22.6	22.6	42.5	–

REASONS FOR CHANGE IN USE OF PROCEEDS

(1) *Increasing market penetration of the Group's Branded Products in emerging markets in Asia and other markets with good potential*

Since the Listing, the Group has been actively exploring emerging markets with good potential including South-East Asia, Russia and the United States (the "**Emerging Markets**"). Our salespersons have been regularly visiting these Emerging Markets to look for potential new customers, maintain good relationships with existing customers and for overseas promotion campaigns about the Group. The board of Directors of the Company (the "**Board**") considered and anticipated an increased demand for the Branded Products in the Emerging Markets and therefore decided to reallocate the Net Proceeds for such purpose.

(2) *Introducing automation system to our Shajing Production Facilities in order to lower our production costs*

The Group is facing some unexpected challenges in the past year with the development of the trade war between the United States and the PRC (the "**Trade War**") as the United States government imposed large tariffs (the "**Tariffs**") on PRC products in July 2018. As such, the Board took contingency measures and decided that, having untilised approximately HK$10.2 million of the Net Proceeds on the introduction of automated system in the Shajing Production Facilities which is based in the PRC, the Group should slow down on such introduction of automation system given the uncertainties arising from and the impact of the Trade War, especially the Tariffs imposed on the Branded Products. The Net Proceeds used on the introducing automation system were therefore adjusted after due consideration by the Board of the Group's business operation. The Board had considered that it would be beneficial to the Group's business operation as a whole to reallocate the unutilised Net Proceeds of approximately HK$17.9 million for funding of the cost of raw materials. These raw materials were used to increase the production of Branded Products at our factories, including our new factory in Vietnam, i.e. Lot A Facilities, which were not subject to the Tariffs as the Board had identified the Group's competitive advantage in this respect as compared to the Group's PRC competitors.

(3) *Enlarging our R&D capacity*

Since the Listing, the Group has utilised approximately HK$3.5 million for the enlargement of the in-house R&D team. In view of our anticipation of the rapidly growing Asian markets, the Board was hoping to expedite the speed of R&D on the Branded Products by outsourcing to external independent third party R&D company in addition to the existing in-house R&D capacity. With the aim to diversify our range of product varieties, the Group has engaged an external independent third party R&D company for the development of a new augmented reality software and hardware products as our in-house R&D team focuses mainly on developing networking products. The Board had considered that the excess in the sum of approximately HK$1.0 million of the unutilized Net Proceeds could be used to partially fund the outsourcing to external independent third party R&D company to serve the purpose of diversification of product varieties.

(4) Reducing the Group's gearing ratio by repaying finance lease facilities

Since the Group has been adhering to the repayment schedule for the existing finance leases by utilizing approximately HK$2.3 million of the Net Proceeds, the Board considered that it would be in the Group's interest to reallocate the unutilised Net Proceeds of approximately HK$3.7 million to the outsourcing to external R&D company as described above and the funding of the purchase of raw materials and decided not to enter into any finance leases for the year ended 31 December 2018.

(5) Outsourcing to external R&D company

While the Group's in-house R&D activities continued to record satisfactory progress, the Group is committed to continue its R&D activities to strengthen our product varieties in order to support our long term growth.

In anticipation of the rapidly growing Asian markets, the Board had reassessed the funding needs for the in-house R&D activities and reallocated approximately HK$3.0 million of unutilised Net Proceeds for the outsourcing to external independent third party R&D company. The Board considered that it would be a more effective way to achieve the goal of speeding up R&D and diversifying product varieties. As such, the Group reallocated the unutilised Net Proceeds for the outsourcing to external independent third party R&D company to expedite the R&D activities in order to meet the market demand.

(6) Sourcing of raw materials to increase production volume

As there was an anticipated increase in demand for our products since the Listing of the Group and in order to meet such increased demand, the Board had decided to reallocate the sum of approximately HK$18.8 million of unutilised Net Proceeds from other uses (as shown in the table above) to the sourcing of raw materials including IC, SDRAM and double data rate topologies (normally known as "DDR") which are all key components in the production of the Group's Branded Products. Given the high value of these raw materials, the said sum was used to settle accounts payable to the Group's independent third party suppliers to ensure the stable supply of raw materials which were in turn used to increase the Group's production volume to meet the anticipated increase in demand for the Group's products.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The corporate governance practices of the Group are based on the principles and the code provisions in the Corporate Governance Code (the "**Code**") as set out in Appendix 15 to the GEM Listing Rules.

The shares of the Company were listed on GEM of the Stock Exchange on 18 January 2018. During the period from the Listing to 31 December 2018, the Company has complied with all the applicable code provisions of the Code.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the required standard of dealing set out in Rules 5.46 to 5.67 of the GEM Listing Rules (the "**Standard of Dealings**"), as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he has complied with the required Standard of Dealing from the date of Listing (i.e. 18 January 2018) and up to the date of this announcement.

DIVIDENDS

The Board do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

EVENTS AFTER THE REPORTING PERIOD

On 27 February 2019, Zioncom (Hong Kong) Technology Limited ("**Zioncom Hong Kong**"), an indirect wholly-owned subsidiary of the Company, entered into the capital contribution agreement ("**Agreement**") with two investors (the "**Investors**") in relation to the Zioncom (Vietnam) Co., Ltd ("**Zioncom Vietnam**") capital injection ("**Capital Injection**") in the aggregate amount of US$2,100,000. As the completion of the Capital Injection took place on 20 March 2019, the charter capital of Zioncom Vietnam had been increased from US$5,500,000 to US$7,600,000. The full amount of the Capital Injection had been contributed in the form of cash by the Investors. On 20 March 2019 completion of the Capital Injection took place pursuant to the Agreement and Zioncom Hong Kong and the Investors hold 72.37%, 19.74% and 7.89% of the equity interest in Zioncom Vietnam, respectively, and Zioncom Vietnam became a non wholly-owned subsidiary of the Company. Details of the above transaction are disclosed in the announcement of the Group dated 27 February 2019.

Save as disclosed above, no significant events affecting the Group have occurred since 31 December 2018.

AUDIT COMMITTEE

The Company established the Audit Committee with effect from 18 January 2018 with written terms of reference (as amended and adopted by the Company pursuant to the Board resolution passed on 31 December 2018) in compliance with the code provisions of the Code. The primary duties of the Audit Committee are, among others, to make recommendations to the Board on the appointment, re-appointment and removal of external auditors; review and supervise the Group's financial reporting process and internal control system and to provide advice and comments to the Board.

The annual results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee in a meeting held on 29 March 2019.

By order of the Board
Zioncom Holdings Limited
Kim Byung Kwon
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the executive Directors are Mr. Kim Byung Kwon, Mr. Kim Jun Yeob, Mr. Koo Ja Chun and Mr. Xiao Jingen; and the independent non-executive Directors are Mr. Yiu Kwing Sum, Mr. Ko Ming Tung, Edward and Mr. Shin Dongmin.

This announcement will remain on the "Latest Company Announcements" page of the website of GEM of the Stock Exchange at http://www.hkgem.com for at least seven days from the date of its posting. This announcement will also be published on the website of the Company at http://www.zioncom.net.