Zioncom Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock code: 8287

ANNUAL REPORT
2017

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This report, 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 report 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 report misleading.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors:
Mr. Kim Byung Kwon（金炳權先生）*(Chairman)*
Mr. Kim Jun Yeob（金俊燁先生）
Mr. Koo Ja Chun（具滋千先生）
Mr. Xiao Jingen（肖金根先生）

Independent Non-Executive Directors:
Mr. Kim Kwang Hyun（金廣鉉先生）
Mr. Oh Sung Jin（吳成鎮先生）
Mr. Yiu Kwing Sum（姚炯深先生）
Mr. Ko Ming Tung, Edward（高明東先生）

COMPANY SECRETARY

Mr. Lee Pui Chung (李沛聰先生)

AUTHORISED REPRESENTATIVES

Mr. Kim Jun Yeob（金俊燁先生）
Mr. Lee Pui Chung（李沛聰先生）

COMPLIANCE OFFICER

Mr. Kim Jun Yeob（金俊燁先生）

AUDIT COMMITTEE

Mr. Yiu Kwing Sum（姚炯深先生）*(Chairman)*
Mr. Kim Kwang Hyun（金廣鉉先生）
Mr. Oh Sung Jin（吳成鎮先生）
Mr. Ko Ming Tung, Edward（高明東先生）

REMUNERATION COMMITTEE

Mr. Oh Sung Jin（吳成鎮先生）*(Chairman)*
Mr. Kim Kwang Hyun（金廣鉉先生）
Mr. Kim Jun Yeob（金俊燁先生）

NOMINATION COMMITTEE

Mr. Kim Kwang Hyun（金廣鉉先生）*(Chairman)*
Mr. Koo Ja Chun（具滋千先生）
Mr. Oh Sung Jin（吳成鎮先生）

COMPLIANCE COMMITTEE

Mr. Ko Ming Tung, Edward（高明東先生）*(Chairman)*
Mr. Kim Jun Yeob（金俊燁先生）
Mr. Kim Kwang Hyun（金廣鉉先生）
Mr. Oh Sung Jin（吳成鎮先生）
Mr. Yiu Kwing Sum（姚炯深先生）

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG SHARE REGISTRAR

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PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

HLB Hodgson Impey Cheng Limited

HONG KONG LEGAL ADVISER

Stephenson Harwood

COMPIANCE ADVISER

Lego Corpoate Finance Limited
Room 1601, 16/F, China Building
29 Queen's Road Central
Hong Kong

STOCK CODE

8287

COMPANY'S WEBSITE

www.zioncom.net

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Zioncom Holdings Limited (the "Company", and together with its subsidiaries, the "Group"), I am pleased to present the first annual report of the Group for the year ended 31 December 2017 after the success of listing (the "Listing") of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 January 2018. The Listing has marked a milestone for the Group.

Since our establishment in 1999, the Group has been focusing on research and development, manufacturing and sales, and has been committed to providing clients from 40 countries and regions around the globe with quality networking products. After years of dedication and hard work, we are pleased to know that our retail consumer routers ranked among the top 15 in the PRC market respectively in the year ended 31 December 2017 in terms of revenue.

Looking ahead, we will strive to expand in the emerging markets in Asia with good potential and boost our production efficiency by introducing an automation system to our Shajing production facilities in Shenzhen, the PRC.

In addition, we will continue to strengthen our research and development capability in order to consolidate the Group's market leading position. The Group resolves to work hand-in-hand with its business partners and create value for its shareholders.

Finally, on behalf of the Board and the management, I wish to extend my sincere appreciation to all of our staff for their tireless efforts, diligence and contribution during the year ended 31 December 2017, and express my utmost gratitude to all shareholders, investors, customers, suppliers and business partners for their continued and valuable support and trust to the Group.

Kim Byung Kwon
Chairman

Hong Kong, 27 March 2018

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

Zioncom Holdings Limited (the "Company", together with its subsidiaries collectively referred to as 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's 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.

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 its overall competitiveness and market share.

Management Discussion and Analysis

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	
	HK$'000	**%**	HK$'000	%
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	**578,358**	**100.0**	512,192	100.0

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 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). Details on the average interest rate and maturity profile of the Group's financial liabilities is set out in the note 6 to the consolidated financial statements.

As at 31 December 2017, debt to equity ratio of the Group was 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 45.0% (2016: 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	2016
	HK$'000	HK$'000
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.

EXCHANGE RATE EXPOSURE

The Group mainly operates in Hong Kong, the PRC and Vietnam, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("USD"), Renminbi ("RMB") and Vietnamese Dong ("VND"). Foreign exchange risk arises from commercial transactions, recognised assets and liabilities denominated in a currency that is not the functional currency of the Group and net investments in foreign operations.

As at 31 December 2017, the Group did not have a foreign currency hedging policy. However, the management will continue to closely monitor the Group's foreign exchange exposure and will consider hedging significant foreign currency risk should the need arise.

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.

Available-for-sale financial assets

As at 31 December 2017, we recorded available-for-sale financial assets of approximately HK$6.5 million (2016: approximately HK$6.3 million). The table below sets forth a breakdown of the Group's available-for-sale financial assets as at the dates indicated:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Bonds	**5,881**	5,761
Club membership	**624**	581
Total	**6,505**	6,342

The bonds classified as available-for-sale investments 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 2017, 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 2017. 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 available-for-sale financial assets, is stated at fair value.

The Group's available-for-sale financial assets remained stable at approximately HK$6.5 million as at 31 December 2017 and approximately HK$6.3 million as at 31 December 2016.

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 Gorup.

Other financial assets

The Group's other financial assets amounted to approximately HK$10.1 million as at 31 December 2017 (2016: approximately HK$9.9 million). The table below sets forth the other financial assets of the Group as at the dates indicated:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Key management personnel life insurance policies	**10,088**	9,854

The Group purchased certain life insurance policies (the "Policies") for certain Directors in year 2010 and year 2012. Under the Policies, the Company is the beneficiary and policy holder and the total insured sum is US$4.5 million (equivalent to approximately HK$34.9 million).

The Group's other financial assets remained relatively stable at approximately HK$10.1 million as at 31 December 2017 and approximately HK$9.9 million as at 31 December 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at the date of this annual report, 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.

PRINCIPAL RISKS AND UNCERTAINTIES

Credit risk

The Group has no significant concentration of credit risk with exposure spread over a large number of counterparties and customers. The carrying amounts of bank balances, trade and bill receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2017, approximately 31.4% of the total trade receivables were due from the Group's five largest customers whereas none was due from the Group's largest customer. The Group reviews and monitors the level of exposure to credit risk from time to time ensure that follow-up actions are taken to recover overdue debts. In addition, at the end of each reporting year, the recoverability of each trade debt is evaluated so as to ensure that adequate impairment losses are made for irrecoverable amounts.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial liabilities, mainly the interest bearing bank borrowings. The Group monitors the interest rate exposure on a continuous basis and adjusts the portfolio of bank borrowings where necessary.

Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and its operations is mainly financed by operating cash inflows. The Group monitors and maintains a level of cash and bank balances deemed adequate to finance the Group's operations and mitigate the effect of fluctuations in cash flows. The Group also monitors current and expected liquidity requirements on a regular basis. Details on the Group's financial risk is set out in the note 6 to the consolidated financial statements.

Management Discussion and Analysis

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 produciton 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 report, 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.

Report of the Directors

The board (the "Board") of directors (the "Directors") of Zioncom Holdings Limited (the "Company") presents herewith this report of the Directors together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 January 2016. Through a group reorganisation as disclosed in the section headed "History, Development and Reorganisation – Reorganisation" in the Company's prospectus dated 28 December 2017 (the "Prospectus"), the Company has since 3 March 2017 become the holding company of the Group. The shares (the "Shares") of the Company were listed (the "Listing") on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 January 2018 (the "Listing Date") through placing and public offer of a total of 198,000,000 shares at the price of HK$0.43 per share (the "Share Offer").

SHARE STRUCTURE

The capital of the Company comprises only ordinary Shares. As at 31 December 2017, the total number of ordinary Shares of the Company was 858,000 Shares. From the Listing Date and as at the date of this report, the total number of ordinary Shares of the Company was 660,000,000 Shares.

Incorporation of the Company

The Company was incorporated in the Cayman Islands as an exempted company on 29 January 2016 with limited liability as a holding company of the Group and the issuer in the Share Offer. The initial authorised share capital of the Company was US$50,000 divided into 50,000 ordinary shares of par value of US$1.00 each. On the date of incorporation of the Company, one subscriber Share in the Company was transferred from the initial subscriber (an independent third party) to Lincats (BVI) Limited ("Lincats") at par value credited as fully paid and 99 Shares were allotted and issued to Lincats at par value credited as fully paid.

Redenomination of authorised share capital

On 3 March 2017, the Company 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 par value of US$1.00 each to HK$500,000,000 by (a) the creation of 50,000,000,000 Shares with a par value of HK$0.01 each; (b) the issuance and allotment of 858,000 Shares of par value of HK$0.01 each to Lincats and repurchasing the 1,100 Shares of par value of in US$1.00 each held by Lincats; and (c) cancelling all authorised share capital of 50,000 Shares at par value of US$1.00 each so that the authorised share capital of the Company will be HK$500,000,000 divided into 50,000,000,000 Shares with a par value of HK$0.01 each.

Capitalisation issue

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.

Report of the Directors

Save as disclosed above, there was no change in the capital structure of the Company during the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in manufacturing and sales of networking products and non-networking products.

The activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

BUSINESS REVIEW AND FUTURE BUSINESS DEVELOPMENT

The business review and future business development of the Group for the year ended 31 December 2017 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

Risks and uncertainties

The principal risks and uncertainties facing our Group have been addressed in the section headed "Management Discussion and Analysis" on pages 5 to 13 of this annual report. In addition, various financial risks have been disclosed in note 6 to the consolidated financial statements.

An analysis using financial key performance indicators

An analysis of the Group's performance during the year ended 31 December 2017 using financial performance indicators is provided in the section headed "Three Years' Financial Summary" on page 126 of this annual report.

Environmental protection

The Group recognises its responsibility to protect the environment from its business activities. The Group has endeavored to comply with laws and regulations regarding environmental protection and encourages environmental protection and promotes awareness towards environmental protections among our staff and employees. More details are set out in the section headed "Environmental, Social and Governance Report" on pages 38 to 43 of this annual report.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and risks of non-compliance with such requirements. The Group has on-going review the newly enacted laws and regulations affecting the operations of the Group. Save as disclosed in the Prospectus, the Group is not aware of any material non-compliance with the laws and regulations that have significant impact on the business of the Group during the year ended 31 December 2017. All of the non-compliance incidents as disclosed in the Prospectus that are capable of being rectified had been rectified.

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group maintains good relationship with its customers. The sales personnel and merchandisers make regular phone calls to the distributors and visit them periodically. If there is any complaint from the end user, it will be reported to the management and immediate remedial action will be taken.

The Group also maintains a good relationship with its suppliers. During the year ended 31 December 2017, no complaint was received from the suppliers, there were no disputed debts or unsettled debts and all the debts were settled on or before due dates or a later date as mutually agreed.

During the year ended 31 December 2017, there was no dispute on salary payments and all accrued remunerations were settled on or before their respective due dates, as stipulated under the individual employee's employment contract. The Group also ensures that all the employees are reasonably remunerated by regular review of the policies on salary increment, promotion, bonus, allowances and all other related benefits.

In view of the above and as at the date of this annual report, there was no circumstance or any event which would have a significant impact on the Group's business.

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 on pages 22 to 24 of this annual report and 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.

Report of the Directors

RESULTS AND APPROPRIATIONS

The financial results of the Group for the year ended 31 December 2017 and the financial positions of the Company and the Group as at 31 December 2017 are set forth in the audited consolidated financial statements on page 54 to 125 of this annual report.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last three financial years is set out on page 126 of this annual report. This summary does not form part of the audited consolidated financial statements in this annual report.

RESERVES

Movements in reserves of the Group during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 57 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company has distributable reserves of approximately HK$82,933,000 available for distribution to shareholders of the Company (2016: approximately HK$82,213,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year ended 31 December 2017 are set out in note 17 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended 31 December 2017 are set out in the paragraph headed "Share Structure" above and note 31 to the consolidated financial statements in this annual report.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this annual report were:

Executive Directors

Mr. Kim Byung Kwon *(Chairman)* (appointed on 29 January 2016)
Mr. Kim Jun Yeob *(Chief Financial Officer)* (appointed on 29 January 2016)
Mr. Koo Ja Chun *(Chief Executive Officer)* (appointed on 29 January 2016)
Mr. Xiao Jingen (appointed on 29 January 2016)

Independent Non-Executive Directors

Mr. Kim Kwang Hyun (appointed on 18 December 2017)
Mr. Oh Sung Jin (appointed on 18 December 2017)
Mr. Yiu Kwing Sum (appointed on 18 December 2017)
Mr. Ko Ming Tung, Edward (appointed on 18 December 2017)

In accordance with the articles of association of the Company (the "Articles"), Mr. Kim Byung Kwon, Mr. Kim Jun Yeob, Mr. Koo Ja Chun, Mr. Xiao Jingen, Mr. Kim Kwang Hyun, Mr. Oh Sung Jin, Mr. Yiu Kwing Sum and Mr. Ko Ming Tung, Edward will retire at the forthcoming annual general meeting, and all being eligible, will offer themselves for re-election as the Directors at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and in the Articles.

Pursuant to the letters of appointment between the Company and the independent non-executive Directors, the independent non-executive Directors have been appointed for a term of three years commencing from the Listing Date which may be terminated by either party by giving three months' written notice.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are disclosed in the section headed "Biographies of Directors and Senior Management" on pages 44 to 47 of this annual report.

DIRECTORS' REMUNERATIONS

Details of the remunerations of the Directors during the year ended 31 December 2017 are set out in note 13 to the consolidated financial statements in this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"). The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2017 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

There had been no transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with the Director is or was materially interested, either directly or indirectly, subsisting during or at the end of the year ended 31 December 2017.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the paragraph headed "Share Option Scheme" in this annual report, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company subsisting during or at the end of the year ended 31 December 2017.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 69.0% and sales to the Group's largest customer amounted to approximately 52.2% of the total revenue for the year ended 31 December 2017, respectively. Purchases from the Group's five largest suppliers accounted for approximately 37.4% and purchases from the Group's largest supplier amounted to approximately 18.5% of the total purchases for the year ended 31 December 2017.

To the best knowledge of the Directors, neither the Directors, their close associates (as defined in the GEM Listing Rules), nor any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued Shares), had any beneficial interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2017.

RELATED PARTY TRANSACTIONS

Related party transactions of the Group during the year ended 31 December 2017 are disclosed in note 39 to the consolidated financial statements in this annual report. They did not constitute connected transactions or continuing connected transactions, which are required to comply with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

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.

DIVIDENDS

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2017.

CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which any member of the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2017.

No contract of significance (including provision of services) between the Company, or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries subsisted during the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

The Listing took place on 18 January 2018.

As at the Listing Date and the date of this annual report, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

(I) Long position in shares or underlying shares of the Company

		Number of shares or underlying shares held			
Name of Directors	**Capacity**	**Ordinary Shares**	**Share options**	**Total**	**Percentage of issued share capital**
Mr. Kim Byung Kwon	Interest of controlled corporation (Note)	462,000,000 ordinary shares	–	462,000,000 ordinary shares	70%

Note:

These 462,000,000 Shares are held by Lincats. Mr. Kim Byung Kwon beneficially owns 81.8% of the issued share capital of Lincats.

(II) Long position in shares or underlying shares of associated corporation

Name of Directors	Name of associated corporation	Capacity	No. share(s) held	Percentage of issued share capital
Mr. Kim Byung Kwon	Lincats	Beneficial owner	818	81.8%
Mr. Kim Jun Yeob	Lincats	Beneficial owner	91	9.1%
Mr. Koo Ja Chun	Lincats	Beneficial owner	91	9.1%

Save as disclosed above, as at the Listing Date and the date of this annual report, none of the Directors or chief executive of the Company had any interest or short position in Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the Listing Date and the date of this annual report, the interests and short positions of the substantial shareholders of the Company (other than the Directors and the chief executives of the Company) in the Shares and underlying Shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be entered in the register to therein, were as follows:

Name of Substantial Shareholder	Long/ short position	Capacity	Number of Shares	Percentage of issued share capital
Lincats	Long position	Beneficial owner	462,000,000	70%

Save as disclosed above, as at the Listing Date and the date of this annual report, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "Share Option Scheme") on 18 December 2017. The following is a summary of the principal terms and conditions of the Share Option Scheme.

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to reward the Participants (as defined below) who have contributed to the Group and to encourage the Participants to work towards enhancing the value of the Company and the Shares for the benefit of the Company and its shareholders as a whole.

2. Who may join

The Directors may, at their discretion, invite directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisors, consultant, distributors, contractors, suppliers, agents, customers, partners, joint venture business partners, promoters or service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group (the "Participants") to take up options at the subscription price.

3. Grant and Acceptance of Option

An offer shall remain open for acceptance by the Participant concerned for a period of 28 days from the date of grant provided that no such offer shall be open for acceptance after the expiry of the option period or after the Share Option Scheme is terminated or after the Participant has ceased to be a Participant.

The offer shall specify the terms on which the option is granted. At the discretion of the Board, such terms may include, among other things, the minimum period for which an option must be held before it can be exercised.

A consideration of HK$1.00 is payable to the Company by the Participant who accepts an offer (the "Grantee") for each acceptance of grant of option(s) and such consideration is not refundable.

4. Subscription Price of Shares

The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

(a) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day;

(b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

5. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of Shares in issue on the Listing Date, i.e. 66,000,000 Shares (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and (as the case may be) such other share option schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The maximum number of Shares issued and to be issued upon exercise of the options granted to each Grantee under the Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the shareholders in a general meeting) exceed 1% of the shares in issue for the time being (the "Individual Limit").

6. Time of exercise of Option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period. Options granted during the life of the Share Option Scheme shall continue to be exercisable in accordance with their terms of grant after the end of the ten-year period.

7. Period of Share Option Scheme

The Share Option Scheme was adopted for a period of ten years commencing from 18 December 2017.

No share option had been granted since the adoption of the Share Option Scheme up to the date of this annual report and there was no share option outstanding as at 31 December 2017.

Further particulars of the Share Option Scheme are set out in the section headed "Statutory and General Information – D. Share Option Scheme" in Appendix IV to the Prospectus.

INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2017, none of the Directors or any of their respective close associates (as defined under the GEM Listing Rules) are engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such persons has or may have with the Group.

DEED OF NON-COMPETITION

Lincats and Mr. Kim Byung Kwon (the "Covenantors"), being the controlling shareholders (as defined under the GEM Listing Rules) of the Company, have entered into a deed of non-competition in favour of the Company (the "Deed of Non-Competition"). Each of the Covenantors has undertaken under the Deed of Non-Competition that he or it shall provide to the Company all information necessary for the enforcement of the Deed of Non-Competition. Details of the Deed of Non-Competition have been disclosed in the section headed "Relationship with Controlling Shareholders – Non-Completion Undertaking" of the Prospectus.

Each of the Covenantors has confirmed his or its compliance with the terms of the Deed of Non-Competition and the independent non-executive Directors were not aware of any non-compliance of the Deed of Non-Competition given by the Covenantors since the Listing Date and up to the date of this annual report.

DIRECTORS' EMOLUMENT POLICY

The Remuneration Committee has been established for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group having regard to the Group's operating results, individual performance and comparable market standard and practices annually. The Company has adopted a Share Option Scheme as an incentive to the Directors and eligible employees, details of which are set out in the section headed "Share Option Scheme" of this annual report.

INTERESTS OF COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Lego Corporate Finance Limited (the "Compliance Adviser"), save for the Compliance Adviser's agreement entered into between the Company and the Compliance Adviser dated 22 June 2017, neither the Compliance Adviser nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of the Company or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 December 2017.

CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Company had not entered into any connected transaction which is subject to the disclosure requirements under the GEM Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 27 to 37 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained sufficient public float under the GEM Listing Rules since the Listing Date and up to the latest practicable date prior to the issue of this annual report.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done concurred in or omitted in or about the execution of their duty or supposed duty in their offices, except such (if any) as they shall incur of sustain through their own fraud or dishonesty. Such permitted indemnity provision has been in force throughout the year ended 31 December 2017. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

Report of the Directors

AUDITORS

The consolidated financial statements for the year ended 31 December 2017 have been audited by HLB Hodgson Impey Cheng Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint HLB Hodgson Impey Cheng Limited as auditors of the Company. There has been no change of auditors of the Company since the Listing Date.

EVENTS AFTER THE REPORTING PERIOD

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

On behalf of the Board

Mr. Kim Byung Kwon
Chairman and Executive Director

Hong Kong, 27 March 2018

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The corporate governance practices of Zioncom Holdings Limited (the "Company") and its subsidiaries (collectively referred to as 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 Rules (the "GEM Listing Rules") Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The shares of the Company has been listed on GEM of the Stock Exchange on 18 January 2017 (the "Listing"). During the period from the Listing to the date of this annual report, the Company had complied with all the applicable code provisions of the Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Kim Byung Kwon is the chairman and Mr. Koo Ja Chun is the chief executive officer of the Group.

The chairman is primarily responsible for major decision making of the Group including deciding the business strategies and overall direction of the Group, ensuring that the board of Directors (the "Board") works effectively and discharges its responsibilities, encouraging all directors of the Company (the "Director(s)") to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interests of the Company and its shareholders as a whole. The role of chief executive officer is primarily responsible for the overall management and overseeing the daily operation of the Group's sales department. As such, the roles of the chairman and chief executive officer are separate and performed by different individuals.

APPOINTMENT, RE-ELECTION AND RETIREMENT OF THE DIRECTORS

In accordance with article 108 of the articles of association (the "Articles") of the Company, at each annual general meeting (the "AGM") one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

In accordance with article 112 of the Articles, any Director appointed by the Board either to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election.

Pursuant to the Articles, Mr. Kim Byung Kwon, Mr. Kim Jun Yeob, Mr. Koo Ja Chun, Mr. Xiao Jingen, Mr. Kim Kwang Hyun, Mr. Oh Sung Jin, Mr. Yiu Kwing Sum and Mr. Ko Ming Tung, Edward will retire from office as Directors at the forthcoming AGM, and being eligible, will offer themselves for re-election.

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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 annual report.

BOARD OF DIRECTORS

The Directors who held office during the year ended 31 December 2017 and as at the date of this report are as follows:

Board of Directors
Executive Directors
Mr. Kim Byung Kwon *(Chairman)* (appointed on 29 January 2016)
Mr. Kim Jun Yeob *(Chief Financial Officer)* (appointed on 29 January 2016)
Mr. Koo Ja Chun *(Chief Executive Officer)* (appointed on 29 January 2016)
Mr. Xiao Jingen (appointed on 29 January 2016)

Independent Non-Executive Directors
Mr. Kim Kwang Hyun (appointed on 18 December 2017)
Mr. Oh Sung Jin (appointed on 18 December 2017)
Mr. Yiu Kwing Sum (appointed on 18 December 2017)
Mr. Ko Ming Tung, Edward (appointed on 18 December 2017)

The brief biographic details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 44 to 47 of the annual report.

The Company had complied with the requirements under Rule 5.05(1) and (2), and 5.05A of the GEM Listing Rules from the date of Listing and up to the date of this annual report. The Company considers all independent non-executive Directors meet the guidelines for assessment of their independence as set out in Rule 5.09 of the GEM Listing Rules.

FUNCTIONS OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board approves the Group's strategic plan, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.

The Board is also delegated with the corporate governance functions under code provision D.3.1 of the Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

BOARD MEETINGS AND PROCEDURES

Board members will be provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with code provision A.1.3 of the Code, at least 14 days' notice will be given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meetings are sent to all Directors within reasonable time and at least 3 days prior to the meetings. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. Full minutes are prepared after the meetings and the draft minutes are sent to all Directors for their comments before the final version of which are endorsed in the subsequent Board meeting.

Details of the attendance of the Board meetings, audit committee (the "Audit Committee") meetings, remuneration committee (the "Remuneration Committee") meetings, nomination committee (the "Nomination Committee") meetings, compliance committee (the "Compliance Committee") meetings and general meetings of the Company held during the period from the date of Listing on 18 January 2018 to the date of this annual report are summarised as follows:

	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	Compliance Committee meeting	General meeting
Executive Directors						
Mr. Kim Byung Kwon	1/1	N/A	N/A	N/A	N/A	N/A
Mr. Kim Jun Yeob	1/1	N/A	1/1	N/A	1/1	N/A
Mr. Koo Ja Chun	1/1	N/A	N/A	1/1	N/A	N/A
Mr. Xiao Jingen	1/1	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Kim Kwang Hyun	1/1	1/2	1/1	1/1	1/1	N/A
Mr. Oh Sung Jin	1/1	1/2	1/1	1/1	1/1	N/A
Mr. Yiu Kwing Sum	1/1	2/2	N/A	N/A	1/1	N/A
Mr. Ko Ming Tung, Edward	1/1	2/2	N/A	N/A	1/1	N/A

BOARD COMMITTEES

The Board has established specific committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Compliance Committee to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

The written terms of reference of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Compliance Committee are posted on the respective websites of the Stock Exchange and the Company.

AUDIT COMMITTEE

The Company established 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, 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 Audit Committee currently consists of four members, namely Mr. Yiu Kwing Sum (Chairman), Mr. Kim Kwang Hyun, Mr. Oh Sung Jin and Mr. Ko Ming Tung, Edward, all being independent non-executive Directors. The Group's final results for the year ended 31 December 2017 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee is of the view that the annual results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

The Audit Committee held two meetings for the period from the date of Listing on 18 January 2018 to the date of this annual report. Details of the attendance of the Audit Committee meetings are set out above.

At the meetings, the Audit Committee approved the auditors' remuneration for the year ended 31 December 2017, recommended to the Board to re-appoint HLB Hodgson Impey Cheng Limited as the auditors of the Group for the year ending 31 December 2018, subject to approval by the shareholders of the Company at the forthcoming AGM and reviewed the audited consolidated financial statements and annual results announcement of the Group for the year ended 31 December 2017. The Audit Committee also reviewed risk management and internal control systems of the Group and made recommendations to the Board accordingly.

REMUNERATION COMMITTEE

The Company established the Remuneration 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 Remuneration Committee are, among others, to make recommendation to the Board on the policy and structure relating to all Directors and senior management of the Group; determine the remuneration packages of individual executive Directors and senior management; and ensure that none of the Directors determine their own remuneration.

The Remuneration Committee currently consists of three members, namely, Mr. Oh Sung Jin (Chairman), Mr. Kim Kwang Hyun, both of whom are independent non-executive Directors, and Mr. Kim Jun Yeob, an executive Director. The majority of the members of the Remuneration Committee are independent non-executive Directors. The remuneration of the Directors was determined with reference to, among other things, their duties, responsibilities and performance. The Remuneration Committee makes recommendations to the Board on remuneration packages of individual Directors and the members of senior management.

The Remuneration Committee held one meeting for the period from the date of Listing on 18 January 2018 to the date of this annual report. Details of the attendance of the Remuneration Committee meeting are set out above.

At the meeting, the Remuneration Committee reviewed the remuneration packages and performance of the Directors and the senior management and remuneration policy of the Directors and made recommendations to the Board accordingly.

NOMINATION COMMITTEE

The Company established the Nomination 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 Nomination Committee are, among others, to review the structure, size, composition diversity of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors.

The Nomination Committee currently consists of three members, namely, Mr. Kim Kwang Hyun (Chairman) and Mr. Oh Sung Jin, both of whom are independent non-executive Directors and Mr. Koo Ka Chun, an executive Director. The majority of the members of the Nomination Committee are independent non-executive Directors.

The Nomination Committee held one meeting for the period from the date of Listing on 18 January 2018 to the date of this annual report. Details of the attendance of the Nomination Committee meeting are set out above.

At the meeting, the Nomination Committee reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors, formulated the board diversity policy and made recommendations to the Board accordingly.

COMPLIANCE COMMITTEE

The Company established the Compliance Committee with effect from 18 January 2018. The primary duties of the Compliance Committee are, among others, to oversee the legal compliance aspect of the internal control system and the execution of compliance manual which summarises all internal control measures and policies of the Group.

The Compliance Committee currently comprises of five members, namely Mr. Ko Ming Tung, Edward (Chairman), Mr. Kim Kwang Hyun, Mr. Oh Sung Jin and Mr. Yiu Kwing Sum, all of whom are independent non-executive Directors and Mr. Kim Jun Yeob, an executive Director.

The Compliance Committee held one meeting for the period from the date of Listing on 18 January 2018 to the date of this annual report. Details of the attendance of the Compliance Committee meeting are set out above.

At the meeting, the Compliance Committee had reviewed and discussed the legal compliance aspect of the internal control measures and policies for the year ended 31 December 2017 and the engagement of a compliance director. The Company will report on the work and meetings of the Compliance Committee in its upcoming interim and annual reports.

DIVERSITY OF THE BOARD

The Group has adopted policy in relation to the diversity of the members of the Board and the summary of the policy is as follows:

(1) selection of Board members will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service; and

(2) the Nomination Committee will monitor the implementation of the Board diversity policy from time to time to ensure the effectiveness of the Board diversity policy.

INDEPENDENT NON-EXECUTIVE DIRECTORS

All independent non-executive Directors have been appointed for a fixed term. Pursuant to the letters of appointment between the Company and the independent non-executive Directors, the independent non-executive Directors have been appointed for a term of three years commencing from the date of Listing which may be terminated by either party by giving three months' written notice. Every Director is subject to re-election on retirement by rotation in accordance with the Articles. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers the independent non-executive Directors to be independent as at the date of the annual report.

DIRECTORS' INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT

Each newly appointed Director will receive a formal, comprehensive and tailored induction on the first occasion of his appointment to ensure that he has a proper understanding of the Company's operations and business and is fully aware of the Director's responsibilities under the statues and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. During the year ended 31 December 2017, the Directors had attended training sessions on obligations, duties and responsibilities of directors conducted by the Company's Hong Kong legal advisers.

Corporate Governance Report

The Company will from time to time provide briefings to all Directors to refresh their duties and responsibilities. All Directors are also encouraged to attend relevant training courses provided by legal advisers and/or any appropriated institutions at the Company's expense and they have been requested to provide the Company with their training records. According to the training records maintained by the Company, the trainings received by each of the Directors (including Directors' induction training) for the year ended 31 December 2017 and up to the date of this annual report are summarised as follows:

Name of Directors	**Type of trainings**
Mr. Kim Byung Kwon	A, B
Mr. Kim Jun Yeob	A, B
Mr. Koo Ja Chun	A, B
Mr. Xiao Jingen	A, B
Mr. Kim Kwang Hyun	A, B
Mr. Oh Sung Jin	A, B
Mr. Yiu Kwing Sum	A, B
Mr. Ko Ming Tung, Edward	A, B

A: attending seminars/conferences/forums/training sessions

B: reading newspapers, journals and updates relating to the economy, general business, corporate governance and Directors' duties and responsibilities

COMPANY SECRETARY

Mr. Lee Pui Chung, a member of the Hong Kong Institute of Certified Public Accountants, was appointed as the company secretary of the Company since 31 May 2016.

All Directors have access to the advice and services of the company secretary. The company secretary reports to the Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with shareholders of the Company (the "Shareholders") and management. During the year ended 31 December 2017, the company secretary had taken no less than 20 hours of relevant professional training.

SENIOR MANAGEMENT'S REMUNERATION

The senior management's remuneration payment of the Group during the year ended 31 December 2017 falls within the following bands:

	Number of individuals
HK$1,000,000 or below	2

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements of the Group for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period in accordance with accounting principles generally accepted in Hong Kong. The statement by the auditors of the Company about its responsibilities for the financial statements is set out in the independent auditors' report contained in the annual report. The Directors adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

EXTERNAL AUDITORS' REMUNERATION

The Company engaged HLB Hodgson Impey Cheng Limited as its auditors for the year ended 31 December 2017. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the auditors. During the year ended 31 December 2017, the fee payable to HLB Hodgson Impey Cheng Limited in respect of its statutory audit services provided to the Group and listing services were HK$800,000 and HK$1,237,000 respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The management identifies and evaluates the significant risks relevant to the Group based on their experience in the business environment. They regularly meet with frontline employees and continuously monitor business performance comparing to operational plans and financial budgets.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2017, our group had certain non-compliance incidents as disclosed in the prospectus of the Company dated 28 December 2017 (the "Prospectus").

For the year ended 31 December 2017, the Group engaged an independent internal control consultant to review the effectiveness of internal controls associated with major business processes of the Group, identify deficiencies and improvement opportunities, furnish recommendations on remedial actions of any non-compliance incidents and review the implementation status of these remedial actions.

We also established the Compliance Committee, among others, to oversee the legal compliance aspect of the internal control system and the execution of compliance manual which summarises all internal control measures and policies of the Group.

We will also engage a compliance director who will be a Hong Kong qualified solicitor with at least three years of relevant experience working as an in-house lawyer or similar experience and will be responsible for the Group's internal control procedures to ensure its compliance with the GEM Listing Rules and other applicable laws and regulations.

We have also engaged external legal advisers to advise the Group on relevant laws and regulations.

The Group's risk management activities are performed by management on an ongoing process. The effectiveness of the Group's risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensuring that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner. The Company will establish an internal audit functions within the Group and continue to review the effectiveness of risk management and internal systems.

In light of the foregoing and based on the findings and recommendations of the work performed by the internal control consultant, the Directors reviewed the Group's risk management and internal control systems during the year ended 31 December 2017 and are of the view that the Group's risk management and internal control systems are adequate and effective.

THE SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

In order to keep shareholders well informed of the business activities and direction of the Group, information about the Group has been provided to the shareholders through financial reports and announcements. The Company has established its own corporate website (www.zioncom.net) as a channel to facilitate effective communication with its shareholders and the public. The Company will continue to enhance communications and relationships with its shareholders and investors. A shareholders' communication policy was adopted on 18 January 2018 to comply with code provision E.1.4 of the Code.

Shareholders, investors and interested parties can make enquiries directly to the Company through the following e-mail: stevelee@zioncom.net.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Zioncom Holdings Limited

Address:	Room 1, 6/F, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong
Tel:	(852) 2495 9788
Fax:	(86) 755-6136-3344
E-mail:	stevelee@zioncom.net

Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant committees of the Board, where appropriate, to answer the shareholders' questions.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to article 113 of the Articles, no person (other than a retiring Director) shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the office of the branch share registrar and transfer office of the Company in Hong Kong no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days. The procedures for shareholders to propose a person for election as a Director is posted on the website of the Company.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

For the purpose of the Listing, the memorandum of association and the Articles were amended and conditionally adopted on 18 December 2017 with effect from 18 January 2018. Save as disclosed, there had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2017.

Environmental, Social and Governance Report

This is the first environmental, social and governance ("ESG") report (the "ESG Report") issued by Zioncom Holdings Limited (the "Company", together with its subsidiaries, collectively the "Group"). This ESG Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 20 of the GEM Listing Rules and has complied with "comply or explain" provisions therein.

For the year ended 31 December 2017, the Group is principally engaged in manufacturing and sales of networking products and non-networking products.

The Group's businesses situated in Hong Kong, the PRC, Taiwan and Vietnam. The registered office in Hong Kong is located in Room 1, 6/F, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong. The Group's headquarters is located in Room 702, 7/F, Block D, 4 Building, Shenzhen Software Industry Base, Xuefu Road, Nanshan District, Shenzhen, Guangdong, China.

This ESG Report describes the management approach and performance of the Group in environmental and social aspects. Corporate governance is not included here as it has been dealt with separately in the section headed "Corporate Governance Report" on pages 27 to 37 in this annual report. This ESG Report covers the period from 1 January 2017 to 31 December 2017. This ESG Report covers the Group's headquarters and the trading business operated by the Group.

ENVIRONMENT

The Group recognises that the environmental protection is a key issue in the current society. The Group works to reduce the environmental impact of the Group's operations and to promote environmental protection within the Group Various measures have been adopted to save energy and resource as set out in the ESG Report.

The Group has established an environmental management system in the Group's operations in accordance with ISO14001 and obtained ISO4001 certification.

For the year ended 31 December 2017, the Group was not aware of any material non-compliance with the relevant environmental laws and regulations that would have a significant impact on the Group relating to air and green house gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Emissions

For the year ended 31 December 2017, the Group had effectively managed emissions of relevant greenhouse gases and non-hazardous wastes. The Group was not aware of any hazardous waste arisied from the Group's operation during the year ended 31 December 2017. Main types of emissions discharged by the Group are as follows:

- Greenhouse gases
- Non-hazardous wastes: food waste, household garbage, plastic packaging materials and boxes

Greenhouse Gases

Greenhouse gas emissions are measured regularly by converting total consumption of electricity and car fuel using Intergovernmental Panel on Climate Change ("IPCC") conversion factors. Based on this methodology, the total emission of the Group during the financial year ended 31 December 2017 was shown in the following table:

Item	FY 2017	IPCC Conversion Factor	Greenhouse Gas (tCO_2)
Electricity (kwh)	3,226,481	0.00047	1,516
Car Fuel (Litter)	27,733	0.00208	58
TOTAL EMISSION			1,574

Non-hazardous Wastes

The non-hazardous wastes including food waste, household garbage, plastic packaging materials and boxes generated from the Group's factories in the PRC and Vietnam during the financial year ended 31 December 2017 was approximately 72 tonnes in total. These non-hazardous wastes were generated from the normal daily operation and were mainly from canteen, household and packing.

Majority of non-hazardous wastes are being filtered, sorted and processed for recycling as much as possible and the final residual wastes are incinerated by the authorized waste treatment companies.

Energy-saving and greenhouse gas emissions reduction

The greenhouse gas emissions of the Group arise mainly from the use of electricity. To reduce the emission of greenhouse gases, the Group attaches great importance to energy saving and emission reduction and a guideline of energy saving has been issued and executed. Employees are encouraged to turn off the electric equipment when it is not being used and make sure that all the lights and air-conditioners are switched off before leaving the office and factories.

Use of Resources

The main natural resources used by the Group are electricity, water, paper and packing materials. During the financial year ended 31 December 2017, total consumption of the main natural resources are provided as follow:

Total Consumption of Natural Resources

USE OF NATURAL RESOURCES (Unit)	2017 CONSUMPTION
Electricity (kwh)	3,226,481
Water (tonnes)	68,866
Paper (tonnes)	22
Packing materials (tonnes)	720

Electricity and water

Electricity is required for the operation of the Group's factories and water is mainly consumed in canteens, washrooms and the staff quarters. The Group has issued guideline as a reference for staff to follow in order to reduce the usage of electricity and water.

The Group's operation does not involve substantial consumption of water and hence water efficiency initiatives are not the Group's focus.

Packaging Material Consumption

The packaging materials consumed by our Group during the financial year ended 31 December 2017 were mainly packaging trays and carton boxes. These are in line with customer's standard packaging requirement. The total weight of trays and carton boxes used for the Group's products in the financial year ended 31 December 2017 were approximately 720 tonnes.

Paper

The use of paper is mainly from the operation of the office, and the Group adopts the following measures to save paper:

- Using fax or emails to minimise printing needs
- Using recycled paper
- Using both sides of paper for printing and photocopying except for formal and confidential documents
- Recycling used envelopes and folders in issuing internal documents and letters
- Avoiding printing and photocopying documents unless it has to keep a printed version

The Environment and Natural Resources

In order to enhance environment preservation, the Group gives careful consideration to various operational aspects and activities within the Group to minimise any environmental impact. The Group will also discuss and understand better its suppliers and take into account of their environmental and social responsibility practices in the selection process.

SOCIAL

Employment and Labour Practices

Employment and Labour Standards

The Group firmly believes that employees are one of the most important assets of an enterprise. The Group will consider the working experiences and background of employees, the expected working ability, the market remuneration for the position, the internal budget and other factors in recruiting new employees. The termination of any employment contracts shall be based on reasonable reasons with proper legal basis. Promotion opportunities and salary adjustments are benchmarked against individual performance.

Although the Group does not have official equal opportunity policies or anti-discrimination policies, the Group encourages unprejudiced behavior within the workplace and discourages any inappropriate behavior from employees in regard to the race, gender, age or religious beliefs of another person within the Group. The Group safeguards employees' entitlement to statutory benefits. The Group pays for mandatory provident fund, all kinds of insurances and housing funds for employees in accordance with the laws of Hong Kong, the PRC, Taiwan and Vietnam, and abide by any statutory leave prescribed by the relevant laws and regulations. Other benefits include medical insurance coverage and performance related discretionary bonuses. The working time meets local employment laws and is stipulated in the employment contract.

In order to foster the sense of belonging of employees, the Group organises a variety of activities for employees, including annual dinner, festival dinner and other group activities to promote the friendship among employees and establish a harmonious relation in the team.

The Group does not engage in any forced or child labour. For the year ended 31 December 2017, save as disclosed in the prospectus (the "Prospectus") of the Company dated 28 December 2017, there were no substantial cases of non-compliance in relation to employment laws and regulations that would have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. All of the non-compliance incidents as disclosed in the Prospectus that are capable of being rectified in this regard had been rectified. Further, the Group has complied with the relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.

As of 31 December 2017, the Group had a total of 915 employees. Breakdowns of the employees by gender, age group, geographical region and employment type are set out below:

Number of employees

By gender:	
Female	468
Male	447
By region:	
Hong Kong	6
The PRC	798
Taiwan	13
Vietnam	98
By employment type:	
Full-time	915
Part-time	–

Health and Safety

The Group recognises the importance of maintaining a safe and healthy working environment to provide sufficient protection to the Group's staff. The Group has adopted and implemented occupational health and safety procedures and measures for the Group's business operations, so as to ensure that all employees are aware of the safety procedures, protective equipment procedures and social and environmental responsibility. These include guidelines for operational and safety control procedures, occupational health management procedures, equipment operation and maintenance procedures, emergency control procedure and social and environmental responsibility. For the year ended 31 December 2017, the Group complied with relevant workplace health and safety laws relating to providing a safe working environment and protecting employees from occupational hazards. Further, the Group endeavors to protect employees from work related injuries. During the year ended 31 December 2017, there was no injury case related to work.

Training and Development

The Group believes that people development enacts a vital role of the fundamental basis for business growth. The Group provides different trainings to each department of the Group 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. Other than on-the-job training, employees are encouraged to take part in external training to strengthen their skills, knowledge, and professionalism. The Group also assists relevant employees in fulfilling the continuous professional training hour requirement.

Operating Practices

Supply Chain Management

The Group through its subsidiaries (the "Subsidiaries") has engaged in manufacturing and sales of networking products and non-networking products. The main products procured by the Subsidiaries are chipsets, main chips, antenna and PCB. The Subsidiaries mainly source the raw materials from few suppliers which are situated in Hong Kong, the PRC and Taiwan, with whom the Subsidiaries have maintained approximately at least 5 years of business relationship. The experienced management is responsible for managing and maintaining a healthy and good commercial partnership with the suppliers.

For new suppliers, the management or sales personnel of the Subsidiaries will interview their relevant staff or management. The selecting process will be based on product's market demand, products competitiveness, the supplier's financial status and corporate reputation. The Subsidiaries also require them to provide samples for review. The experienced management and sales personnel with market view is the key to the quality of the supply chain of the Subsidiaries.

Product Responsibility

There are existing laws and regulations in Hong Kong, the PRC, Taiwan and Vietnam that specifically define or regulate the Subsidiaries' business in the trading of networking products. The Subsidiaries have played a vital role in understanding and communicating with what their customers need and thus they have maintained years of business relationships with their key customers and ensured that the end products fit for the users.

The Subsidiaries strictly abided by the relevant laws and regulations in order to protect data and privacy of customers. For the year ended 31 December 2017, save as disclosed in the Prospectus, the Group complied with the relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided, and the Subsidiaries did not receive any complaints relating to breach of customer privacy/loss of customer information. All of the non-compliance incidents as disclosed in the Prospectus in this regard had been rectified. Since then, the Group complied with all the laws and regulation related to sales of networking products for example obtained and renew annually the radio licences and obtained testing certificate before export the products to the relevant countries.

Anti-corruption

The Group takes its fraud bribery or extortion prevention or anti-corruption or anti-money laundering responsibilities very seriously. The Group encourages employees to report to the management about possible improprieties in any matter related to the Group.

For the year ended 31 December 2017, the Group complied with the relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering, and no cases of corruption were reported within the Group.

Community Investment

Althrough the Group did not involve much during the year ended 31 December 2017 in respect of repaying the community by direct donations to charity organisations and other community engagement, the Group will continue to explore more opportunities in contributing to the community in Hong Kong, the PRC, Taiwan and Vietnam and ensure our activities take into account the community interests.

Biographies of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Kim Byung Kwon (金炳權先生), aged 55, is the Group's chairman and executive Director. Mr. Kim is responsible for major decision making including deciding the business strategy and overall direction of the Group. Mr. Kim has over 13 years of experience in the networking equipment industry. Mr. Kim is the founder of the Group and now assumes the role of a director of Zioncom (Hong Kong) Technology Limited ("Zioncom HK") and a legal representative of Cong Ty TNHH Zioncom (Vietnam) (Zioncom (Vietnam) Co., Ltd*). He has devoted himself to the management of the Group's operation since the Group establishment.

Mr. Kim Jun Yeob (金俊燁先生), aged 48, is the executive Director, chief financial officer and a member of the remuneration committee and the compliance committee of the Company. Mr. Kim joined the Group in March 2008 and is responsible for the financial planning of the Group and oversees the daily operation of the Group's finance department. Mr. Kim has over 23 years of experience in finance administration. Prior to joining the Group, from December 1993 to August 2002, he worked in TS Corporation, a company listed on the Korea Stock Exchange (stock code: 001790.KS) which principally engaged in the manufacture and sale of food products in Korea in several departments including management, accounting and information resource departments and his last position served was assistant manager in information resource department. From August 2002 to February 2008, Mr. Kim was a finance and administration deputy general manager in Sunjin Stationary Co., Ltd*(鮮真綜合文具(深圳)有限公司), a company that specialises in the manufacturing and marketing of photo albums, where he was primarily responsible for carrying out financing, accounting, taxation, administration and human resources. Mr. Kim graduated from Inha University(仁荷大學*)in Incheon, Korea with a Bachelor of Arts degree in business administration in February 1994.

Mr. Koo Ja Chun (具滋千先生), aged 45, is the executive Director, chief executive officer and head of sales department of the Group. He is also a member of the nomination committee of the Company. Mr. Koo is responsible for the Group's overall management, generating sales forecast and sales analysis, and overseeing the daily operation of the Group's sales department. Mr. Koo has over 12 years of experience in the networking equipment industry through the principal roles he assumed with the Group, including directorship in Ziocom HK and the legal representative of 吉翁電子深圳有限公司 (Zioncom Electronics (Shenzhen) Limited*). Mr. Koo joined the Group as a director of Zioncom HK on 6 February 2004. Mr. Koo graduated from Dongguk University(東國大學*)in Seoul, Korea with a Bachelor of Business Administration in Management in February 2003.

Mr. Xiao Jingen（肖金根先生）, aged 41, is the executive Director. Mr. Xiao is the head of the Group's manufacturing department and also the head of the Group's research and development department. Mr. Xiao joined the Group in December 2002 and is responsible for production planning, overseeing the Group's production department and research and development department of the Group. Mr. Xiao has over 10 years of experience in research and development and production management. From May 2011 to December 2015, Mr. Xiao served as a supervisor of Shenzhen Shengshi Zhongtang Technology Co., Ltd.*（深圳市盛世眾唐科技有限公司）, a company engaged in sale of electronic products. Mr. Xiao graduated from the Nanchang Aerospace Engineering Institute*（南昌航空工業學院(now known as Nanchang Hangkong University*（南昌航空大學））with a diploma in electronics information technology in July 1998. He obtained a master's degree in business administration from Beijing University of Technology and Science*（北京科技大學）in June 2013.

Independent non-executive Directors

Mr. Kim Kwang Hyun, aged 49, is appointed as an independent non-executive Director on 18 December 2017. He is also the Chairman of the nomination committee, and a member of each of the audit committee, the remuneration committee and the compliance committee of the Company. Mr. Kim has over 20 years of experience in the information and technology. Other than his role as the independent non-executive Director, Mr. Kim is now an associate adjunct professor of Kyungnam College of Information & Technology where he has been working since March 2003. Prior to joining the Group, Mr. Kim worked in Hanjin Information Systems & Telecommunication Co., Ltd. as a member of integrated support team of the technology development division, worked as an assistant manager in Hansol Telecom Co., Ltd., and worked as a team leader in service business division in Dacom IN Co., Ltd.. Mr. Kim graduated from the Department of Information Engineering of Hansung University with a bachelor degree in Engineering in February 1998. He graduated from the Graduate School of Information Sciences of Soongsil University with a master degree in Engineering in February 2002. In February 2009, Mr. Kim received a doctor degree in Engineering from the Department of Information Engineering of Pukyong National University.

Mr. Oh Sung Jin（吳成鎮先生）, aged 45, is appointed as an independent non-executive Director on 18 December 2017. He is also the chairman of the remuneration committee, and a member of each of the audit committee, the nomination committee and the compliance committee of the Company. Mr. Oh has over 10 years of experience in the architecture. Other than his role as the independent non-executive Director, Mr. Oh is now an associate adjunct professor in the department of Interior Design of Kyungnam College of Information & Technology where he has been working since March 2005. Prior to joining the Group, Mr. Oh worked as an assistant manager in 260 Total Architects Co., Ltd. and worked as a manager in Cube Architectural Engineering Co., Ltd.. Mr. Oh graduated from the Architecture Department of Kookmin University with a bachelor degree in Engineering in February 2000. In February 2002, he received a master degree in Architecture from Kookmin University. In February 2015, Mr. Oh received a Ph.D in Architecture from the Department of Architecture of Kookmin University.

Biographies of Directors and Senior Management

Mr. Yiu Kwing Sum (姚炯深先生), aged 45, is appointed as an independent non-executive Director on 18 December 2017. He is the chairman of the audit committee and a member of the compliance committee of the Company. Mr. Yiu has over 10 years of experience in accountancy. Other than his role as the independent non-executive Director, Mr. Yiu is a director of Objective CPA Limited, FAHY Holdings Limited and FAHY Group Limited, which the above companies primarily engaged in providing accounting services. Mr. Yiu received his bachelor degree of arts in Accounting & Finance from University of Glamorgan in June 1996. Mr. Yiu has been an associate member of Association of International Accountants since 18 November 2011 and an associate member of HKICPA since 5 May 2009.

Mr. Ko Ming Tung, Edward (高明東先生), aged 57, is appointed as an independent non-executive Director on 18 December 2017. He is also the chairman of the compliance committee and a member of the audit committee of the Company. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 26 years.

Currently, Mr. Ko is an independent non-executive director of Sinofert Holdings Limited (Stock Code: 297), Wai Chun Group Holdings Limited (Stock Code: 1013), EverChina Int'l Holdings Company Limited (Stock Code: 202) and Chia Tai Enterprises International Limited (Stock Code: 3839), all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Ko was a non-executive director of Harmonic Strait Financial Holdings Limited (now known as Asia Investment Finance Group Limited) (Stock Code: 33) from May 2011 to July 2015, whose shares are listed on the Main Board of the Stock Exchange and was an independent non-executive director of Chinese Energy Holdings Limited (Stock Code: 8009) from August 2015 to August 2017, whose shares are listed on GEM of the Stock Exchange.

Biographies of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Lee Pui Chung (李沛聰先生), aged 31, is the Financial Controller and the Company Secretary of the Group. He is responsible for the financial management and company secretarial matters of the Group. He joined the group in June 2015 as Finance Manager and was appointed as Company Secretary in May 2016 and as Financial Controller in January 2018. He obtained a Bachelor of Business Administration (Honours) in Accountancy from City University of Hong Kong in November 2008 and he has been a member of Hong Kong Institute of Certified Public Accountants since October 2012. Mr. Lee has accumulated over 9 years of experience in accounting, finance and auditing.

Mr. Liu Zhijun (劉志軍先生), aged 47, is the Group's research and development manager and is responsible for research and development of the Group's products. He joined the Group in September 2010. Mr. Liu has over nine years of experience in research, development and design of electronic and networking products. Prior to joining the Group, Mr. Liu had been appointed as head of production technology, engineering manager and development manager in Shenzhen Fengyun Industry Co., Ltd.*（深圳市風雲實業有限公司）. Mr. Liu graduated from Xi'an Industrial Institute*（西安工業學院）(which is now known as Xi'an Technological University*（西安工業大學））with a bachelor degree in Applied Technology in Electronics in July 1997.

* *For identification purposes only*

Independent Auditors' Report

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
ZIONCOM HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zioncom Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 125, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Key audit matters	How our audit address the key audit matters
Impairment assessment of trade receivables	
Refer to Notes 5(b) and 23 to the consolidated financial statements.	
The determination as to whether a trade receivables are collectable involved high level of management's judgement. Specific factors management considered include the age of the balances, business nature of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management used these information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.	Our procedures in relation to management's impairment assessment on trade receivables included: • Evaluating management's impairment assessment included testing, on a sample basis, the underlying data used by management to assess the collectability of trade receivables, such as an aged trade receivable analysis, payments from customers; • Testing the key aged balances where no provision was recognised to check if there were any objective evidences of impairment. This included sample checking of payments received subsequent to the year end date and reviewing historical payment patterns; • Selecting a sample of the significant trade receivable balances where a provision for impairment was recognised and understood the rationale behind management's judgement. In order to evaluate these judgements, we checked the age of these balances, the customers' historical payment patterns and any post year-end payments; and • Assessing the overall provision for impairment, we also considered the consistency of management's application of policy for recognising provisions with the prior years. We consider the management conclusion to be consistent with the available information.

The Key audit matters	**How our audit address the key audit matters**
Carrying amount of inventories	
Refer to the Notes 5(f) to 22 to the consolidated financial statement	
The Group held inventories of approximately HK$146,247,000 as at 31 December 2017. Inventories are carried at the lower of cost and net realisable value ("NRV"). The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become obsolete, or if their selling prices have declined. Management determines the lower of cost and NRV of inventories by considering the ageing profile, inventory obsolescence and estimated selling price of individual inventory items.	Our audit procedures in relation to management's assessment on NRV and obsolescence of inventories included: • Evaluating procedures performed by management, including its procedures in estimating the NRV of the inventories and conducting periodic review on inventory obsolescence; • Observing client's inventory counts to identify whether there is any damaged or obsolete inventory; and • Testing on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices. We consider the management conclusion to be consistent with the available information.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditors' Report

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Wong Sze Wai, Basilia.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Wong Sze Wai, Basilia
Practising Certificate Number: P05806

Hong Kong, 27 March 2018

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	8	**578,358**	512,192
Cost of sales		**(488,478)**	(432,250)
Gross profit		**89,880**	79,942
Other income	9	**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	10	**(3,077)**	(1,558)
Profit before taxation	12	**3,906**	16,793
Taxation	11	**(3,186)**	(2,925)
Profit for the year		**720**	13,868
Other comprehensive income/(loss)			
Items that will not reclassified to profit or loss:			
Surplus on revaluation of properties		**2,654**	3,229
Deferred tax liabilities arising from revaluation of properties		**(612)**	(300)
		2,042	2,929
Items that may be reclassified subsequently to profit or loss:			
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)	16	**0.16**	3.00

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	17	**129,470**	103,319
Prepaid lease payments	18	**8,790**	4,586
Available-for-sale financial assets	19	**6,505**	6,342
Other financial assets	20	**10,088**	9,854
Prepayments for acquisition of property, plant and equipment	21	**–**	4,551
		154,853	128,652
Current assets			
Inventories	22	**146,247**	103,438
Trade and bills receivables	23	**81,170**	60,112
Prepaid lease payments	18	**224**	114
Prepayments, deposits and other receivables	24	**72,230**	42,004
Tax recoverable		**–**	3,271
Pledged bank deposits	25	**25,676**	16,966
Cash and bank balances	25	**32,634**	11,870
		358,181	237,775
Current liabilities			
Trade and bills payables	26	**239,860**	180,282
Accruals, deposits received and other payables	27	**61,490**	22,232
Bank borrowings	28	**57,832**	24,479
Obligations under finance leases	29	**2,282**	1,230
Tax payables		**1,069**	1,467
		362,533	229,690
Net current (liabilities)/assets		**(4,352)**	8,085
Total assets less current liabilities		**150,501**	136,737

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Obligations under finance leases	29	**4,187**	1,689
Deferred tax liabilities	30	**3,266**	2,637
		7,453	4,326
Net assets		**143,048**	132,411
Capital and reserves			
Share capital	31	**9**	32,001
Reserves		**143,039**	100,410
Total equity attributable to owners of the Company		**143,048**	132,411

Approved and authorised for issue by the board of directors on 27 March 2018 and signed on its behalf by:

Koo Ja Chun
Executive Director

Kim Jun Yeob
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company							
	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$'000	Total HK$'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.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Operating activities			
Profit before taxation		**3,906**	16,793
Adjustments for:			
Amortisation of land use right	18	**226**	115
Investment income	9	**(236)**	(178)
Bank interest income	9	**(202)**	(618)
Written off of trade receivables	12	**644**	1,563
Interest income on life insurance policies	9	**(395)**	(651)
Finance costs	10	**3,077**	1,558
Insurance expenses deducted from life insurance policies		**161**	159
Gain on disposal of property, plant and equipment	12	**(3)**	(1)
Loss on disposal of other financial assets at amortised costs		**–**	226
Depreciation of property, plant and equipment	17	**10,911**	10,083
Operating cash flows before movements in working capital		**18,089**	29,049
Increase in inventories		**(34,789)**	(16,357)
(Increase)/decrease in trade and bills receivables		**(20,167)**	2,039
Increase in prepayments, deposits and other receivables		**(28,442)**	(27,997)
Increase in trade and bills payables		**50,777**	39,701
Increase in accruals, deposits received and other payables		**33,534**	1,427
Cash generated from operating activities		**19,002**	27,862
Income tax refund		**4,316**	–
Income tax paid		**(4,746)**	(6,659)
Net cash generated from operating activities		**18,572**	21,203
Investing activities			
Prepayment for acquisition of property, plant and equipment		**–**	(3,661)
Payment for purchase of available-for-sale financial assets		**–**	(1,938)
Payment for acquisitions of property, plant and equipment		**(19,377)**	(30,780)
Proceeds from disposal of property, plant and equipment		**170**	97
Proceeds from disposal of other financial assets		**–**	1,920
Bank interest income received	9	**202**	618
Investment income	9	**236**	178
(Increase)/decrease in pledged bank deposits		**(8,011)**	36,391
Net cash (used in)/generated from investing activities		**(26,780)**	2,825

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Financing activities			
Proceeds from allotment of new shares		**–**	12,001
Proceeds from bank borrowings	41(b)	**31,844**	25,812
Repayment of bank borrowings		**–**	(66,355)
Repayment of obligations under finance leases	41(b)	**(2,198)**	(3,130)
Interest paid	10	**(3,077)**	(1,558)
Net cash generated from/(used in) financing activities		**26,569**	(33,230)
Net increase/(decrease) in cash and cash equivalents		**18,361**	(9,202)
Cash and cash equivalents at the beginning of the year		**11,870**	20,863
Effect of foreign exchange rate changes		**2,403**	209
Cash and cash equivalents at the end of the year		**32,634**	11,870

The accompanying notes form an integral part of these consolidated financial statements.

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 for the year ended 31 December 2017.

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 of Hong Kong Limited (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. REORGANISATION

In connection with the listing of the Shares on GEM of the Stock Exchange, the Company underwent a reorganisation (the "Reorganisation").

Pursuant to the Reorganisation as fully explained in "History, Development and Reorganisation – Reorganisation" of the Prospectus of the company dated 28 December 2017 (the "Prospectus"), the company became the holding company of the companies now comprising the Group on 3 March 2017. The Companies now comprising the Group were under the common control of Mr. Kim Byung Kwon before and after the Reorganisation. Accordingly, the consolidated financial statements has been prepared on the basis by applying the principles of merger accounting as if the Reorganisation has been completed at the beginning of the reporting period.

2. REORGANISATION *(Continued)*

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows include the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the reporting period or since their respective date of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates, taking into account the respective dates of incorporation.

All intra-group transactions and balances have been eliminated on combination.

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.

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

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 report, 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 its 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.

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

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets. Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

HKFRS 9 Financial Instruments *(Continued)*

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies at 31st December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company also anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the directors of the Company do not anticipate that the application of the expected credit loss model of HKFRS 9 will have material impact to the opening accumulated losses at 1st January 2018.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Based on current business of Company, the Directors do not anticipate that the application of HKFRS 15 will have material impact on the amounts reported and disclosures made in the Group's financial statements in the future. There will be additional disclosures upon the adoption of HKFRS 15.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under HKAS 17.

Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of the Group's lease arrangements. These assets and liabilities are currently not required to be recognized but certain relevant information is disclosed as commitments to these financial statements. As disclosed in Note 35, the Group's future minimum lease payments under non-cancellable operating leases for its leased premises amount to approximately HK$27,340,000 as at 31 December 2017. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's result, but it is expected that certain portion of the lease commitments will be regarded to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

4. 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 HKFRSs, Hong Kong Accounting Standards ("HKASs") and related interpretations issued by the 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 (the "GEM Listing Rules") and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of preparation

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Merger accounting for common control combination

The Historical Financial Information incorporate the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group which qualifies as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value for the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of profit or loss and other comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policy adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually when the Group has delivered the products to the customer, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Consignment sales revenue is recognised when the goods are sold by consignee to a third party.

Processing services income is recognised when the service is provided.

Investment income is recognised when the Group's right to received payment has been established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

  exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributable to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Company's or the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

The Group's contributions to the defined contribution retirement benefit plans are charged to profit or loss in the year incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The Group has no further payment obligations once the contributions have been paid.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax *(Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the reporting period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use and depreciates on the same basis as other property assets.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The property, plant and equipment are depreciated over their estimated useful lives on a straight-line basis. The principal annual rates used for depreciation are as follows:

Land and building	Over the leased term
Furniture, fixtures and office equipment	20% – 33⅓%
Machinery and equipment	10% – 33⅓%
Motor vehicles	15% – 20%
Leasehold improvement	10%
Leasehold land	Over the leased term
Construction in progress	Nil

Impairment of assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified as loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including other financial assets, trade and bills receivables, deposit and other receivables, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Available-for-sale financial assets ("AFS financial assets")

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed equity instruments by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Fair value is determined in the manner described in Note 19. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see above), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in consolidated statements of profit or loss and other comprehensive income. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale assets revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale assets revaluation reserve is reclassified to consolidated statements of profit or loss and other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Available-for-sale financial assets ("AFS financial assets") *(Continued)*

Dividends on AFS financial assets are recognised in consolidated statements of profit or loss and other comprehensive income when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of each reporting period. The foreign exchange gains and losses that are recognised in consolidated statements of profit or loss and other comprehensive income are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses for the reporting period.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities

Financial liabilities including (trade and bills payables, deposits received and other payables, bank borrowings and obligations under finance leases) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties transactions

A party is considered to be related to the Group if:

(i) A person or a close member of that person's family is related to the Group if that person:

  (a) has control or joint control over the Group;

  (b) has significant influence over the Group; or

  (c) is a member of the key management personnel of the Group or of a parent of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties transactions *(Continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);

(b) one entity is an associate or joint venture of the other entity for an associate or joint venture of a member of a group which the other entity is a member;

(c) both entities are joint ventures of the same third party;

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employees are also related to the Group;

(f) the entity is controlled or jointly controlled by a person identified in (a);

(g) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Impairment of property, plant and equipment

The Group reviews its property, plant and equipment for indications of impairment at each reporting period. In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(b) Impairment of trade receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the credit history of the customers and the current market condition. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Management reassesses the adequacy of impairment on a regular basis. Where the actual cash flows are less than expected, a material impairment loss may arise.

(c) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(d) Provision

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and those amount is reasonable estimate, a corresponding amount of provision is recognised in the financial statement. However, no provision is recognised for costs that need to be incurred to operate in the future.

(e) Income taxes and deferred taxes

The Group is subject to income taxes in Hong Kong, the PRC and Taiwan. Significant judgement is required in determining provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amount that we initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(f) Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of slow-moving stock and obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories.

(g) Estimation of fair value of land and building

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates including:

- current prices in an active market for property of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those difference; and
- recent prices of similar property in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those price; and
- reference to independent valuation.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(g) Estimation of fair value of land and building *(Continued)*

The Company uses assumptions that are mainly based on market conditions existing at the end of each of the year.

The principal assumption underlying management's estimation of fair value is related to the estimated amount for which the properties should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and without compulsion.

The Company assesses the fair value of land and building based on valuation determined by qualified independent professional valuers.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 **HK$'000**	2016 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)		
– Other financial assets	**10,088**	9,854
– Trade and bills receivables	**81,170**	60,112
– Deposits and other receivables	**55,082**	30,575
– Pledged bank deposits	**25,676**	16,966
– Cash and bank balances	**32,634**	11,870
	204,650	129,377
At fair value		
– Available-for-sale financial assets	**6,505**	6,342

6. FINANCIAL INSTRUMENTS *(Continued)*

(a) Categories of financial instruments *(Continued)*

	2017 HK$'000	2016 HK$'000
Financial liabilities		
Amortised cost		
– Trade and bills payables	**239,860**	180,282
– Accruals, deposits received and other payables	**61,490**	22,232
– Bank borrowings	**57,832**	24,479
– Obligations under finance leases	**6,469**	2,919
	365,651	229,912

(b) Financial risk management

The directors of the Group monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including interest risk), credit risk and liquidity risk.

The Group's major financial instruments include other financial assets, available-for-sale financial assets, trade and bills receivables, deposits and other receivables, pledged bank deposits, cash and bank balances, trade and bills payables, accruals, deposits received and other payables, bank borrowings and obligations under finance leases. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group has no significant concentrations of credit risk with exposure spread over a large number of counterparties and customers. The carrying amounts of bank balances, trade and bills receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group generally allows an average credit period of 30 to 180 days to its customers. As at 31 December 2017 and 2016, our trade receivables which were past due but not impaired amounted to approximately HK$39,135,000 and HK$16,411,000, representing approximately 48.2% and 27.3% of the total trade receivables as at the respective dates, out of which approximately HK$20,642,000 and HK$772,000, representing approximately 52.7% and 4.7% were past due more than 180 days, respectively. In order to minimise the credit risk, the management monitors the level of exposure to ensure that follow-up actions are taken to recover overdue debts. In addition, the management reviews the recoverability of each trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the management considers the Group does not expose to significant credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Foreign currency risk

The Group mainly operates in Hong Kong, the PRC and Vietnam, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("USD"), Renminbi ("RMB") and Vietnamese Dong ("VND"). Foreign exchange risk arises from commercial transactions, recognised assets and liabilities denominated in a currency that is not the functional currency of the Group and net investments in foreign operations.

The Group currently does not have a foreign currency hedging policy. However, the management has closely monitored the Group's foreign exchange exposure and will consider hedging significant foreign currency risk should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		**Assets**	
	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**	As at 31 December 2016 HK$'000
USD	**49,626**	62,801	**76,832**	54,459
RMB	**164,920**	123,921	**57,098**	46,932
VND	**2,358**	4,889	**14,452**	4,434
	216,904	191,611	**148,382**	105,825

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in USD, RMB and VND. The financial impact on exchange risk exposed to USD are considered to be insignificant, as HK$ is pegged to USD.

The following table details the Group's sensitivity to a 5% increase or decrease in HK$ against RMB and VND. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year ended for a 5% change in foreign currency rates. A positive number below indicates an increase in the Group's pre-tax profit for the year where the foreign currencies strengthen 5% against the HK$. For a 5% weakening of the foreign currencies against the HK$, there would be an equal and opposite impact.

	Impacts on profit or loss	
	31 December 2017 HK$'000	31 December 2016 HK$'000
RMB	**(5,391)**	(3,849)
VND	**605**	(23)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets, mainly the interest bearing bank balances, and bank borrowings. The Group monitors the interest rate exposure on a continuous basis and adjusts the portfolio of bank saving balances and borrowings where necessary.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors current and expected liquidity requirements on a regular basis.

The following tables detail Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which Group can be required to pay. The tables include both interest and principal cash flows.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. Specifically, bank borrowings with repayable on demand clause are included in "on demand or within one year" regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are prepared based on the agreed repayment dates. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Weighted average interest rate %	On demand or within one year HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2017						
Non-derivative financial liabilities						
Trade and bills payables	–	239,860	–	–	239,860	239,860
Accruals, deposits received and other payables	–	61,490	–	–	61,490	61,490
Bank borrowings	3.31%	59,424	–	–	59,424	57,832
Obligations under finance leases	7.74%	2,432	1,765	2,739	6,936	6,469
		363,206	1,765	2,739	367,710	365,651

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate %	On demand or within one year HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2016						
Non-derivative financial liabilities						
Trade and bills payables	–	180,282	–	–	180,282	180,282
Accruals, deposits received and other payables	–	22,232	–	–	22,232	22,232
Bank borrowings	3.48%	24,688	–	–	24,688	24,479
Obligations under finance leases	4.71%	1,378	1,283	536	3,197	2,919
		228,580	1,283	536	230,399	229,912

The following table summaries the maturity analysis of bank borrowings with repayable on demand clause based on agreed scheduled repayments set out in the loan agreements. The amount includes interest payments computed using contractual rates. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors of the Company believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – bank borrowings subject to a repayment on demand clause based on scheduled repayments		
	Within one year HK$'000	**More than one year but less than two years** HK$'000	**More than two years but less than five years** HK$'000
As at 31 December 2017	**52,975**	**3,479**	**2,970**
As at 31 December 2016	22,326	1,772	590

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively, and

(ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments:

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the Company's financial assets are measured at fair value on a recurring basis.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value estimation *(Continued)*

Financial assets	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Fair value hierarchy	Valuation Techniques and key inputs	Significant unobservable inputs
Available-for-sales financial assets					
– Bonds	HK$5,881,000	HK$5,761,000	Level 1	Quoted bid prices in an active market	N/A
– Club membership	HK$624,000	HK$581,000	Level 2	Market Approach in an active market	Market comparable ranges from HK$615,000 to HK$711,000 (2016: HK$553,000 to HK$597,000) and the individual factors considered are the second hand quotation price of golf club.

Except as disclosed as above, the Directors consider the carrying amounts of financial assets recorded at amortised costs in the consolidated financial statements approximates to their fair values. During the reporting period, there were no transfer of fair value measurement between Level 1 and Level 2 into out of Level 3.

(d) Capital risk management

The Group manages its capital to ensure that entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting period.

The capital structure of the Group consists of total borrowings and equity attributable to owners of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and balance its overall capital structure through the payment of dividends and injection of capital.

6. FINANCIAL INSTRUMENTS *(Continued)*

(d) Capital risk management *(Continued)*

The following is the gearing ratio at the end of each reporting period:

	2017 HK$'000	2016 HK$'000
Total borrowings (Note (a))	**64,301**	27,398
Total equity (Note (b))	**143,048**	132,411
Gearing ratio	**45.0%**	20.7%

Notes:

(a) Total borrowings represent bank borrowings and obligations under finance leases as set out in Notes 28 and 29.

(b) Total equity includes share capital and reserves at the end of the reporting period.

7. SEGMENT INFORMATION

During the year 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 HK$'000	2016 HK$'000
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
	578,358	512,192

7. SEGMENT INFORMATION *(Continued)*

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 **HK$'000**	2016 HK$'000
Customer A (Note i)	**302,024**	322,891

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 **HK$'000**	2016 HK$'000
Hong Kong	**24**	26
Mainland China	**86,559**	77,549
Vietnam	**51,198**	34,698
Others	**479**	183
	138,260	112,456

8. REVENUE

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

	2017 **HK$'000**	2016 HK$'000
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
	578,358	512,192

9. OTHER INCOME

	2017	2016
	HK$'000	HK$'000
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
	7,416	6,309

10. FINANCE COSTS

	2017	2016
	HK$'000	HK$'000
Interest expenses on bank borrowings wholly repayable within five years	**1,724**	1,316
Interest expenses on obligations under finance leases	**1,353**	242
	3,077	1,558

11. TAXATION

	2017 HK$'000	2016 HK$'000
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)**	–
	3,169	2,946
Deferred taxation:		
Charged/(credited) for the year (Note 30)	**17**	(21)
	3,186	2,925

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, Zioncom (Shenzhen) 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.

11. TAXATION *(Continued)*

The taxation charge for the years ended 31 December 2017 and 2016 can be reconciled to the profit before taxation as per consolidated statements of profit or loss and other comprehensive income as follows:

	2017 HK$'000	2016 HK$'000
Profit before taxation	3,906	16,793
Tax calculated at the rates applicable to profits in the jurisdiction concerned	274	2,382
Tax effect of expenses not deductible for tax purpose	2,408	1,528
Tax effect of income not taxable for tax purpose	(70)	(1,188)
Over-provision in prior years	(20)	–
Tax effect of deductible temporary differences not recognized	17	(21)
Tax effect of utilised tax losses not recognized	577	224
	3,186	2,925

12. PROFIT BEFORE TAXATION

	2017 HK$'000	2016 HK$'000
Profit for the year has been arrived at after charging/(crediting):		
Directors' emoluments (Note 13)	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
	80,599	75,914

12. PROFIT BEFORE TAXATION *(Continued)*

	Note	2017 HK$'000	2016 HK$'000
Auditors' remuneration			
– audit services		**800**	288
– listing services (included in listing expenses)		**1,237**	875
Amortisation of land use right	18	**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
		10,911	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 (Note)		**13,414**	5,419

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

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors for the year ended 31 December 2017 and 2016 as follow:

	2017 HK$'000	2016 HK$'000
Directors' fees	**–**	–
Salaries and other benefits	**2,888**	3,501
Bonuses	**1,232**	–
Retirement schemes contributions	**227**	191
	4,347	3,692

13. DIRECTORS' EMOLUMENTS *(Continued)*

	Year ended 31 December 2017				
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Kim Byung Kwon (Note (i))	–	1,172	1,232	66	2,470
Mr. Kim Jun Yeob (Note (i))	–	762	–	56	818
Mr. Koo Ja Chun (Note (i))	–	762	–	56	818
Mr. Xiao Jingen (Note (i))	–	192	–	49	241
Independent Non-Executive Directors					
Mr. Kim Kwang Hyun (Note (iii))	–	–	–	–	–
Mr. Oh Sung Jin (Note (iii))	–	–	–	–	–
Mr. Yiu Kwing Sum (Note (iii))	–	–	–	–	–
Mr. Ko Ming Tung, Edward (Note (iii))	–	–	–	–	–
	–	2,888	1,232	227	4,347

	Year ended 31 December 2016				
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Kim Byung Kwon (Note (i))	–	1,533	–	47	1,580
Mr. Kim Jun Yeob (Note (i))	–	902	–	40	942
Mr. Koo Ja Chun (Note (i))	–	902	–	40	942
Mr. Xiao Jingen (Note (i))	–	140	–	57	197
Mr. Lee Man Kyu (Note (ii))	–	24	–	7	31
	–	3,501	–	191	3,692

13. DIRECTORS' EMOLUMENTS *(Continued)*

The executive directors' emoluments shown were mainly for their service in connection with the management of the affairs of the Company and the Group.

The remuneration shown above represents remuneration received and receivable from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the reporting period. No directors waived or agreed to waive any emoluments during the reporting period.

Notes:

(i) Mr. Kim Byung Kwon, Mr. Kim Jun Yeob, Mr. Koo Ja Chun and Mr. Xiao Jingen were appointed as executive directors on 29 January 2016.

(ii) Mr. Lee Man Kyu was appointed as executive director on 29 January 2016 and resigned on 14 March 2016.

(iii) Mr. Kim Kwang Hyun, Mr. Oh Sung Jin, Mr. Yiu Kwing Sum and Mr. Ko Ming Tung, Edward were appointed as independent non-executive directors of the Company on 18 December 2017.

14. EMPLOYEES EMOLUMENTS AND SENIOR MANAGEMENT EMOLUMENTS

The five highest paid individuals included 3 and 3 of executive director of the Company for the years ended 31 December 2017 and 2016 respectively, details of whose emoluments are set out above in Note 13. The emoluments of the remaining individuals for the years ended 31 December 2017 and 2016 are 2 and 2 respectively and individuals disclosed are as follows:

	2017	2016
	HK$'000	HK$'000
Salaries and other benefits	**793**	781
Bonuses	**94**	–
Retirement schemes contributions	**18**	95
	905	876

14. EMPLOYEES EMOLUMENTS AND SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

The number of non-director highest paid employees whose emoluments fell within the following bands is as follows:

	2017	2016
	HK$'000	HK$'000
Nil to HK$1,000,000	**2**	2

The number of the senior management (excluding directors) whose emoluments fell within the following bands is as follows:

	2017	2016
	HK$'000	HK$'000
Nil to HK$1,000,000	**1**	1

During the reporting period, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the reporting period.

15. DIVIDENDS

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

16. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2017 and 2016 is based on the profit attributable to the owners of the Company for the year 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 year ended 31 December 2017 and 2016.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and Building HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and office equipment HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2016	52,000	1,278	23,248	45,550	4,208	46	126,330
Additions	–	–	888	4,163	1,529	24,364	30,944
Disposals	–	–	–	(100)	–	–	(100)
Surplus on revaluation	3,229	–	–	–	–	–	3,229
Write back on revaluation	(2,645)	–	–	–	–	–	(2,645)
Exchange alignment	(3,674)	(90)	(1,649)	(3,365)	(206)	(341)	(9,325)
At 31 December 2016 and 1 January 2017	48,910	1,188	22,487	46,248	5,531	24,069	148,433
Additions	–	266	360	24,309	–	3,990	28,925
Transferred from Construction in progress to Land and Building	28,076	–	–	–	–	(28,076)	–
Surplus on revaluation	2,654	–	–	–	–	–	2,654
Write back on revaluation	(3,357)	–	–	–	–	–	(3,357)
Written-off	–	–	(65)	–	–	–	(65)
Disposal	–	–	(8)	(166)	–	–	(174)
Exchange alignment	3,591	97	1,712	3,454	183	63	9,100
At 31 December 2017	**79,874**	**1,551**	**24,486**	**73,845**	**5,714**	**46**	**185,516**
Accumulated depreciation							
At 1 January 2016	–	56	17,657	19,779	3,252	–	40,744
Provided for the year	2,645	54	1,526	5,274	584	–	10,083
Write back on revaluation	(2,645)	–	–	–	–	–	(2,645)
Disposals	–	–	–	(4)	–	–	(4)
Exchange alignment	–	(6)	(1,300)	(1,609)	(149)	–	(3,064)
At 31 December 2016 and 1 January 2017	–	104	17,883	23,440	3,687	–	45,114
Provided for the year	3,357	76	1,146	5,991	341	–	10,911
Write back on revaluation	(3,357)	–	–	–	–	–	(3,357)
Written-off	–	–	(12)	–	–	–	(12)
Disposal	–	–	(7)	–	–	–	(7)
Exchange alignment	–	10	1,395	1,834	158	–	3,397
At 31 December 2017	**–**	**190**	**20,405**	**31,265**	**4,186**	**–**	**56,046**
Net carrying amounts							
At 31 December 2017	**79,874**	**1,361**	**4,081**	**42,580**	**1,528**	**46**	**129,470**
At 31 December 2016	48,910	1,084	4,604	22,808	1,844	24,069	103,319

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Assets pledged as security

As at 31 December 2017 and 2016, the land and buildings with carrying amount of approximately HK$79,874,000 and HK$48,910,000 have been pledged to secure bank borrowings (Note 28) granted to the Group respectively.

As at 31 December 2017 and 2016, the motor vehicles with carrying amount of approximately HK$305,000 and HK$340,000 have been pledged to secure finance lease payables (Note 29) granted to the Group respectively.

As at 31 December 2017 and 2016, the Group's land and buildings in PRC and Vietnam were revalued based on valuations performed by Roma Valuation Limited, an independent professional qualified valuers, approximately at HK$79,874,000 and HK$48,910,000. Revaluation surplus, net aggregate amount of deferred tax approximately of HK$2,042,000 and HK$2,929,000 resulting from the above revaluation were credited to the revaluation surplus reserve during the years ended 31 December 2017 and 2016 respectively.

The fair values of the Group's land and buildings at 31 December 2017 and 2016 are estimated by using significant unobservable inputs and the fair value measurement is categorized under Level 3.

During the reporting period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurement categorised within Level 3 of the fair value hierarchy:

	2017 **HK$'000**	2016 HK$'000
Carrying amount:		
At 1 January	**48,910**	52,000
Additions	**28,076**	–
Depreciation	**(3,357)**	(2,645)
Surplus on revaluation	**2,654**	3,229
Exchange differences	**3,591**	(3,674)
At 31 December	**79,874**	48,910

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Assets pledged as security *(Continued)*

Below is a summary of the valuation technique used and the key input to the valuation of property:

Class of property	Fair value Class of hierachy	Significant Value Technique	Valuation unobservable input	Range of unobservable input 31 December 2017	31 December 2016
The land and building held in PRC	Level 3	Market comparable method	Saleable unit rate per square foot which compare with similar location and other factor such as floor level, building age, size and conditions of the properties*	HK$54,054 to HK$57,658	HK$50,251 to HK$51,368
The land and building held in Vietnam	Level 3	Depreciation replacement cost method	An estimate of the market value for existing use of land, plus the current cost of replacement of existing structures less deduction of physical deterioration and all relevant forms at obsolescence and optimization	N/A	N/A

* The higher the saleable unit rate per square foot, the higher the value.

18. PREPAID LEASE PAYMENTS

	HK$'000
Cost	
At 1 January 2016	4,886
Additions	–
Exchange difference	(65)
At 31 December 2016 and 1 January 2017	4,821
Additions	4,563
Exchange difference	(24)
At 31 December 2017	**9,360**
Accumulated amortisation	
At 1 January 2016	7
Amortisation	115
Exchange difference	(1)
At 31 December 2016 and 1 January 2017	121
Amortisation	226
Exchange difference	(1)
At 31 December 2017	**346**
Net carrying amount	
At 31 December 2017	**9,014**
At 31 December 2016	4,700

18. PREPAID LEASE PAYMENTS *(Continued)*

The carrying amount of prepaid lease payments of the Group analysed for reporting purposes as:

	2017	2016
	HK$'000	HK$'000
Current assets	**224**	114
Non-current assets	**8,790**	4,586
	9,014	4,700

The prepaid lease payments are land use rights located in the Vietnam which are under medium lease.

The Group's prepaid lease payments amounts represent the payments for land use rights of Lot A and Lot B situated in the Vietnam. The leasehold lands have the lease term of 43 years and 42 years respectively on the date of obtaining the land use right certificate and the Group has possessed the land use rights of the leasehold during the lease term.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	HK$'000	HK$'000
Bonds (Note a)	**5,881**	5,761
Club membership (Note b)	**624**	581
	6,505	6,342

Notes:

(a) The bonds were unlisted and classified as available-for-sale investments are stated at fair value. As at 31 December 2017 and 2016, the fair values of the bonds are determined by reference to the quoted prices from the financial institution. As at 31 December 2017 and 2016, the bonds have been pledged as collateral for banking facilities.

(b) The club membership represents the indefinite useful life golf club membership. It classified as available-for-sale investments are stated fair value. As at 31 December 2017 and 2016, the fair value of the club membership is arrived on the basis of a valuation carried out by an independent professional valuer.

20. OTHER FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
Key management personnel life insurance policies	**10,088**	9,854

On 19 March 2010 and 20 September 2012, the Group entered into life insurance policies (the "Policies") with an insurance company to insure the Directors, Mr. Kim Byung Kwon, Mr. Kim Jun Yeob, Mr. Koo Ja Chun, Mr. Lee Man Kyu and Mr. Xiao Jingen. Under the policies, the beneficiary and policy holder is the Company and the total insured sum is USD4,500,000 (equivalent to approximately HK$34,875,000). The Company is required to pay an upfront deposit of USD1,437,912 (equivalent to approximately HK$11,144,000) at the inception of the Policies. The Company can terminate the Policies at any time and receive cash back based on the cash value of the Policies at the date of withdrawal, which is determined by the upfront payments plus accumulated interest earned and minus the accumulated insurance charge and policy expenses charge.

On 3 November 2016, an insurance premium balance in relation to Mr. Lee Man Kyu, a former director, has been refunded after deducted the accumulated insurance charge and policy expenses charge to the Group.

The other financial assets are carried at amortised cost using the effective interest method, less any identified impairment loss. Interest income on life insurance policies is recognised in the consolidated statement of profit or loss and other comprehensive income.

The entire amount of the rights under life insurance policies is denominated in United States Dollar.

21. PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	2017 HK$'000	2016 HK$'000
Analysed for reporting purposes as:		
Current assets	**–**	–
Non-current assets	**–**	4,551
	–	4,551

The Group entered into the lease agreements for the land use right of Lot A and Lot B located in Vietnam on 26 June 2015 and 7 April 2016 respectively.

The balances represent the prepayment for the land use rights of Lot B during the year ended 31 December 2016. The Group had obtained the land use right certificates of Lot B on 4 January 2017.

22. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**73,133**	41,293
Work in progress	**15,479**	10,915
Finished goods	**57,635**	51,230
	146,247	103,438

23. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**81,145**	60,032
Bills receivables	**25**	80
	81,170	60,112

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

	2017 HK$'000	2016 HK$'000
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
	81,145	60,032

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.

23. TRADE AND BILLS RECEIVABLES *(Continued)*

Ageing analysis of trade receivables which are past due but not impaired

Trade receivables disclosed above include amounts (see below for ageing analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The following is an ageing analysis of trade receivables of the Group which are past due but not impaired. These related to a number of independent customers for whom there is no recent history of default.

	2017	2016
	HK$'000	HK$'000
Within 30 days	**7,418**	4,516
31 to 60 days	**6,173**	3,195
61 to 90 days	**2,614**	2,408
91 to 180 days	**2,288**	5,520
Over 180 days	**20,642**	772
	39,135	16,411

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	HK$'000
Deposits and prepayments (Note)	**44,124**	14,799
Value-added tax receivables	**25,845**	22,862
Other receivables	**2,261**	4,343
	72,230	42,004

Note: As at 31 December 2017, the amount included prepayment to suppliers approximately HK$17,753,000 (2016: HK$1,657,000).

25. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

	2017 HK$'000	2016 HK$'000
Pledged bank deposits	25,676	16,966
Cash and bank balances	32,634	11,870
	58,310	28,836

Cash and bank balances are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
Hong Kong Dollars ("HK$")	7,997	8,230
United States Dollars ("US$")	21,302	9,952
Renminbi ("RMB")	21,984	9,513
Taiwan Dollars ("NT$")	792	638
Vietnam Dollars ("VND")	6,232	503
Philippine Piso ("PHP")	2	–
Malaysian Ringgit ("MYR")	1	–
	58,310	28,836

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government. For the Group's cash and cash equivalents denominated in RMB located in Hong Kong are not subject to the foreign exchange control.

Bank balances earn interests at floating rate based on daily bank deposit rates and is placed with creditworthy banks with no recent history of default.

As at 31 December 2017, bank deposits of the Group of approximately HK$25,676,000 (2016: HK$16,966,000) are pledged as collateral for bank facilities.

The amount comprise bank balances held by the Group and pledged bank deposit bearing market interest rates from 0.05% to 1.5% (2016: 0.2% to 1.5%) per annum. The fair value of these assets approximates the corresponding carrying amount.

26. TRADE AND BILLS PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**165,440**	131,292
Bills payables	**74,420**	48,990
	239,860	180,282

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 HK$'000	2016 HK$'000
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
	165,440	131,292

Bills payables are all mature within 150 days.

27. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Accruals	22,343	11,974
Deposits received	37,311	9,087
Other payables	1,836	1,171
	61,490	22,232

28. BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank loans:		
Secured fixed rate borrowings (note (a) and (b))	2,296	3,940
Secured floating rate borrowings (note (a) and (b))	55,536	20,539
	57,832	24,479
Secured term loan from bank that repayable within the period of:		
– less than one year	52,447	22,183
– more than 1 year but within 2 years	1,740	1,711
– more than 2 years but within 5 years	3,645	585
– over 5 years	–	–
Secured term loan	57,832	24,479
Less: Amount classified as current liabilities		
Secured term loan due within one year or contain a repayment on demand clause	(57,832)	(24,479)
Amount classified as non-current liabilities	–	–

28. BANK BORROWINGS *(Continued)*

Notes:

(a) The bank borrowings of the Group as at 31 December 2017 and 2016 respectively were secured by:

(i) personal guarantee provided by one of the Controlling Shareholders of the Company;

(ii) corporate guarantee provided by the Group for the year ended 31 December 2017;

(iii) pledged bank deposits with carrying amounts of approximately HK$25,676,000 and HK$16,966,000 as at 31 December 2017 and 2016 respectively;

(iv) pledge of the Group's investments in life insurance with carrying amounts of approximately HK$10,088,000 and HK$9,854,000 as at 31 December 2017 and 2016 respectively;

(v) pledge of the available-for-sale financial assets with carrying amounts of approximately HK$5,881,000 and HK$5,761,000 as at 31 December 2017 and 2016 respectively;

(vi) pledge of the Group's land and building with carrying amounts of approximately HK$79,874,000 and HK$48,910,000 as at 31 December 2017 and 2016 respectively;

(b) The loans of the Group with financial institutions amounted to approximately HK$57,832,000 and HK$24,479,000 respectively, carried interest ranging from 2.79% to 4.00% and 1.74% to 4.00% per annum for the years ended 31 December 2017 and 2016 respectively.

29. OBLIGATIONS UNDER FINANCE LEASES

The Group lease certain of its property, plant and equipment under finance leases.

	2017 HK$'000	2016 HK$'000
Minimum lease payments under finance leases		
– within one year	2,506	1,378
– in the second to fifth years, inclusive	4,430	1,819
	6,936	3,197
Less: Future finance charges	(467)	(278)
Present value of finance leases	6,469	2,919

	2017 HK$'000	2016 HK$'000
Present value of minimum lease payments under finance leases		
– within one year	2,282	1,230
– in the second to fifth years, inclusive	4,187	1,689
	6,469	2,919
Less: Amount due for settlement within one year	(2,282)	(1,230)
Amount due for settlement after one year	4,187	1,689

30. DEFERRED TAX LIABILITIES

The components of deferred tax balances recognised in the consolidated statements of financial position and the movement thereon during the years ended 31 December 2017 and 2016 are as follows:

	Accelerated tax depreciation	**Revaluation of Land and building**	**Total**
	HK$'000	HK$'000	HK$'000
As at 1 January 2016	26	2,332	2,358
Credited to profit or loss (Note 11)	(21)	–	(21)
Charged to other comprehensive income	–	300	300
As at 31 December 2016 and 1 January 2017	5	2,632	2,637
Charged to profit or loss (Note 11)	17	–	17
Charged to other comprehensive income	–	612	612
As at 31 December 2017	**22**	**3,244**	**3,266**

At the end of the reporting period, the Group has estimated tax losses of approximately HK$1,445,000 (2016: HK$1,122,000) available for offset against future profits. No deferred tax assets has been recognised as it uncertain that there will be sufficient futures profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

31. SHARE CAPITAL

	Number of Shares	Amount HK$
Authorised:		
Ordinary share of US$1.00 each upon incorporation (Note a)	50,000	387,500
As at 31 December 2016 and 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	50,000,000,000	500,000,000
Issued and fully paid:		
Issue of shares upon incorporation (Note a)	100	775
As at 31 December 2016 and 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	858,000	8,580

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.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 HK$'000	2016 HK$'000
Non-current asset			
Investment in a subsidiary		**9**	1
Current assets			
Deposits and prepayments		**9,458**	1,382
Cash and bank balances		**42**	1
		9,500	1,383
Current liabilities			
Accruals		**14,645**	1,170
Amount due to a subsidiary		**14,495**	5,631
Amount due to a shareholder		**1**	1
		29,141	6,802
Net current liabilities		**(19,641)**	(5,419)
Net liabilities		**(19,632)**	(5,418)
Capital and reserves			
Share Capital	31	**9**	1
Reserves	33	**(19,641)**	(5,419)
Total Equity		**(19,632)**	(5,418)

Approved and authorised for issue by the board of directors on 27 March 2018 and signed on its behalf by:

Koo Ja Chun
Executive Director

Kim Jun Yeob
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

33. RESERVES OF THE COMPANY

	Accumulated Loss HK$'000
As at 29 January 2016 (Date of incorporation)	–
Loss and total comprehensive loss for the period	(5,419)
As at 31 December 2016 and 1 January 2017	(5,419)
Loss and total comprehensive loss for the year	(14,222)
As at 31 December 2017	**(19,641)**

34. PRINCIPAL SUBSIDIARIES

Upon completion of the Reorganisation and as at 31 December 2017 and 2016, the Company had direct and indirect equity interests in the following subsidiaries comprising the Group:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest and voting power held by the Company — As at 31 December 2017 %	2016 %	At the date of this report %	Principal activities
Zioncom (BVI) Limited ("Zioncom BVI")	British Virgin Islands ("BVI"), 1 February 2016	US$110	100	100	100	Investment holdings
Zioncom (Hong Kong) Technology Limited ("Zioncom (Hong Kong)")	Hong Kong, 17 September 1999	HK$32,000,000	100	100	100	Sale of networking products
吉翁電子（深圳）有限公司 ("Zioncom (Shenzhen)")	The PRC, 9 March 2004	US$7,979,960	100	100	100	Research and development, manufacturing and sale of networking products
Zioncom (Vietnam) Co.,Ltd ("Zioncom (Vietnam)")	Vietnam, 10 March 2015	US$5,500,000	100	100	100	Manufacturing and sale of networking products
台灣吉翁電子股份有限公司 ("Zioncom (Taiwan)")	Taiwan, 30 September 2015	NT$10,000,000	100	100	100	Sale of networking products

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the end of each reporting date, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**6,055**	6,417
In the second to fifth years, inclusive	**21,285**	20,843
Over five years	**–**	1,723
	27,340	28,983

Operating lease payments represent rentals payable by the Group for certain of its premises. Leases are negotiated at terms which range from 1 to 5 years (2016: 1 to 6 years). The Group does not have an option to purchase the leased premises at the expiry of the lease period.

36. RETIREMENT BENEFITS PLANS

The Group participates in a defined contribution scheme which is registered under a Mandatory Provident Fund Scheme (the " MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution mandatory payable in future years. Effective from 1 June 2014, the cap of contribution amount has been changed from HK$1,250 to HK$1,500 per employee per month.

Pursuant to the regulations of the relevant authorities in the PRC, the Group participates in the PRC Schemes whereby the Group is required to contribute to the PRC Schemes to fund the retirement benefits of the eligible employees. Contributions made to the PRC Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the PRC Schemes is to pay the ongoing required contributions under the PRC Schemes. The retirement benefit schemes contribution represents gross contributions by the Group to the PRC Schemes operated by the relevant authorities of the PRC.

36. RETIREMENT BENEFITS PLANS *(Continued)*

In accordance with the relevant rules and regulations in those countries other than Hong Kong and PRC in which the Group operates, the Group is required to operate defined contribution schemes managed by the relevant jurisdictions and to make contributions for its eligible employees. The contribution borne by the Group is calculated according to the regulations stated by the relevant jurisdictions.

The retirement benefits scheme contributions arising from the MPF Scheme, the PRC Schemes and the defined contribution scheme in other jurisdictions charged to the consolidated statement of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The contributions paid and payable to the schemes by the Group are disclosed in Note 12.

37. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 18 December 2017. The following is a summary of the principal terms and conditions of the Share Option Scheme.

(a) Purpose of the Scheme

The purpose of the Share Option Scheme is to reward the Participant (as defined below) who have contributed to the Group and to encourage Participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and the Shareholders as a whole.

(b) Participants of the scheme

The Directors may, at their discretion, invite Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisors, consultant, distributors, contractors, suppliers, agents, customers, partners, joint venture business partners, promoters or service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group (the "Participant") to take up options at the subscription price. An offer shall remain open for acceptance by the Participant concerned for a period of 28 days from the date of grant provided that no such offer shall be open for acceptance after the expiry of the Option Period (as defined below) or after the Share Option Scheme is terminated or after the Participant has ceased to be a Participant.

(c) Total number of shares available for issue under the Scheme and percentage of the issued share capital at the date of the annual report

No share option had been granted under the Share Option Scheme and no share is available for issue under the Share Option Scheme at the date of this annual report

37. SHARE OPTION SCHEME *(Continued)*

(d) Maximum entitlement of each participant under the Scheme

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of Shares in issue on the Listing Date, i.e. 66,000,000 (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and (as the case may be) such other share option schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The maximum number of Shares issued and to be issued upon exercise of the Options granted to each Grantee under the Share Option Scheme (including both exercised and outstanding Options) in any 12-month period shall not (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the Shareholders in a general meeting) exceed 1% of the Shares in issue for the time being (the "Individual Limit").

(e) The period within which the shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period. After the expiration of the option period, no further options shall be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. Options granted during the life of the Share Option Scheme shall continue to be exercisable in accordance with their terms of grant after the end of the 10-year period.

(f) The minimum period for which an option must be held before it can be exercised

The board of directors at its discretion, may specify the offer of grant of option the minimum period for which an option must be held before it can be exercised.

(g) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

A consideration of HK$1.00 is payable to the Company by the eligible person for each acceptance of grant of option(s) and such consideration is not refundable.

37. SHARE OPTION SCHEME *(Continued)*

(h) The basis of determining the exercise price

The Subscription Price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

(i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a Business Day;

(ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the Date of Grant; and

(iii) the nominal value of the Shares.

(i) The remaining life of the Scheme

The Scheme shall be valid and effective for a period of 10 years commencing on the adoption date on 18 December 2017.

No share option has been granted since the adoption of the Share Option Scheme and there was no share option outstanding as at 31 December 2017 and 2016.

38. 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:

	2017 **HK$'000**	2016 HK$'000
Acquisition of construction in progress	**–**	4,192

39. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere in the consolidated financial statement, the Group had also entered into the following material related party transactions during the year:

(a) Compensation of key management personnel

The directors of the Company are identified as key management members of the Group and their compensation during the years are set out in notes 13 and 14.

(b) Personal guaranteed by the Group to key management personnel

Certain banking facilities available to a subsidiary of the Group were secured by one of the Controlling shareholders of the Group for the year ended 31 December 2017 and 2016.

40. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure the obligations under finance leases granted to the Group or borrowings of the Group as follow:

	2017	2016
	HK$'000	HK$'000
Property, plant and equipment	**79,874**	48,910
Available-for-sale financial assets	**5,881**	5,761
Other financial assets	**10,088**	9,854
Pledged bank deposits	**25,676**	16,966
	121,519	81,491

41. NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2017 and 2016, additions to property, plant and equipment of approximately HK$7,453,000 and HK$364,000 were made under the finance leases which of approximately HK$1,440,000 and HK$84,000 have made by the Group as down payment.

41. NON-CASH TRANSACTIONS *(Continued)*

(b) Changes in liabilities arising from financing activities

	Bank Borrowings HK$'000	Obligation under finances lease HK$'000	Total HK$'000
As at 1 January 2017	24,479	2,919	27,398
Proceedings from bank borrowings	31,844	–	31,844
Repayment of obligations under finance leases	–	(2,198)	(2,198)
Finance costs	1,724	1,353	3,077
Non-cash items:			
Interest paid	(1,724)	(1,353)	(3,077)
Acquisition of property, plant and equipment	–	5,747	5,747
Foreign exchange movement	1,509	1	1,510
At 31 December 2017	**57,832**	**6,469**	**64,301**

42. LITIGATION

During the year ended 31 December 2016, Mr. Lee brought two legal actions against Zioncom (Hong Kong) Technology Limited, Mr. Kim Byung Kwon and Mr. Kim Jun Yeob in relation to, inter alia, the transfer of his 2,000,000 shares of the Zioncom (Hong Kong) Technology Limited to Mr. Lee Man Kyu ("Case I") and inspection of register of members and the index of the names of members of Zioncom (Hong Kong) Technology Limited ("Requested Documents") ("Case II"). The Case I was subsequently discontinued by Mr. Lee Man Kyu on 19 September 2016 and all obligations under the Case II were fulfilled after Mr. Lee Man Kyu was allowed to inspect the Requested Documents on 19 July 2016. On 14 November 2016, both Case I and Case II were fully and finally settled after execution of deeds of settlement between Mr. Lee Man Kyu and each of Zioncom (Hong Kong) Technology Limited, Mr. Kim Byung Kwon and Mr. Kim Jun Yeob.

43. EVENTS AFTER THE REPORTING PERIOD

(a) The Company's shares were listed on GEM of the Stock Exchange on 18 January 2018 and 198,000,000 ordinary shares were issued at HK$0.43 per offer share on 17 January 2018 (the "Share Offer") in connection with the Listing as detailed in the Prospectus and the announcement of the Company dated 17 January 2018, among others, in relation to the allotment results of the Share Offer. After deducting related listing expenses, the net proceeds raised from of the Share Offer were approximately HK$43,600,000.

(b) Pursuant to the written resolutions passed on 18 December 2017, the directors were authorised to capitalize a sum of approximately HK$4,611,420 from the amount standing to the credit of the share premium account of the Company and applied such amount to pay up in full at par of 461,142,000 ordinary shares of the Company. The capitalisation issue was completed on 17 January 2018.

44. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2018.

Three Years' Financial Summary

RESULTS

A summary of the results and of the assets and liabilities of the Group for the last three financial years, as extracted from the published audited consolidated financial statements and the Prospectus is set out below:

	For the year ended 31 December		
	2017	2016	2015
	HK$'000	HK$'000	HK$'000
Turnover	**578,358**	512,192	537,703
Profit before tax	**3,906**	16,793	17,141
Taxation	**(3,186)**	(2,925)	(6,695)
Profit for the year	**720**	13,868	10,446
Profit attributable to owners of the Company	**720**	13,868	10,446

ASSETS AND LIABILITIES

	At 31 December		
	2017	2016	2015
	HK$'000	HK$'000	HK$'000
Total assets	**513,034**	366,427	359,209
Total liabilities	**(369,986)**	(234,016)	(249,409)
Total equity attributable to owners of the Company	**143,048**	132,411	109,800

The summary above does not form part of the audited consolidated financial statements.

No consolidated financial statements of the Group for the years ended 31 December 2016 and 2015 have been published.

The financial information for the years ended 31 December 2016 and 2015 were extracted from the Prospectus of the Company dated 28 December 2017. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in Note 4 to the consolidated financial statements.