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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 2017

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 2017, together with the comparative audited figures for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Notes | 2017 HK\$'000 | 2016 HK\$'000 |
|--|-------|------------------|------------------|
| Revenue | 5 | 578,358 | 512,192 |
| Cost of sales | | (488,478) | (432,250) |
| Gross profit | | 89,880 | 79,942 |
| Other income | 6 | 7,416 | 6,309 |
| Selling and distribution expenses | | (11,861) | (8,494) |
| Administrative expenses | | (55,888) | (41,394) |
| Research and development expenses | | (22,564) | (18,012) |
| Profit from operations | | 6,983 | 18,351 |
| Finance costs | 7 | (3,077) | (1,558) |
| Profit before taxation | 9 | 3,906 | 16,793 |
| Taxation | 8 | (3,186) | (2,925) |
| Profit for the year | | 720 | 13,868 |
| Other comprehensive income/(loss) | | | |
| <i>Items that will not reclassified to profit or loss:</i> | | | |
| Surplus on revaluation of properties | | 2,654 | 3,229 |
| Deferred tax liabilities arising from revaluation of properties | | (612) | (300) |
| | | 2,042 | 2,929 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange difference on translating of foreign operation | | 7,755 | (6,219) |
| Gain arising from changes in fair value of available-for-sale financial assets | | 120 | 32 |
| | | 7,875 | (6,187) |
| Other comprehensive income/(loss) for the year | | 9,917 | (3,258) |
| Total comprehensive income for the year | | 10,637 | 10,610 |
| Profit for the year attributable to the owners of the Company | | 720 | 13,868 |
| Total comprehensive income attributable to owners of the Company | | 10,637 | 10,610 |
| Earnings per share attributable to the owners of the Company | | | |
| Basic and diluted (HK cents) | 11 | 0.16 | 3.00 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | <i>Notes</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 129,470 | 103,319 |
| Prepaid lease payments | | 8,790 | 4,586 |
| Available-for-sale financial assets | | 6,505 | 6,342 |
| Other financial assets | | 10,088 | 9,854 |
| Prepayments for acquisition of property, plant and equipment | | – | 4,551 |
| | | <hr/> 154,853 <hr/> | <hr/> 128,652 <hr/> |
| Current assets | | | |
| Inventories | | 146,247 | 103,438 |
| Trade and bills receivables | <i>12</i> | 81,170 | 60,112 |
| Prepaid lease payments | | 224 | 114 |
| Prepayments, deposits and other receivables | | 72,230 | 42,004 |
| Tax recoverable | | – | 3,271 |
| Pledged bank deposits | | 25,676 | 16,966 |
| Cash and bank balances | | 32,634 | 11,870 |
| | | <hr/> 358,181 <hr/> | <hr/> 237,775 <hr/> |
| Current liabilities | | | |
| Trade and bills payables | <i>13</i> | 239,860 | 180,282 |
| Accruals, deposits received and other payables | | 61,490 | 22,232 |
| Bank borrowings | | 57,832 | 24,479 |
| Obligations under finance leases | | 2,282 | 1,230 |
| Tax payables | | 1,069 | 1,467 |
| | | <hr/> 362,533 <hr/> | <hr/> 229,690 <hr/> |
| Net current (liabilities)/assets | | <hr/> (4,352) <hr/> | <hr/> 8,085 <hr/> |
| Total assets less current liabilities | | <hr/> 150,501 <hr/> | <hr/> 136,737 <hr/> |
| Non-current liabilities | | | |
| Obligations under finance leases | | 4,187 | 1,689 |
| Deferred tax liabilities | | 3,266 | 2,637 |
| | | <hr/> 7,453 <hr/> | <hr/> 4,326 <hr/> |
| Net assets | | <hr/> 143,048 <hr/> | <hr/> 132,411 <hr/> |
| Capital and reserves | | | |
| Share capital | <i>14</i> | 9 | 32,001 |
| Reserves | | 143,039 | 100,410 |
| | | <hr/> 143,048 <hr/> | <hr/> 132,411 <hr/> |
| Total equity attributable to owners of the Company | | <hr/> 143,048 <hr/> | <hr/> 132,411 <hr/> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Attributable to owners of the Company | | | | | | | Total HK\$'000 |
|--|---------------------------------------|--|--|---|---|--|----------------------------------|-------------------|
| | Share Capital HK\$'000 | Other reserve HK\$'000 (Note a) | Surplus reserve HK\$'000 (Note b) | Exchange reserve HK\$'000 (Note c) | Revaluation surplus reserve HK\$'000 (Note d) | Available- for-sale financial assets reserve HK\$'000 (Note e) | Retained earnings HK\$'000 | |
| At 1 January 2016 | 20,000 | – | 2,279 | 5,507 | 13,755 | (86) | 68,345 | 109,800 |
| Profit for the year | – | – | – | – | – | – | 13,868 | 13,868 |
| Other comprehensive income for the year | – | – | – | (6,219) | 2,929 | 32 | – | (3,258) |
| Profit and total comprehensive income for the year | – | – | – | (6,219) | 2,929 | 32 | 13,868 | 10,610 |
| Allotment of new shares | 12,001 | – | – | – | – | – | – | 12,001 |
| At 31 December 2016 and 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 |

Notes:

- (a) 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.
- (b) 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.
- (c) Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.
- (d) 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.
- (e) 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 2017

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.

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. Lincats (BVI) Limited and Mr. Kim Byung Kwon are referred to as the controlling shareholders (“Controlling Shareholders”).

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 shares of the Company (the “Shares”) have been listed on GEM of the Stock Exchange by way of placing and public offer (collectively the “Share Offer”) on 18 January 2018 (the “Listing Date”).

On the Listing Date, a total of 198,000,000 new Shares with nominal value of HK\$0.01 each were offered under the Share Offer, of which 138,600,000 Shares, or 70% was offered by way of placing and the remaining 30%, or 59,400,000 Shares, was offered under the public offer. Based on the final offer price of HK\$0.43 per share, the gross proceeds was approximately HK\$85,140,000. The net proceeds received by the Company from the Share Offer, after deduction of the underwriting commission and related expenses in connection with the Share Offer, was approximately HK\$43,600,000.

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, which is a collective term includes all applicable individual Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and related interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis and fair value of financial assets and land and buildings.

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.

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

In the current year, the Group has applied, for the first time, the following amendments (the “amendments to HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are effective for the Group’s financial year beginning on or after 1 January 2017. A summary of the new HKFRSs are set out as follow:

| | |
|-----------------------|---|
| HKAS 7 (Amendments) | Disclosure Initiative |
| HKAS 12 (Amendments) | Recognition of Deferred Tax Assets for unrealized losses |
| HKFRS 12 (Amendments) | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle |

Except as described below, the application of the 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 years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Except for the additional disclosures made in the Group’s consolidated financial statements, the application of these amendments has had no impact on the Group’s consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective in the consolidated financial statements:

New and revised HKFRSs issued but not yet effective

At the date of this announcement, the Group has not early adopted the following new and revised HKFRSs that have been issued but not yet effective:

| | |
|-----------------------------------|---|
| HKFRS (Amendments) | Annual improvement to HKFRS, 2015-2017 cycle ² |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transaction ¹ |
| HKFRS 4 (Amendments) | Applying to HKFRS 9 Financial Instruments with HKFRS 4 Insurance contract ¹ |
| HKFRS 9 | Financial Instruments ¹ |
| HKFRS 9 (Amendments) | Prepayment Features with Negative Compensation ² |
| HKFRS 10 and HKAS 28 (Amendments) | Sales or Contribution of Assets between an Investor and Associate or Joint Venture ³ |
| HKFRS 15 | Revenue from Contracts with Customers ¹ |
| HKFRS 15 (Amendments) | Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹ |
| HKFRS 16 | Leases ² |
| HKFRS 17 | Insurance contracts ⁴ |
| HKAS 28 (Amendments) | Long-term interests in Associates and Joint Ventures ² |
| HKAS 28 (Amendments) | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹ |
| HKAS 40 (Amendments) | Transfers of Investment Property ¹ |
| HK(IFRIC) Int 22 | Foreign Currency Transactions and Advance Consideration ¹ |
| HK(IFRIC) Int 23 | Uncertainty over Income Tax Treatment ² |

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted

³ Effective for annual periods beginning or after a date to be determined. Early adoption is permitted

⁴ Effective for annual periods beginning or after 1 January 2021

The Directors of the Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

4. SEGMENT INFORMATION

During the years ended 31 December 2017 and 2016, 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:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Korea | 382,716 | 363,388 |
| The People's Republic of China (the "PRC") | 23,193 | 49,663 |
| Vietnam | 28,424 | 4,042 |
| Other Asia (excluding Korea, the PRC and Vietnam) | 82,341 | 60,290 |
| Europe | 27,561 | 14,622 |
| South America | 10,475 | 9,303 |
| Africa | 2,765 | 7,879 |
| North America | 20,832 | 2,994 |
| Central America | 51 | 9 |
| Oceania | – | 2 |
| | <u>578,358</u> | <u>512,192</u> |

Information about major customers

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------|-------------------------|-------------------------|
| Customer A (<i>Note i</i>) | <u>302,024</u> | <u>322,891</u> |

Note:

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

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Hong Kong | 24 | 26 |
| Mainland China | 86,559 | 77,549 |
| Vietnam | 51,198 | 34,698 |
| Others | 479 | 183 |
| | <u>138,260</u> | <u>112,456</u> |

5. REVENUE

An analysis of the Group's revenue for the reporting period is as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------|--------------------------------|-------------------------|
| Router products | 400,884 | 342,248 |
| Switch products | 46,425 | 46,657 |
| Other networking products | 72,125 | 61,621 |
| Non-networking products | 42,571 | 37,830 |
| Processing service income | 16,353 | 23,836 |
| | <u>578,358</u> | <u>512,192</u> |

6. OTHER INCOME

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Government grant | 2,070 | 1,290 |
| Bank interest income | 202 | 618 |
| Investment income | 236 | 178 |
| Interest income on life insurance policies | 395 | 651 |
| Sales of parts material | 938 | 544 |
| Product development income | 2,535 | 2,455 |
| Sundry income | 1,040 | 573 |
| | <u>7,416</u> | <u>6,309</u> |

7. FINANCE COSTS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Interest expenses on bank borrowings wholly repayable within five years | 1,724 | 1,316 |
| Interest expenses on obligations under finance leases | 1,353 | 242 |
| | <u>3,077</u> | <u>1,558</u> |

8. TAXATION

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------|-------------------------|-------------------------|
| Current taxation: | | |
| Provision for the year | | |
| – Hong Kong Profits tax | 436 | 97 |
| – Other than Hong Kong | 2,753 | 2,849 |
| Over-provision in prior years | (20) | – |
| | <u>3,169</u> | <u>2,946</u> |
| Deferred taxation: | | |
| Charged/(credited) for the year | 17 | (21) |
| | <u>3,186</u> | <u>2,925</u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the years ended 31 December 2017 and 2016.

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 and therefore was entitled to 15% preferential tax rate from PRC enterprise income tax for three years starting from year ended 31 December 2015, according to the New PRC Enterprise Income Tax Law.

Taiwan Corporate Income Tax is calculated at 17% of the estimated assessable profit for the years ended 31 December 2017 and 2016.

Vietnam Corporate Income Tax is calculated at 20% of the estimated assessable profit for the years ended 31 December 2017 and 2016. No provision of Profits Tax for the subsidiary in Vietnam as no assessable profit for the years ended 31 December 2017 and 2016.

No Provision for taxation has been recognised for companies incorporated in the Cayman Islands and the BVI as they are not subject to any tax during the years ended 31 December 2017 and 2016.

9. PROFIT BEFORE TAXATION

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit for the year has been arrived at after charging/(crediting): | | |
| Directors' emoluments | 4,347 | 3,692 |
| Other staff costs: | | |
| Salaries and other benefits | 71,172 | 66,933 |
| Bonuses | 145 | 56 |
| Retirement scheme contributions | 9,282 | 8,925 |
| | <u>80,599</u> | <u>75,914</u> |
| Auditors' remuneration | | |
| – audit services | 800 | 288 |
| – listing services (included in listing expenses) | 1,237 | 875 |
| Amortisation of land use right | 226 | 115 |
| Written off of trade receivables | 644 | 1,563 |
| Depreciation of property, plant and equipment | | |
| – selling and distribution expenses | 18 | 16 |
| – administrative expenses | 4,279 | 3,751 |
| – cost of sales | 4,578 | 4,465 |
| – research and development expenses | 2,036 | 1,851 |
| | <u>10,911</u> | 10,083 |
| Cost of inventories recognised as an expenses | 426,476 | 347,486 |
| Gain on disposal of property, plant and equipment | (3) | (1) |
| Exchange loss, net | 1,297 | 3,091 |
| Operating lease rental expenses in respect of rented premises | 7,058 | 6,969 |
| Loss on disposal of other financial assets at amortised costs | – | 226 |
| Listing expenses (<i>Note</i>) | 13,414 | 5,419 |

Note: The listing expenses are included in “Administrative expenses”.

10. DIVIDENDS

The Directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended 31 December 2017 and 2016 is based on the profit attributable to the owners of the Company for the years ended 31 December 2017 and 2016 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 capitalisation issue as if the shares had been outstanding throughout the entire reporting period.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years ended 31 December 2017 and 2016.

12. TRADE AND BILLS RECEIVABLES

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|-------------------|--------------------------------|-------------------------|
| Trade receivables | 81,145 | 60,032 |
| Bills receivables | 25 | 80 |
| | <u>81,170</u> | <u>60,112</u> |

The following is an ageing analysis of trade receivables based on the invoice date at the end of the reporting period:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 27,010 | 28,461 |
| 31 to 60 days | 18,053 | 8,435 |
| 61 to 90 days | 1,909 | 4,072 |
| 91 to 180 days | 7,484 | 10,387 |
| Over 180 days | 26,689 | 8,677 |
| | <u>81,145</u> | <u>60,032</u> |

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Trade payables | 165,440 | 131,292 |
| Bills payables | 74,420 | 48,990 |
| | <hr/> 239,860 <hr/> | <hr/> 180,282 <hr/> |

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:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 67,164 | 89,215 |
| 31 to 60 days | 65,003 | 29,039 |
| 61 to 90 days | 20,156 | 6,231 |
| 91 to 180 days | 12,079 | 1,022 |
| Over 180 days | 1,038 | 5,785 |
| | <hr/> 165,440 <hr/> | <hr/> 131,292 <hr/> |

Bills payables are all mature within 150 days.

14. SHARE CAPITAL

| | Number of Shares | Amount HK\$ |
|---|-----------------------|--------------------|
| Authorised: | | |
| Ordinary share of US\$1.00 each upon incorporation (<i>Note a</i>) | 50,000 | 387,500 |
| As at 31 December 2016 and 1 January 2017 | 50,000 | 387,500 |
| Increased and redenomination of authorised share capital (<i>Note b</i>) | 49,999,950,000 | 499,612,500 |
| Ordinary share of HK\$0.01 each as at 31 December 2017 | <u>50,000,000,000</u> | <u>500,000,000</u> |
| Issued and fully paid: | | |
| Issue of shares upon incorporation (<i>Note a</i>) | 100 | 775 |
| As at 31 December 2016 and 1 January 2017 | 100 | 775 |
| Issue of shares upon reorganisation (<i>Note b</i>) | 1,000 | 7,750 |
| Redenomination of authorised share capital (<i>Note b</i>) | (1,100) | (8,525) |
| Issue of shares (<i>Note b</i>) | 858,000 | 8,580 |
| As at 31 December 2017 | <u>858,000</u> | <u>8,580</u> |

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 (BVI) Limited and repurchasing the 1,100 Shares in US\$1.00 denominated share held by Lincats (BVI) Limited; 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) As at 31 December 2016, the balance of share capital of the Group represents the issued share capital of Zioncom Holdings Limited and Zioncom (Hong Kong) Technology Limited prior to the completion of reorganisation.

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 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.

During the year ended 31 December 2017, approximately 21% 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 in over 40 countries and regions mainly including Korea, the PRC, Vietnam, Hong Kong, Thailand and Brazil, etc. Besides, the Group has subsidiaries in Taiwan and Vietnam with strong sales team to work closely with its distributors. The revenue contributed from the Group’s Taiwan and Vietnam operations were approximately HK\$25.6 million and HK\$28.4 million respectively for the year ended 31 December 2017, which in aggregate contributed approximately 9.3% 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 52.2% of the Group’s total revenue for the year ended 31 December 2017, approximately 66.2% of revenue generated from the Group’s largest market, Korea for the year ended 31 December 2017. The Group recorded a year-on-year growth in revenue generated from Korea by approximately 5.3%. 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.

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 the Group’s overall competitiveness and market share.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the Group recorded revenue of approximately HK\$578.4 million, representing an increase of approximately 12.9% comparing with that of approximately HK\$512.2 million for the year ended 31 December 2016. Set out below is the revenue breakdown of the Group for the years ended 31 December 2017 and 2016:

| | For the year ended 31 December | | | |
|----------------------------|--------------------------------|---------------------|-----------------|--------------|
| | 2017 | | 2016 | |
| | <i>HK\$'000</i> | <i>%</i> | <i>HK\$'000</i> | <i>%</i> |
| Router products | 400,884 | 69.3 | 342,248 | 66.8 |
| Switch products | 46,425 | 8.0 | 46,657 | 9.1 |
| Other networking products | 72,125 | 12.5 | 61,621 | 12.0 |
| Non-networking products | 42,571 | 7.4 | 37,830 | 7.4 |
| Processing services income | 16,353 | 2.8 | 23,836 | 4.7 |
| Total | <u>578,358</u> | <u>100.0</u> | <u>512,192</u> | <u>100.0</u> |

The revenue from router products increased by approximately 17.1% for the year ended 31 December 2017 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 2017. 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 2017, the Group's gross profit increased by approximately 12.4% from approximately HK\$79.9 million for the year ended 31 December 2016 to approximately HK\$89.9 million for the year ended 31 December 2017. The Group's cost of sales comprises costs of materials, direct labour, manufacturing overhead, subcontracting services fee and other overhead. The cost of sales increased by approximately 13.0% from approximately HK\$432.3 million for the year ended 31 December 2016 to approximately HK\$488.5 million for the year ended 31 December 2017.

The gross profit margin remained stable at approximately 15.5% for the year ended 31 December 2017 (2016: approximately 15.6%). The increase of gross profit is in line with the increase of revenue.

Other income

Other income increased by approximately 17.5% to approximately HK\$7.4 million for the year ended 31 December 2017 from approximately HK\$6.3 million for the year ended 31 December 2016, primarily attributable to the increase in government grant by approximately HK\$0.8 million from approximately HK\$1.3 million for the year ended 31 December 2016 to approximately HK\$2.1 million for the year ended 31 December 2017. The government grant mainly represented subsidies granted by the PRC government to the Group for payment of export credit insurance and employment insurance.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 39.6% to approximately HK\$11.9 million for the year ended 31 December 2017 from approximately HK\$8.5 million for the year ended 31 December 2016, 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\$1.8 million from approximately HK\$0.3 million for the year ended 31 December 2016 to approximately HK\$2.1 million for the year ended 31 December 2017 due to expansion of sales team and was in line with the increase of sales generated from the Group's Vietnam operation of approximately HK\$28.4 million for the year ended 31 December 2017 (2016: approximately HK\$4.0 million). The increase in transportation fee by approximately HK\$1.2 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

Administrative expenses increased to approximately HK\$55.9 million for the year ended 31 December 2017 from approximately HK\$41.4 million for the year ended 31 December 2016, which was mainly due to the increase by approximately HK\$8.0 million of the Listing-related professional fees and expenses which are non-recurring in nature.

Research and development expenses

Research and development expenses increased by approximately 25.3% to approximately HK\$22.6 million for the year ended 31 December 2017 from approximately HK\$18.0 million for the year ended 31 December 2016, which was mainly due to the increase in expenses of salaries and social insurance by approximately HK\$2.8 million from approximately HK\$9.7 million for the year ended 31 December 2016 to approximately HK\$12.5 million for the year ended 31 December 2017 as the number of staff of research and development department increased.

Finance costs

Finance costs increased by approximately 97.5% to approximately HK\$3.1 million for the year ended 31 December 2017 from approximately HK\$1.6 million for the year ended 31 December 2016, which was mainly due to the increase of interest expenses on obligations under finance leases which increased approximately HK\$1.2 million from approximately HK\$0.2 million for the year ended 31 December 2016 to approximately HK\$1.4 million for the year ended 31 December 2017 as certain new machines were financed by finance leases during the year ended 31 December 2017.

Profit for the year

As a result of the foregoing, the profit for the year ended 31 December 2017 amounted to approximately HK\$0.7 million, comparing with the profit of approximately HK\$13.9 million for the year ended 31 December 2016.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, total borrowings of the Group amounted to approximately HK\$64.3 million (2016: approximately HK\$27.4 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 2017, the cash and bank balances and pledged bank deposit of the Group amounted to approximately HK\$58.3 million (2016: approximately HK\$28.8 million).

As at 31 December 2017, debt to equity ratio of the Group was approximately 4.2% (2016: nil). 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 2017 was approximately 1.0 time (2016: approximately 1.0 time).

As at 31 December 2017, gearing ratio of the Group was approximately 45.0% (2016: approximately 20.7%). 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 2017 with cash and bank balances of approximately HK\$32.6 million (2016: approximately HK\$11.9 million). The Board will continue to follow a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to source any appropriate business opportunities.

As at 31 December 2017, the Group's net current liabilities amounted to approximately HK\$4.4 million (2016: net current assets approximately HK\$8.1 million). The adverse effect is mainly from the unpaid listing expenses of approximately HK\$13.8 million. 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 2017, the Group did not have any significant contingent liabilities (2016: nil).

CAPITAL COMMITMENTS

Capital commitments at the end of the each reporting period contracted but not provided for in the consolidated financial statements were as follows:

| | As at 31 December | |
|---|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Acquisition of construction in progress | — | 4,192 |

The acquisition of construction in progress of approximately HK\$4.2 million represented the construction of factory in Vietnam as at the year ended 31 December 2016 and the construction was completed during the year ended 31 December 2017.

PLEDGE OF ASSETS

As at 31 December 2017, bank deposits of approximately HK\$25.7 million (2016: approximately HK\$17.0 million), property, plant and equipment with a carrying value of approximately HK\$79.9 million (2016: approximately HK\$48.9 million), available-for-sale financial assets with a carrying value of approximately HK\$5.9 million (2016: approximately HK\$5.8 million) and other financial assets with a carrying value of approximately HK\$10.1 million (2016: approximately HK\$9.9 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 2017, there were available-for-sale financial assets and other financial assets held by the Group. As at 31 December 2017, the Group recorded available-for-sale financial assets of approximately HK\$6.5 million (2016: approximately HK\$6.3 million) and other financial assets of approximately HK\$10.1 million (2016: approximately HK\$9.9 million).

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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2017, 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 915 employees (including Directors) as at 31 December 2017 (2016: 888 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 Directors, senior management and employees of the Group are generally determined with reference to their duties, responsibilities and performance.

USE OF PROCEEDS

Refer to the announcement of the Company dated 17 January 2018, the net proceeds from the issue of new shares of the Company 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 in the share capital of the Company at the price of HK\$0.43 per share (the "**Share Offer**"), after deduction of the related underwriting fees and commission and estimated expenses paid and payable by the Company in relation thereto, were approximately HK\$43.6 million (the "**Net Proceeds**"), as compared to the estimated net proceeds of approximately HK\$38.2 million as disclosed in the Prospectus, due to more proceeds received from the actual offer price of HK\$0.43 per share in contrast to the budgeted offer price of HK\$0.40 per share in the Prospectus. The Net Proceeds from the Share Offer will be applied as below, which is in the same proportion as the intended use of proceeds as disclosed in the Prospectus:

- approximately 8.9% or HK\$3.9 million, will be used to increase market penetration of the Group's branded products in emerging markets in Asia and other markets with good potential;
- approximately 66.3% or HK\$28.9 million, will be used to introduce automation system to the Group's Shajing production facilities in Shenzhen, the PRC in order to lower the Group's production costs;

- approximately 10.6% or HK\$4.6 million, will be used to enlarge the Group's research and development capacity;
- approximately 14.2% or HK\$6.2 million, will be used to reduce the Group's gearing ratio by repaying finance lease facilities.

As of the date of this announcement, there were no changes of the business plans from those disclosed in the Prospectus, and none of the Net Proceeds had been utilised. The unutilised portion of the Net Proceeds will be applied in the manner consistent with the use of proceeds as disclosed in the Prospectus.

The Company has opened and maintained separate bank accounts in certain licensed banks in Hong Kong designated for the proceeds from the Share Offer. All the unutilised balances have been placed in the designated bank accounts in those licensed banks in Hong Kong.

The Directors will constantly evaluate the Group's business strategies and objectives and where appropriate will change or modify the plans against the changing market condition to suit the business growth of the Group.

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

As the Listing took place on 18 January 2018, 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 2017.

CORPORATE GOVERNANCE PRACTICES

Since the date of Listing, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the "Code") as set out in Appendix 15 of the GEM Listing Rules.

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

The Group has adopted the required standard of dealings 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 the Directors, each of the Directors has confirmed that he has complied with the required Standard of Dealings 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 2017 (2016: Nil).

EVENTS AFTER THE REPORTING PERIOD

Save as the Listing, no significant events have occurred since 31 December 2017.

AUDIT COMMITTEE

The Company has established the audit committee (the “**Audit Committee**”) with effect from 18 January 2018 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Audit Committee are 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 2017 have been reviewed by the Audit Committee in a meeting held on 23 March 2018.

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

Hong Kong, 27 March 2018

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. Kim Kwang Hyun, Mr. Oh Sung Jin, Mr. Yiu Kwing Sum and Mr. Ko Ming Tung, Edward.

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>.