



## **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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.*



# Content

<b>Corporate Information</b>	3
<b>Chairman's Statement</b>	5
<b>Management Discussion and Analysis</b>	6
<b>Report of the Directors</b>	14
<b>Corporate Governance Report</b>	28
<b>Environmental, Social and Governance Report</b>	41
<b>Biographies of Directors and Senior Management</b>	62
<b>Independent Auditors' Report</b>	65
<b>Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	71
<b>Consolidated Statement of Financial Position</b>	73
<b>Consolidated Statement of Changes in Equity</b>	75
<b>Consolidated Statement of Cash Flows</b>	76
<b>Notes to the Consolidated Financial Statements</b>	78
<b>Five Years' Financial Summary</b>	158

# 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)  
Mr. Zhao Xiuming (趙修明先生)

### Independent Non-Executive Directors:

Mr. Shin Dongmin (申東旻先生)  
Mr. Kwong Chun Man (鄺振文先生)  
Mr. Lee Tsung Wah, Jonathan (李頌華先生)  
(appointed with effect from 31 March 2020)

## COMPANY SECRETARY

Mr. Kwok Kai Hung (郭啟雄先生)

## AUTHORISED REPRESENTATIVES

Mr. Kim Jun Yeob (金俊燁先生)  
Mr. Koo Ja Chun (具滋千先生)

## COMPLIANCE OFFICER

Mr. Kim Jun Yeob (金俊燁先生)

## AUDIT COMMITTEE

Mr. Kwong Chun Man (鄺振文先生) (*Chairman*)  
Mr. Shin Dongmin (申東旻先生)  
Mr. Lee Tsung Wah, Jonathan (李頌華先生)  
(appointed with effect from 31 March 2020)

## REMUNERATION COMMITTEE

Mr. Shin Dongmin (申東旻先生) (*Chairman*)  
Mr. Kim Jun Yeob (金俊燁先生)  
Mr. Kwong Chun Man (鄺振文先生)  
Mr. Lee Tsung Wah, Jonathan (李頌華先生)  
(appointed with effect from 31 March 2020)

## NOMINATION COMMITTEE

Mr. Shin Dongmin (申東旻先生) (*Chairman*)  
Mr. Koo Ja Chun (具滋千先生)  
Mr. Kwong Chun Man (鄺振文先生)  
Mr. Lee Tsung Wah, Jonathan (李頌華先生)  
(appointed with effect from 31 March 2020)

# Corporate Information

## COMPLIANCE COMMITTEE

Mr. Lee Tsung Wah, Jonathan (李頌華先生) (*Chairman*)  
(appointed as committee chairman with effect  
from 31 March 2020)

Mr. Kim Jun Yeob (金俊燁先生)

Mr. Shin Dongmin (申東旼先生)

Mr. Kwong Chun Man (鄺振文先生)

## REGISTERED OFFICE IN THE CAYMAN ISLANDS

P.O. Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman  
KY1-1108  
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office A, 9/F, Kings Wing Plaza 2  
No. 1 On Kwan Street, Shatin,  
New Territories, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited  
(formerly known as Estera Trust (Cayman) Limited)  
P.O. Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman  
KY1-1108  
Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
17M Floor  
Hopewell Centre, 183 Queen's Road East  
Wanchai, Hong Kong

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking  
Corporation Limited

## AUDITORS

HLB Hodgson Impey Cheng Limited  
31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central, Hong Kong

## COMPLIANCE ADVISER

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

## STOCK CODE

8287

## COMPANY'S WEBSITE

[www.zioncom.net](http://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 annual report of the Group for the year ended 31 December 2020.

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.

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.

We expect the global markets to be full of challenges in the near future in the midst of the trade war between the United States and the PRC with a possible trade truce, and the COVID-19 pandemic, affecting both capital markets and economic growth worldwide. We will continue to adopt and maintain cautious but proactive measures to manage the Group's investment portfolio.

Although we recorded a significant net loss of approximately HK\$8.2 million for the year ended 31 December 2020, our management team believes that the loss is temporary and we are confident that our Group will perform well in the coming years and create value and returns for its shareholders.

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 2020, 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, 21 April 2021

# 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 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 the listing of the Company’s shares on GEM of The Stock Exchange of Hong Kong Limited on 18 January 2018 (the “Listing”) was an important milestone for the Group, which improved its capital strength and increased the Group’s resources for market penetration, production capacity and research and development.

The Group recorded an audited net loss of approximately HK\$8.2 million attributable to equity holders of the Company for the year ended 31 December 2020.

The Group sold its branded products mainly on a wholesale basis through its distributors covering many countries and regions including Korea, the PRC, Vietnam, Hong Kong, Taiwan and Malaysia, etc. In addition, the subsidiaries of the Group in Taiwan and Vietnam have strong sales team working closely with its distributors. The revenues contributed from the Group’s Taiwan and Vietnam operations were approximately HK\$34.5 million and HK\$44.5 million respectively for the year ended 31 December 2020, which in aggregate contributed approximately 13.0% 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 60.9% of the Group’s total revenue for the year ended 31 December 2020, approximately 72.5% of the revenue was generated from the Group’s largest market, Korea, for the year ended 31 December 2020. The revenue generated from Korea increased by approximately 14.4%. 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 from the Group’s customers as well as the Group’s business operations and financial performance.

## OUTLOOK

The Group’s business objective is to strengthen the Group’s position as a networking products manufacturer specialising in the design and development of wireless networking products by enhancing recognition of the Group’s own brand and increasing the Group’s profitability. In support of the Group’s business objective, the Group will continue to implement the business strategies of promoting 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, and enhancing its overall competitiveness and market share.

In 2021, the Internet of Things (IoT) will evolve into Intelligence of Things, with innovations in tools such as deep learning and computer vision bringing about a total upgrade for IoT software and hardware application. Taking into account industry dynamic, economic stimulus and remote access demands, IoT is expected to see large scale adoption in smart manufacturing and smart healthcare.

# Management Discussion and Analysis

The current business environment remains overshadowed by the United States and PRC trade tensions with a possible trade truce and the recent COVID-19 pandemic in the world. The global COVID-19 pandemic constitutes an extraordinary event, a public health risk to all countries through international spread, and continue to require a coordinated international response. The speed of recovery and the extent of any long term impact remain uncertain but will depend on the duration and severity of the outbreak and associated containment measures. The Group is cautiously optimistic that the economic impact due to the COVID-19 pandemic will be mitigated as a result of anti-epidemic measures implemented by the various governments and the on-going vaccination schemes. Despite this, the Group will continue to pursue and maintain a conservative but proactive investment approach, focusing on product innovation, market share gain, geographical expansion and operational excellence, so as to bring better returns for the shareholders and ensure the Company stays competitive in the market.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2020, the Group recorded revenue of approximately HK\$607.7 million (2019: HK\$573.1 million), and achieved an increase of HK\$34.6 million or 6.0%. Such increase was contributed by increased sales from networking products. Set out below is the revenue breakdown of the Group for the years ended 31 December 2020 and 2019:

	For the year ended 31 December			
	2020		2019	
Type of goods or service	HK\$'000	%	HK\$'000	%
<b>Goods transferred at a point in time</b>				
Sales of router products	475,550	78.2	460,876	80.4
Sales of switch products	61,687	10.2	50,813	8.9
Sales of other networking products	46,219	7.6	21,936	3.8
Sales of non-networking products	24,252	4.0	39,512	6.9
<b>Total revenue from contracts with customers</b>	<b>607,708</b>	<b>100.0</b>	<b>573,137</b>	<b>100.0</b>

The revenue from router products increased by approximately 3.2% for the year ended 31 December 2020 as compared with that of the previous year. The increase was mainly due to the increase in sales orders from the Group's customers on 4G LTE routers during the year ended 31 December 2020. The revenue from sales in switch and other networking products increased by approximately 21.4% and 110.7% respectively. The Group will continue to put more resources to expand the emerging markets in Asia and other areas with good potential in order to enhance the Group's revenue base.



# Management Discussion and Analysis

## **Cost of sales and gross profit**

The Group's gross profit increased by approximately 3.8% from approximately HK\$89.1 million for the year ended 31 December 2019 to approximately HK\$92.5 million for the year ended 31 December 2020. The Group's cost of sales comprises costs of materials, direct labour, manufacturing overhead, subcontracting services fee and other overheads. The cost of sales increased by approximately 6.4% from approximately HK\$484.1 million for the year ended 31 December 2019 to approximately HK\$515.2 million for the year ended 31 December 2020.

The gross profit margin remained stable at approximately 15.2% for the year ended 31 December 2020 (2019: approximately 15.5%).

## **Other income**

The other income of the Group increased by HK\$4.6 million or approximately 49.5% to approximately HK\$13.9 million for the year ended 31 December 2020 from approximately HK\$9.3 million for the year ended 31 December 2019. It was mainly attributable to a decrease of HK\$4.2 million in government grant received in 2020.

## **Selling and distribution expenses**

Selling and distribution expenses increased by approximately 6.0% to approximately HK\$22.9 million for the year ended 31 December 2020 from approximately HK\$21.6 million for the year ended 31 December 2019, which was in line with the increase in revenue.

## **Administrative expenses**

The administrative expenses of the Group for the year ended 31 December 2020 amounted to approximately HK\$45.7 million, representing a decrease of approximately HK\$9.5 million as compared with approximately HK\$55.2 million for the year ended 31 December 2019. The decrease was mainly attributable to a decrease of HK\$6.7 million on other staff costs. In addition there was a decrease of legal costs in 2020 as compared with 2019.

## **Research and development expenses**

Research and development expenses decreased by HK\$4.9 million or approximately 14.9% to approximately HK\$27.9 million for the year ended 31 December 2020 from approximately HK\$32.8 million for the year ended 31 December 2019.

# Management Discussion and Analysis

## Finance costs

Finance costs decreased by approximately 10.3% to approximately HK\$3.5 million for the year ended 31 December 2020 from approximately HK\$3.9 million for the year ended 31 December 2019. Such drop was mainly due to decrease of interest expenses on lease liabilities.

## Loss for the year

As a result of the foregoing, the loss for the year ended 31 December 2020 amounted to approximately HK\$8.2 million, compared with the loss of approximately HK\$26.1 million for the year ended 31 December 2019. The decrease of loss for the year was aggregated from the decrease of expenses stated above.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, total borrowings of the Group amounted to approximately HK\$85.8 million (2019: approximately HK\$74.5 million) which included 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 2020, the cash and bank balances and pledged bank deposit of the Group amounted to approximately HK\$34.9 million (2019: approximately HK\$51.5 million).

As at 31 December 2020, debt to equity ratio of the Group was 38.9% (2019: 22.4%). Debt to equity ratio is calculated by dividing the net debt, which is defined to include bank borrowings and lease liabilities 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 2020 was approximately 1.0 (2019: approximately 1.0).

As at 31 December 2020, gearing ratio of the Group was 60.0% (2019: 45.2%). Gearing ratio is calculated based on total debt for the financial year divided by total equity as of the end of the financial year.

As at 31 December 2020, cash and bank balances of the Group amounted to approximately HK\$9.5 million (2019: approximately HK\$25.9 million).

As at 31 December 2020, the Group's net current assets amounted to approximately HK\$5.3 million (2019: approximately HK\$2.6 million).

# Management Discussion and Analysis

## CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: Nil).

## CAPITAL COMMITMENTS

At the end of each reporting period, the Group had the following capital commitments:

Authorised and contracted for capital contributions payable to an equity investment

2020 HK\$'000	2019 HK\$'000
594	557

## PLEDGE OF ASSETS

As at 31 December 2020, pledged bank deposits of approximately HK\$25.5 million (2019: approximately HK\$25.6 million), property, plant and equipment with a carrying value of approximately HK\$97.4 million (2019: approximately HK\$92.7 million), right-of-use assets with a carrying value of approximately HK\$8.8 million (2019: Nil), financial assets at fair value through profit or loss with a carrying value of approximately HK\$10.8 million (2019: approximately HK\$16.4 million) and inventories of approximately HK\$29.3 million (2019: Nil) of the Group were pledged to secure the Group's bank borrowings.

## 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, Renminbi and Vietnamese Dong. 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 2020, 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.

# Management Discussion and Analysis

## SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2020, there were financial assets at fair value through profit or loss held by the Group.

### Financial assets at fair value through profit or loss

As at 31 December 2020, the Group recorded financial assets of approximately HK\$11.4 million (2019: approximately HK\$17.0 million). The table below sets forth a breakdown of the Group's financial assets at fair value through profit or loss as at the dates indicated:

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Key management personnel life insurance policies	10,794	10,568
Bonds	–	5,835
Club membership	618	579
Total	11,412	16,982

The bonds classified as financial assets are stated at fair value. The fair values of the Group's investments in bonds are determined by reference to the quoted price from the financial institution. For the year ended 31 December 2020, the Group invested in HSBC Global Investment Funds – Global High Income Bond (the "Bond") which was authorised by the Securities and Futures Commission. For details, please refer to previously issued annual reports. The Group disposed the Bond during the year.

The club membership represented the indefinite useful life golf club membership. The club membership, classified as financial assets at fair value through profit or loss, is stated at fair value.

The Group purchased certain life insurance policies (the "Policies") for certain Directors in year 2010 and 2012. Under the Policies, the Company is the beneficiary and policy holder and the total insured sum is approximately US\$3.8 million (equivalent to approximately HK\$29.1 million).

The Group's financial assets at fair value through profit or loss decreased by approximately HK\$5.6 million to approximately HK\$11.4 million as at 31 December 2020 from approximately HK\$17.0 million as at 31 December 2019. The decrease was mainly due to disposal of the Bond of approximately HK\$5.8 million. The loss on disposal of financial assets at fair value through profit or loss was recognised in profit or loss during the year.

The Group has established a financial management policy, pursuant to which the Group 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 the Group obtains loans. For the previous years, the Group purchased investment products primarily with guaranteed investment return from the banks that the Group intended to borrow from in order to facilitate the process of granting loans to the Group.

# Management Discussion and Analysis

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

As at the date of this 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 of the Company dated 28 December 2017 (the "Prospectus") and the composite document dated 20 September 2019 in relation to the mandatory unconditioned cash offer to acquire all the issued shares of Company.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

During the year ended 31 December 2020, the Group did not have any material acquisitions and disposals of its subsidiaries and affiliated companies.

## **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 2020, the Group has concentration of credit risk as 20.6% and 66.8% of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. 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 are 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.

## **COMPARISON OF BUSINESS PLAN WITH ACTUAL BUSINESS PROGRESS**

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress up to 31 December 2020.

# Management Discussion and Analysis

## **Business implementation plan as set out in Prospectus**

## **Actual progress up to 31 December 2020**

### ***Increasing the market penetration of branded products in emerging markets in Asia and other markets with good potential***

- To maintain the four salespersons hired for exploring emerging markets in Asia
  - To organise overseas promotion campaign and to place advertisements in both printed and online media
- The Group has maintained 2 salespersons in Taiwan, 2 salespersons in Malaysia and 1 salesperson in the Philippines for exploring emerging markets in Asia
  - The Group has organised overseas promotion campaigns and placed advertisements in both printed and online media

### ***Introducing automation system to Shajing production facilities for lowering production costs***

- To acquire six solder pasting inspection machines, twelve automatic insertion machines, thirteen automatic testing machines and one manufacturing execution system
- The Group has acquired 1 solder pasting inspection machine and 5 automatic testing machines
  - For the remaining proposed acquisition of machineries, the Company is currently obtaining quotations and implementing the selection procedure

### ***Enlarging research and development capacity***

- To maintain the six software developers hired for enhancing software research and development capacity
  - To maintain the three hardware developers hired for enhancing hardware research and development capacity
- The Group has maintained the 6 software developers hired for enhancing software research and development capacity
  - The Group has maintained the 3 hardware developers hired for enhancing research and development capacity

### ***Reducing gearing ratio by repaying finance lease facilities***

- To reduce gearing ratio by repaying finance lease facilities
- The Group has repaid approximately HK\$0.9 million finance lease liabilities

## **USE OF PROCEEDS**

As of the date of this report, all of the net proceeds from the share offer after deducting underwriting commission and other expenses in relation thereto, amounting to approximately HK\$42.5 million, had been utilised. For more information, please refer to the Company's announcements dated 29 March 2019 and 18 April 2019 and the Company's annual report for the year ended 31 December 2018.

# 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 2020.

## 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. From the Listing Date and as at the date of this annual 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 2020.

## **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 2020 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 6 to 13 of this annual report. In addition, various financial risks have been disclosed in note 5 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 2020 using financial performance indicators is provided in the section headed "Five Years' Financial Summary" on page 158 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 41 to 61 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 of newly enacted laws and regulations affecting the operations of the Group. Save as disclosed in this report, 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 2020.



# Report of the Directors

## **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 2020, 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 2020, 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 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 881 employees (including Directors) as at 31 December 2020 (2019: 924 employees) in Hong Kong, the PRC, Taiwan, Malaysia 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 23 to 24 of this 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 2020 and the financial positions of the Company and the Group as at 31 December 2020 are set forth in the consolidated financial statements on page 71 to 157 of this report.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

## FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 158 of this report. This summary does not form part of the consolidated financial statements in this report.

## RESERVES

Movements in reserves of the Group during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 75 of this report.

## DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had distributable reserves of approximately HK\$19,350,000 available for distribution to shareholders of the Company (2019: approximately HK\$31,492,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year ended 31 December 2020 are set out in note 16 to the consolidated financial statements in this report.

## SHARE CAPITAL

Details of movements in share capital of the Company during the year ended 31 December 2020 are set out in the paragraph headed "Share Structure" above and note 31 to the consolidated financial statements in this report.



# Report of the Directors

## **DIRECTORS**

The Directors during the year ended 31 December 2020 and up to the date of this report were:

### **Executive Directors**

Mr. Kim Byung Kwon (*Chairman*)  
Mr. Kim Jun Yeob (*Chief Financial Officer*)  
Mr. Koo Ja Chun (*Chief Executive Officer*)  
Mr. Xiao Jingen  
Mr. Zhao Xiuming

### **Independent Non-Executive Directors**

Mr. Shin Dongmin  
Mr. Kwong Chun Man  
Mr. Lee Tsung Wah, Jonathan (appointed with effect from 31 March 2020)

Mr. Lee Tsung Wah, Jonathan retired at the annual general meeting held on 26 June 2020 and being eligible, offered himself for re-election as an independent non-executive Director and was duly re-elected.

## **DIRECTORS' SERVICE CONTRACTS**

Each of the executive Directors has entered into a service contract with the Company for a term of three years, 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 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 62 to 64 of this report.

# Report of the Directors

## **DIRECTORS' REMUNERATIONS**

Details of the remunerations of the Directors during the year ended 31 December 2020 are set out in note 12 to the consolidated financial statements in this 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 report, at no time during the year ended 31 December 2020 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 2020.

## **EQUITY-LINKED AGREEMENTS**

Save as disclosed in the paragraph headed "Share Option Scheme" in this 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 2020.

## **MAJOR CUSTOMERS AND SUPPLIERS**

Sales to the Group's five largest customers accounted for approximately 72.1% and sales to the Group's largest customer amounted to approximately 60.9% of the total revenue for the year ended 31 December 2020, respectively. Purchases from the Group's five largest suppliers accounted for approximately 32.2% and purchases from the Group's largest supplier amounted to approximately 12.0% of the total purchases for the year ended 31 December 2020.

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 2020.



# Report of the Directors

## **RELATED PARTY TRANSACTIONS**

Related party transactions of the Group during the year ended 31 December 2020 are disclosed in note 39 to the consolidated financial statements in this 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**

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 2020.

## **DIVIDENDS**

The Board do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: 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 2020.

## **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 2020.

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 2020.

# Report of the Directors

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

As at the date of this 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

Name of Directors	Capacity	Number of shares or underlying shares held			Percentage of issued share capital
		Ordinary Shares	Share options	Total	
Mr. Kim Byung Kwon	Interest of controlled corporation (Note)	198,000,000 ordinary shares	–	198,000,000 ordinary shares	30%

Note:

These 198,000,000 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 Jun Yeob	Lincats	Beneficial owner	182	9.1%
Mr. Koo Ja Chun	Lincats	Beneficial owner	182	9.1%

Save as disclosed above, as at the date of this 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.

# Report of the Directors

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

As at the date of this 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
Absolute Skill Holdings Limited	Long position	Beneficial owner	296,980,000	44.997%
Lincats	Long position	Beneficial owner	198,000,000	30%

Save as disclosed above, as at the date of this 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.

## DISCLOSURE OF INFORMATION ON DIRECTORS PURSUANT TO RULE 17.50A(1) OF THE GEM LISTING RULES

The updated information on Directors discloseable under Rule 17.50A(1) of the GEM Listing Rules as follows:

### Resignation and Appointment of Independent Non-Executive Director and Change in Chairman of the Compliance Committee

Effective on 1 January 2020, Mr. Ko Ming Tung, Edward ("Mr. Ko") tendered his resignation as an independent non-executive Director, the chairman of the compliance committee of the Company (the "Compliance Committee"), and a member of each of the audit committee (the "Audit Committee"), Remuneration Committee and nomination committee (the "Nomination Committee") of the Company.

Following the resignation of Mr. Ko, the Company only has two independent non-executive Directors, thus the number of the independent non-executive Directors falls below the minimum number required under Rule 5.05(1) of the GEM Listing Rules. As a result of the insufficient number of independent non-executive Directors, the Company has also failed to comply with the requirements set out in Rule 5.28 of the GEM Listing Rules with regard to the minimum number of members.

Mr. Lee Tsung Wah, Jonathan was appointed on 31 March 2020 after trading hours to fill the casual vacancy. Mr. Lee was subject to election by the shareholders at the first general meeting after his appointment and was duly re-elected. Mr. Lee was also appointed as the chairman of the Compliance Committee and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 31 March 2020 after trading hours.

# Report of the Directors

Following the appointment of Mr. Lee as an independent non-executive Director, the Board comprises eight Directors including five executive Directors and three independent non-executive Directors. As the Board comprises at least one-third of the directors who are independent non-executive Directors, the Company is in compliance with the requirement of the minimum number of independent non-executive directors prescribed under Rule 5.05A of the GEM Listing Rules with effect from 31 March 2020 after trading hours.

Please refer to the announcements of the Company dated 1 January 2020, 31 March 2020 and 26 June 2020, and circular dated 20 May 2020 for more information.

## 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.



# Report of the Directors

## 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 report and there was no share option outstanding as at 31 December 2020.

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.

# Report of the Directors

## INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2020, 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 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 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 2020.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2020, 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 28 to 40 of this annual report.

# Report of the Directors

## 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 during the year ended 31 December 2020 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 or sustain through their own fraud or dishonesty. Such permitted indemnity provision has been in force throughout the year ended 31 December 2020. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

## SUPPLEMENTAL INFORMATION

### Adoption of Chinese Name and Adoption of Chinese Stock Short Name

With effect from 23 December 2019, the Company adopted the Chinese name of “百家淘客股份有限公司” as the dual foreign name of the Company and with effect from 9:00 a.m. on 9 January 2020, the Company adopted the Chinese stock short name of “百家淘客”. The English stock short name of the Company for trading in the Shares and the stock code of the Company on the Stock Exchange will remain unchanged as “ZIONCOM” and “8287”, respectively.

Please refer to the announcements of the Company dated 23 October 2019, 25 October 2019, 14 November 2019 and 6 January 2020, and the circular of the Company dated 28 October 2019 for more information.

### Memorandum of Understanding

On 31 December 2020 (after trading hours), Zioncom (Hong Kong) Technology Limited (“Zioncom Hong Kong”), an indirect wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding (“MOU”) with an independent third party purchaser pursuant to which Zioncom Hong Kong proposed to sell approximately 22.5% equity interest in Công Ty TNHH Zioncom (Vietnam) (Zioncom (Vietnam) Co., Ltd.\*) (“Zioncom Vietnam”). As at the date hereof, Zioncom Hong Kong owns 72.37% of Zioncom Vietnam. The MOU remains valid and effective until the execution of the Formal Agreement or terminated by the parties in writing.

Please refer to the announcements of the Company dated 31 December 2020 and 1 February 2021 for more information.

\* For identification purpose

# Report of the Directors

## **COVID-19 Coronavirus Outbreak in the Hong Kong office**

At the start of March 2021, a staff member at the office of Zioncom Hong Kong was infected with COVID-19. The office of Zioncom Hong Kong was closed and its operations were suspended with all its staff quarantined for over a week in accordance with Sections 22 and 23 of the Prevention and Control of Disease Regulation (Cap. 599A of the Laws of Hong Kong) which has affected the audit work for the audited annual result of the Group for the year ended 31 December 2020.

## **AUDITORS**

The consolidated financial statements for the year ended 31 December 2020 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**

Up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the year ended 31 December 2020.

On behalf of the Board

**Mr. Kim Byung Kwon**  
*Chairman and Executive Director*

Hong Kong, 21 April 2021

# 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 were listed on GEM of the Stock Exchange on 18 January 2018 (the “Listing”). During the period from the Listing to 31 December 2020, the Company has complied with all the applicable code provisions of the Code, save and except those deviations listed in the section titled “Compliance Committee”.

## 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 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.

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.

# Corporate Governance Report

## 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 for the year ended 31 December 2020 and up to the date of this report.

## BOARD OF DIRECTORS

The Directors who held office during the year ended 31 December 2020 and as at the date of this report are as follows:

### Board of Directors

#### **Executive Directors**

Mr. Kim Byung Kwon (*Chairman*)  
Mr. Kim Jun Yeob (*Chief Financial Officer*)  
Mr. Koo Ja Chun (*Chief Executive Officer*)  
Mr. Xiao Jingen  
Mr. Zhao Xiuming

#### **Independent Non-Executive Directors**

Mr. Shin Dongmin  
Mr. Kwong Chun Man  
Mr. Lee Tsung Wah, Jonathan (appointed with effect from 31 March 2020)

The brief biographic details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 62 to 64 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 for the year ended 31 December 2020 and up to the date of this report, save and except when Mr. Ko Ming Tung, Edward resigned as independent non-executive Directors (please refer to the Company's announcements dated 1 January 2020 and 31 March 2020). 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.



# Corporate Governance Report

## **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.

# Corporate Governance Report

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 year ended 31 December 2020 are summarised as follows:

	<b>Board meeting</b>	<b>Audit Committee meeting</b>	<b>Remuneration Committee meeting</b>	<b>Nomination Committee meeting</b>	<b>Compliance Committee meeting</b>	<b>General meeting</b>
<b>Executive Directors</b>						
Mr. Kim Byung Kwon	0/6	N/A	N/A	N/A	N/A	0/1
Mr. Kim Jun Yeob	6/6	N/A	2/2	N/A	4/4	1/1
Mr. Koo Ja Chun	4/6	N/A	N/A	2/2	N/A	1/1
Mr. Xiao Jingen	3/6	N/A	N/A	N/A	N/A	0/1
Mr. Zhao Xiuming	3/6	N/A	N/A	N/A	N/A	0/1
<b>Independent Non-executive Directors</b>						
Mr. Shin Dongmin	5/6	5/5	1/2	1/2	3/4	1/1
Mr. Kwong Chun Man	6/6	5/5	2/2	2/2	4/4	1/1
Mr. Lee Tsung Wah, Jonathan (appointed with effect from 31 March 2020)	5/5	4/4	1/1	1/1	3/3	1/1

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



# Corporate Governance Report

The Audit Committee currently consists of three members, namely Mr. Kwong Chun Man (Chairman), Mr. Shin Dongmin and Mr. Lee Tsung Wah, Jonathan (appointed with effect on 31 March 2020), all being independent non-executive Directors. The Group's final results for the year ended 31 December 2020 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 five meetings for the year ended 31 December 2020. 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 2020, recommended to the Board to re-appoint HLB Hodgson Impey Cheng Limited as the auditors of the Group for the year ending 31 December 2021, subject to approval by the shareholders of the Company at the forthcoming AGM and reviewed the consolidated financial statements and annual results announcement of the Group for the year ended 31 December 2020. 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 four members, namely, Mr. Shin Dongmin (Chairman), Mr. Kwong Chun Man and Mr. Lee Tsung Wah, Jonathan (appointed with effect on 31 March 2020), all 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 two meetings for the year ended 31 December 2020. Details of the attendance of the Remuneration Committee meeting are set out above.

At the meetings, 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.

# Corporate Governance Report

## **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 four members, namely, Mr. Shin Dongmin (Chairman) and Mr. Kwong Chun Man and Mr. Lee Tsung Wah, Jonathan (appointed with effect on 31 March 2020), all of whom are independent non-executive Directors and Mr. Koo Ja Chun, an executive Director. The majority of the members of the Nomination Committee are independent non-executive Directors.

The Nomination Committee held two meetings for the year ended 31 December 2020. Details of the attendance of the Nomination Committee meeting are set out above.

At the meetings, 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 with written terms of reference amended and adopted by the Company pursuant to the Board resolution passed on 28 December 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 four members, namely Mr. Lee Tsung Wah, Jonathan (Chairman) (appointed with effect on 31 March 2020), Mr. Shin Dongmin and Mr. Kwong Chun Man, all of whom are independent non-executive Directors and Mr. Kim Jun Yeob, an executive Director.

The Compliance Committee held four meetings for the year ended 31 December 2020. Details of the attendance of the Compliance Committee meeting are set out above.

# Corporate Governance Report

The major works performed by the Compliance Committee for the year ended 31 December 2020 include the following:

- reviewed the Company's compliance with the Code;
- reviewed and approved the Company's policies and procedures on compliance with legal and regulatory requirements; and
- prepared and submitted summary reports to the Board on the overall compliance performance and corporate governance practices of the Company.

The Compliance Committee reported that it had duly performed its duties relating to the corporate governance functions and save as below, it was not aware of any material non-compliance incidents during the year ended 31 December 2020.

Code Provision A.2.7 of the Code provides that the chairman of the Board (the "Chairman") should at least annually hold meetings with the independent non-executive directors without the presence of other directors. During the year ended 31 December 2020, a formal meeting could not be arranged between the Chairman and all the independent non-executive Directors without the executive Directors present due to their tight schedules. Nevertheless the Chairman could be contacted by email or phone to discuss any potential concerns and/or questions that the independent non-executive Directors might have and would arrange to set up follow-up meetings, whenever necessary.

Code Provision C.1.2 of the Code provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 5.01 and Chapter 17 of the GEM Listing Rules. Although regular monthly updates to the members of the Board were not arranged, the management provides information and updates to the members of the Board as and when appropriate. The management ensures that all members of the Board properly receives adequate, complete and reliable information in a timely manner.

Code Provision C.2.5 of the Code provides that the issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report. The Board reviewed the need for setting up an internal audit function during the year ended 31 December 2020 and considered that there was no immediate need after taking into account the Group's current circumstances, such as the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for the internal control of the Group and for reviewing its effectiveness.

Code Provision E.1.2 of the Code provides that the Chairman should attend the annual general meeting (the "AGM"). However, Mr. Kim Byung Kwon, being the Chairman, was unable to attend the AGM held on 26 June 2020 due to his other business activities and unexpected engagement. Mr. Kim invited Mr. Kim Jun Yeob, an executive Director to chair and answer questions from the Shareholders at the AGM.

# Corporate Governance Report

Code Provision I(f) of the Code provides that disclosure be made in regards to details of non-compliance with Rules 5.05(1) and (2), and 5.05A of the GEM Listing Rules and an explanation of the remedial steps taken to address non-compliance. On 1 January 2020, Mr. Ko Ming Tung, Edward resigned as independent non-executive Director leaving only two independent non-executive Directors which did not meet the requirements pursuant to the above Rules. Mr. Lee Tsung Wah, Jonathan was appointed on 31 March 2020 after trading hours to fill the casual vacancy. Mr. Lee was subject to election by the shareholders at the first general meeting after his appointment and was duly re-elected on 26 June 2020. Please refer to the Company's announcements dated 1 January 2020, 31 March 2020 and 26 June 2020, and circular dated 20 May 2020 for more information.

## 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 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 statutes and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

# 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 2020 and up to the date of this annual report are summarised as follows:

<b>Name of Directors</b>	<b>Type of trainings</b>
Mr. Kim Byung Kwon	A, B
Mr. Kim Jun Yeob	A, B
Mr. Koo Ja Chun	A, B
Mr. Xiao Jingen	A, B
Mr. Zhao Xiuming	A, B
Mr. Shin Dongmin	A, B
Mr. Kwong Chun Man	A, B
Mr. Lee Tsung Wah, Jonathan (appointed with effect from 31 March 2020)	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. Kwok Kai Hung, a member of the Hong Kong Institute of Certified Public Accountants, was appointed as the company secretary of the Company on 8 April 2019.

All Directors had access to the advice and services of the company secretary. The company secretary reported to the Chairman on board governance matters, and was 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 2020, the company secretary has received no less than 15 hours of relevant professional training.

# Corporate Governance Report

## SENIOR MANAGEMENT'S REMUNERATION

The senior management's remuneration payment of the Group during the year ended 31 December 2020 falls within the following bands:

	<b>Number of individuals</b>
HK\$1,000,000 or below	1

## 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 this 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 2020. 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 2020, the fee payable to HLB Hodgson Impey Cheng Limited in respect of its statutory audit services provided to the Group was approximately HK\$1.2 million.

## 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.

As at the date of this annual report, the Group did not have an internal audit function as required by code provision C.2.5 of the Code. The Board reviewed the need for setting up an internal audit function during the year ended 31 December 2020 and considered that there was no immediate need after taking into account the Group's current circumstances, such as the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for the internal control of the Group and for reviewing its effectiveness.



# Corporate Governance Report

Although the Group does not have an internal audit function, the Group is committed to maintaining and upholding good corporate governance practice and internal control systems.

During the year ended 31 December 2020, the Board, through the Audit Committee, conducted a review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with the changing external environment; the extent and frequency of communication with the Board in relation to risk management and internal control review; the scope and quality of management's review on risk management and internal control systems; significant failures or weakness identified and their related implications; financial controls; and states of compliance with the Listing Rules. The risk management and internal control systems are designed to manage rather than eliminate 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 2020, the Group appointed BT Corporate Governance Limited ("BTCGL") formerly Corporate Governance Professionals Limited to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews;
- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems; and
- assist in the write-up of Company policies and procedures.

The results of the independent review and assessment conducted by BTCGL were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by BTCGL to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. Based on the findings and recommendations of BTCGL as well as the comments of the Audit Committee, the Board considered that the internal control and risk management systems of the Group are effective and adequate.

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 have engaged external legal advisers to advise the Group on relevant laws and regulations on an ad-hoc basis.

# Corporate Governance Report

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.

In light of the foregoing, the Directors reviewed the Group's risk management and internal control systems during the year ended 31 December 2020 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](http://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: [jykim@zioncom.net](mailto:jykim@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: Office A, 9/F, Kings Wing Plaza 2, No. 1 On Kwan Street, Shatin, New Territories, Hong Kong  
Tel: (852) 2495 9788  
Fax: (852) 2435 9788  
E-mail: [jykim@zioncom.net](mailto:jykim@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.



# Corporate Governance Report

## **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.

## **POLICY ON PAYMENT OF DIVIDENDS**

The Company adopted a policy on payment of dividends (the “Dividend Policy”) with effect from 31 December 2018 in compliance with E.1.5 of the Code, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to its shareholders after considering the Company’s ability to pay dividends and the dividend amount, which will depend upon, among other things, the Group’s general financial condition, actual and future operations and liquidity position, expected working capital requirements and future expansion plans, restrictions on payment of dividends, general market conditions and so on. The Board has complete discretion on whether to pay a dividend, subject to Shareholders’ approval, where applicable.

The Company shall review and reassess the Dividend Policy and its effectiveness with reference to the business, operation and financial position of the Group from time to time, as appropriate.

## **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 2020.

# Environmental, Social and Governance Report

## ABOUT THE ESG REPORT

Zioncom Holdings Limited (“Zioncom”) is delighted to present its environmental, social and governance report (the “ESG Report”) for the financial year ended 31 December 2020. This ESG Report herein focuses on providing an overview of the environmental and social aspects of the Company and its subsidiaries (the “Group”), and outlines how we seek to continually improve our operational strategy in regard to our environment and society in order to cope with the global standards of sustainability.

The Group believes that prudent management of environmental and social issues is one of the key factors in long-term success under this rapidly changing world. To better understand the risks and opportunities for environmental protection, the Group closely follows with the requirements and expectations of regulatory authorities through an efficient operation management, well-established policies and procedures as well as higher standard of energy efficient measures and waste treatment. The Group believes that our expertise, capabilities and ownership patterns can be part of the solution to some of the challenges the Group is facing.

In order to carry out the Group’s sustainability strategy from top to bottom, the Board of Directors (the “Board”) of the Company has ultimate responsibility for ensuring the effectiveness of the Group’s environmental, social and governance policies. The Board has established certain dedicated teams to manage the environmental, social and governance issues within each business division of the Group. Designated staff has been assigned to enforce and supervise the implementation of the relevant policies.

Zioncom is committed to the implementation of sustainable development and social corporate responsibility. While the Group is actively developing and expanding our business, the Group also takes environmental, social and moral needs into serious consideration so as to strike a balance and unity between the profitability, environmental and social impacts. The Group also pays great attention to stakeholders including but not limited to customers, investors, environment, suppliers, employees and government to establish a good relationship through better understand and respond to their expectations. As a result, the Group will continue to maintain close contact with the stakeholders to meet the expectations and needs of the stakeholders with an aim to continuously improve our environmental, social and governance strategies to create an efficient and diversified business.

During the process of the preparation of this ESG Report, the Group has conducted thorough review and evaluation of the existing Group’s policies and practices. Unless otherwise stated, this Report covers the data and information from its office or factory located in Hong Kong, the PRC, Taiwan, Vietnam and Malaysia.

# Environmental, Social and Governance Report

## REPORT SCOPE AND BOUNDARY

The Report is prepared in accordance with the selected global, local and industrial standards and best practices, which include, but not limited to, the Environmental, Social and Governance Reporting Guide as set out in Appendix 20 of the GEM Listing Rules and any applicable accounting and financial reporting standards in Hong Kong.

In order to comply with the disclosure obligations of “comply or explain” provisions, this Report has outlined the overall Group’s performance in environmental protection, human resources, operating practice and community involvement for the financial year, from 1 January 2020 to 31 December 2020 (“Reporting Period”).

This Report was approved by the board of directors (the “Board”) on 31 March 2021. For details on the Group’s corporate governance, please refer to “Corporate Governance Report” on pages 28 to 40 of the Group’s Annual Report.

## INFORMATION AND FEEDBACK

For details in relation to our financial performance and corporate governance, please visit our website on <https://www.zioncom.net/> and/or see our Annual Report for the year ended 31 December 2020. The Group also treasure your feedback and comments on our sustainability performance, please send your feedback and other sustainability enquires to [fae@zioncom.net](mailto:fae@zioncom.net).

## ESG MANAGEMENT

### Statement of the board

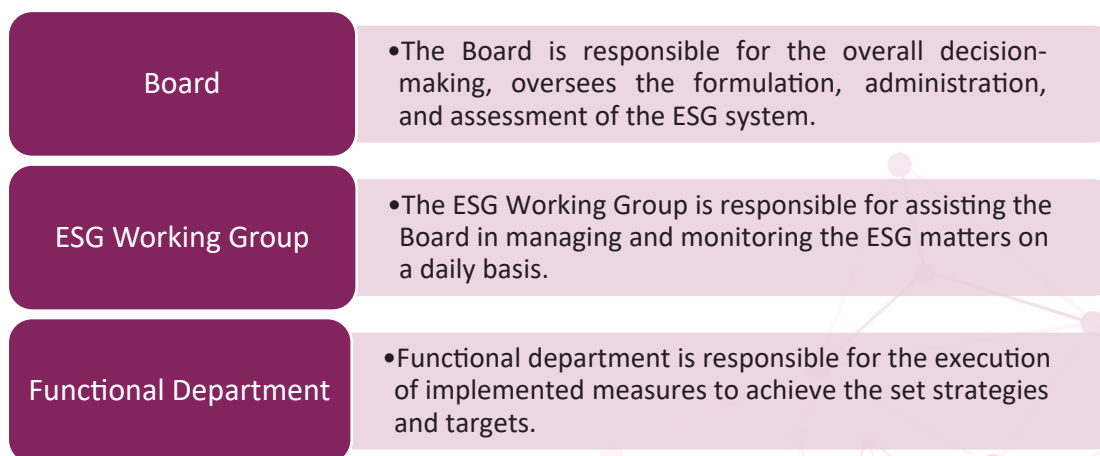
As a responsible corporate citizen, the Group acknowledges that prudent environmental and societal management is of great importance to sustainable economic growth. The Report summarizes the strategy, practice and vision of the Group in respect of issues related to ESG, and conveys the Group’s devotion for sustainability. To address the global concern about climate change, the Group has also considered the climate-related issues and incorporated them into the Report. All potential and actual risks that may have impact on the Group’s businesses will be covered and evaluated in the annual enterprise risk assessment.

# Environmental, Social and Governance Report

The Group has established a governance structure to enhance its management of ESG issues. The Board has an overall responsibility for overseeing the Group's ESG-related risks and opportunities, establishing and adopting the ESG-related strategies and targets of the Group, reviewing the Group's performance annually against the targets, and revising the strategies as appropriate if significant variance from the target is identified. In order to exert governance over the ESG issues, the Group has set up an ESG Working Group that comprises of members from middle to senior management and it serves as a supportive role to the Board in implementing the ESG-related strategies and targets, conducting materiality assessments of ESG issues and prioritise them, and promote the implementation of respective measures. Under the authority of the Board, the ESG Working Group assists in collecting ESG data from respective functional department, monitoring the implementation of the measures, and investigation of deviation from the targets, and liaise with the respective functional department to take prompt rectification actions. The ESG Working Group reports to the Board about the ESG performance of the Group and the effectiveness of the ESG management system on a semi-annual basis.

The Board will continue to review the progress based on the set goals and targets, and improve the Group's sustainable development.

## Governance structure



# Environmental, Social and Governance Report

## OUR STAKEHOLDERS

The Group strongly believes that our stakeholders play a crucial role in sustaining the success of our business. The Group is actively searching for every opportunity to understand and engage our stakeholders to ensure that improvement can be implemented to our products and services.

Stakeholders	Probable Points of Concern	Communication and Responses
HKEX	Compliance with listing rules, and timely and accurate announcements.	Meetings, training, workshops, programs, website updates, and announcements.
Government	Compliance with laws and regulations, preventing tax evasion, and social welfare.	Interaction and visits, government inspections, tax returns and other information.
Investors	Corporate governance, business strategies and performance, and investment returns.	Organizing briefing sessions and seminars, interviews, shareholders' meetings, issue of financial reports or operation reports for investors, media and analysis.
Media & Public	Corporate governance, environmental protection, and human rights.	Issue of newsletters on the Company's website.
Customers	Service quality, service delivery schedule, reasonable prices, service value, and personal data protection.	After-sales services.
Employees	Rights and benefits of employees, compensation, training and development, work hours, and working environment.	Conducting union activities, training, interviews with employees, internal memos, and employee suggestion boxes.
Community	Community environment, employment opportunities, community development, and social welfare.	Developing community activities, employee voluntary activities, and community welfare subsidies and donations.

# Environmental, Social and Governance Report

## MATERIALITY ASSESSMENT

The Group has identified ESG issues that have potential or actual impact on its sustainable development from various sources, such as issues identified in previous ESG reports, internal policies, industry trends and the Sustainability Accounting Standards Board's Materiality Map. The ESG issues have been analysed with reference to an array of factors, including the Group's overall strategy, development, and goals and targets. The Group has conducted a materiality assessment to rate the identified ESG issues that are pertinent to its business and stakeholders, and their respective level of impact. The ESG issues have been identified as follows:

1. Energy and Water Consumption
2. Packaging material used
3. Health and Safety
4. Anti-corruption

## ENVIRONMENTAL

### Overview

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 ISO14001 certification.

For the year ended 31 December 2020, 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 greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

# Environmental, Social and Governance Report

## Emissions

The Group has generated air emissions and greenhouse gas through our direct vehicle emissions. During the reporting year, the Group has 5 motor vehicles in total, the air emission data with regard to vehicle emission is as follows:

<b>Year ended 31 December</b>	<b>2020</b>
NOx emission ( <i>in g</i> )	<b>46,986.29</b>
SOx emission ( <i>in g</i> )	<b>180.42</b>
PM emission ( <i>in g</i> )	<b>4,363.44</b>

## Greenhouse Gas Emission

Greenhouse gases generated from human activities is one of the significant drivers of global warming which affect the living of present and future generation. Therefore, the Group is highly concerned about the importance of monitoring and mitigating the greenhouse gas emission in our operations. As mentioned, the vehicle fuel combustion is the major activities that generate direct emissions from operations. In addition, indirect greenhouse gases emission is mainly resulted from the purchase of electricity within the Group. The total emission of the Group during the financial year ended 31 December 2020 is shown in the following table:

<b>Year ended 31 December</b>	<b>2020</b>
CO <sub>2</sub> emission (Scope 1 only) ( <i>in kg</i> )	<b>28,999.34</b>
CH <sub>4</sub> emission (Scope 1 only) ( <i>in kg</i> )	<b>57.17</b>
N <sub>2</sub> O emission (Scope 1 only) ( <i>in kg</i> )	<b>3,948.59</b>

On the other hand, the following is the greenhouse gases generated through the purchase of electricity used to support the equipment in the operation.

<b>Year ended 31 December</b>	<b>2020</b>
Electricity consumption ( <i>in kWh</i> )	<b>4,855,338.40</b>
Electricity consumption intensity ( <i>kWh/number of staff</i> )	<b>5,511.17</b>
Carbon emission (Scope 2 only) ( <i>tonnes CO<sub>2</sub>-e</i> )	<b>4,099.15</b>
Carbon intensity ( <i>tonnes CO<sub>2</sub>-e/number of staff</i> )	<b>4.65</b>

To uphold the principles of sustainable development, the Group is committed to reduce the impact of its operation on carbon footprints, and aims to maintain the GHG emissions density at/below 5.00 tonnes CO<sub>2</sub>e per number of staff in the next reporting period through adopting the following mitigating measures.

# Environmental, Social and Governance Report

## **Waste Management**

The Group was not aware of any hazardous waste arising from the Group's operation during the year ended 31 December 2020. The non-hazardous wastes including food waste, household garbage, plastic packaging materials and boxes generated from the Group's factories in the PRC during the financial year ended 31 December 2020 was approximately 150.31 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.

<b>Year ended 31 December</b>	<b>2020</b>
Total Non-hazardous Waste Consumed ( <i>in tonnes</i> )	<b>150.31</b>
Number of staff	<b>523</b>
Intensity of Non-hazardous Waste Consumed ( <i>tonnes/number of staff</i> )	<b>0.29</b>

The Group will make continuous efforts in maintaining the density of total hazardous waste produced at/ below 0.4 tonnes per number of staff in the next reporting period.

## **Energy Efficiency**

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.

## **Electricity and Water Management**

Electricity is required for the operation of the Group's factories and offices in Hong Kong, the PRC, Taiwan, Vietnam and Malaysia. Water is mainly consumed in canteens, washrooms and the staff quarters in the PRC and Vietnam. The Group has issued guideline as a reference for staff to follow in order to raise awareness of water and electricity saving and 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.



# Environmental, Social and Governance Report

During the Reporting Period, the water consumption condition is shown as follow:

<b>Year ended 31 December</b>	<b>2020</b>
Water Consumption ( <i>in m<sup>3</sup></i> )	<b>62,123.00</b>
Number of staff	<b>849</b>
Intensity ( <i>m<sup>3</sup>/number of staff</i> )	<b>73.17</b>

The Group will make continuous efforts in working towards the target of maintaining the density of total water consumption at or at/below 80 cubic metres per number of staff in the next reporting period.

Please refer to the section headed "Greenhouse Gas Emission" for information regarding the Group's electricity consumption during the Reporting Period.

## **Packaging**

The packaging materials including carton paper, plastic packaging materials and metal packaging materials generated from the Group's factories in the PRC and Vietnam during the financial year ended 31 December 2020 was approximately 2,277.51 tonnes in total. The following is the usage of packaging materials during the Reporting Period:

<b>Year ended 31 December</b>	<b>2020</b>
Total Packaging Material Used ( <i>in tonnes</i> )	<b>2,277.51</b>
Production quantity ( <i>in piece</i> )	<b>10,947,457.00</b>
Intensity ( <i>tonnes/production quantity</i> )	<b>0.00020804</b>

## **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 a printed version is required

# Environmental, Social and Governance Report

## ***Environmental Protection***

As the Group is principally engaged in manufacturing and sales of networking products and non-networking products, there is no significant consumption of natural resources and therefore the Group's activities do not have any significant impact on the environment. However, the Group is concerned about the natural resources consumed along the supply chain and it endeavours to select vendors that are environmentally and socially conscious. Details of vendor selection criteria are set out in the section headed "Supply Chain Management" below.

## ***Climate Change***

The Group has considered the potential climate-related risks and opportunities in respect of the recommendations of the Task Force on Climate-related Financial Disclosures, in which potential physical risk and transition risk from climate change may pose adverse financial impacts on the Group's businesses. Acute physical risk can arise from extreme weather conditions such as flooding and storms and chronic physical risk can arise from sustained high temperature, while transition risk may result from the change in environmental-related regulations or change in customer preferences.

Upon evaluation of the potential acute physical risk that may cause disruption to our manufacturing and supply network, our office and production plant do not locate in high-risk flood areas and that we maintain a large supplier base so we can source from alternate suppliers in the event of our suppliers being affected by extreme weather conditions, and hence it is a remote risk. While sustained high temperature may result in an elevation of electricity consumption, the Group has adopted energy conservation measures in managing such risk, which is detailed in the above subsection headed "Energy Efficiency". As for the potential transition risk, the Group continues to monitor the regulatory environment and has experienced expertise in designing and manufacturing products that meet customers' demand and expectations, our commitment to quality has enabled us to obtain relevant ISO standards, and thus the risk is relatively low.

It is expected that potential extreme weather condition, sustained high temperature, change in environmental-related regulations and customer preference do not have a material impact on the Group's operations. Nevertheless, the Group continues to monitor the climate-related risks and implemented relevant measures to minimize our exposure to physical and transition risks.



# Environmental, Social and Governance Report

## **SOCIAL**

### **Employment**

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.

To prevent employment of child labour, newly recruited employees are required to provide a copy of identification documents for age verification. Signing employment contracts with our employees, which clearly state the job positions of the employees, is also an essential part of our employment process to prevent forced labour. Job seekers under the age of 16 or those who provide false or untrue identity proof and documents are not employed by the Group. During the reporting year, we have no recordable non-compliance cases in relevant laws and regulations.

For the year ended 31 December 2020, 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. 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.

# Environmental, Social and Governance Report

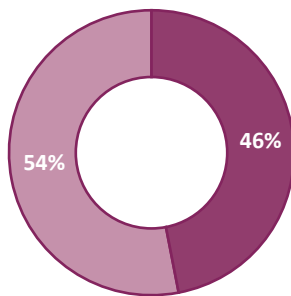
## The Team

The Group believes that a diversified and cohesive team is indispensable to the success of business. The Group strives to ensure that the recruitment process is fair and without any discrimination.

As of 31 December 2020, the Group had a total of 881 employees. Breakdowns of the employees by gender, age group, geographical region and employment type, for the year ended 31 December 2020 are set out below:

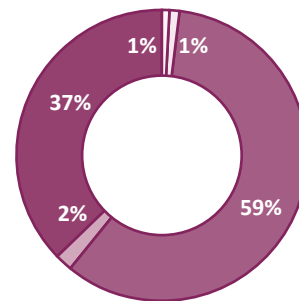
### BY GENDER

■ Male ■ Female



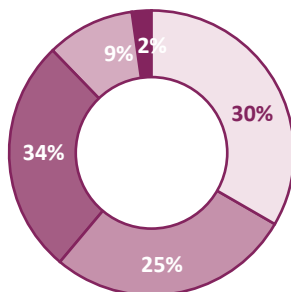
### BY REGION

■ Hong Kong ■ the PRC ■ Taiwan ■ Vietnam ■ Malaysia



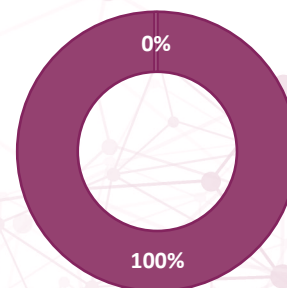
### BY AGE GROUP

■ < 25 ■ 25 - 29 ■ 30 - 39 ■ 40 - 49 ■ > 50



### BY EMPLOYMENT TYPE

■ Full Time ■ Part Time



# Environmental, Social and Governance Report

During the Reporting Period, the employee turnover across the Group was 140%, the detailed are as follows:

## **KPI B1.2**

### **Percentage of Employee Turnover against Total Turnover**

#### **By Gender**

Male	44%
Female	56%

#### **By Age Group**

<25	47%
25-29	26%
30-39	24%
40-49	3%
> 50	0%

#### **By Region**

Hong Kong	0%
The PRC	72%
Taiwan	0%
Vietnam	28%
Malaysia	0%

### **Occupational 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 2020, 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 last three Reporting Period, no work-related fatality and lost days due to work injury were recorded by the Group.

### **Development and Training**

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.

# Environmental, Social and Governance Report

During the Reporting Period, the percentage of employees trained are as follows:

## **KPI B3.1**

### ***Development and Training Indicators***

#### ***By Gender***

Male	53%
Female	47%

#### ***By Employee Category***

Entry level	43%
Middle level	51%
Management level	6%

The average training hours completed per employee are shown as follow:

## **KPI B3.2**

### ***Development and Training Indicators***

#### ***Average hours of training per employee by gender***

Male	24.00
Female	25.92

#### ***Average hours of training per employee by employment category***

Entry level	37.09
Middle level	11.03
Management level	54.08

### ***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 the suppliers which are situated in the PRC, 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.

There were a total of 195 approved suppliers located in the PRC during the Reporting Period.

# Environmental, Social and Governance Report

## ***Product Quality Assurance***

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.

For the year ended 31 December 2020, 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.

The Group works to create a good client experience by providing quality products and services that suit customers' needs. We welcome feedback from our customers and provide them with various ways of solving their issues. During the Reporting Period, there was no products and service-related complaints have been received by the Group, and there was no product sold or shipped subject to recalls for safety or health reasons.

## ***Data Privacy***

In order to build customer trust and loyalty, the Group has established measures to reduce the risk of employees leaking confidential information to outsiders.

The Group restrict the use of customers' personal data for any purposes other than what have been stated in the customer contracts. If any employee who has been discovered of misappropriating customers' private data, the Group will take disciplinary action against the employee concerned and reserve its right to legal action. Moreover, non-disclosure agreements are signed by the employees of the Group to ensure that they are aware of their legally binding obligations of protecting confidential information of the Group.

# Environmental, Social and Governance Report

## ***Intellectual Property Rights***

The Group recognises the importance of protecting and enforcing its intellectual property rights, and strictly complies with all relevant laws and regulations that have a significant impact on it including but not limited to the "Trade Marks Ordinance and Copyright Ordinance" in Hong Kong, and "Trademark Law" and "Patent Law" in the PRC. The Group has adopted practices to avoid infringement of intellectual property rights, such as entered into Confidentiality Agreement or Non-Disclosure Agreement with its subcontracted manufacturer and employees; and register intellectual property rights that are material to its business operation.

## ***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 2020, 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. In addition, the Group arranged an anti-corruption training for 27 staff on 16 December 2020.

## ***Community Investment***

The Group pursues sustainable development of our community by assessing and managing the social impact of our operations on the marketplace and by supporting initiatives that create effective and lasting benefits to communities in our operating boundaries.

The Group encourages staff to care for the community take part in community welfare and voluntary work. We also promote the healthy and balanced development of the employees' physical and mental well-being. We also try our best to take into consideration the community's interests and participate in the community's charitable activities.



# Environmental, Social and Governance Report

## HKEX ESG REPORTING GUIDE CONTENT INDEX

### Part A: Environmental

#### ESG Aspects

#### Related Section(s)

#### Remarks

#### A1. Emissions

Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Overview, Emissions, Greenhouse Gas Emission, Waste Management

KPI A1.1 The types of emissions and respective emission data.

Emissions

KPI A1.2 Greenhouse gas emission in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).

Greenhouse Gas Emission

KPI A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).

Waste Management

KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).

Waste Management

KPI A1.5 Description of measures to mitigate emissions and results achieved.

Greenhouse Gas Emission

KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.

Waste Management

# Environmental, Social and Governance Report

ESG Aspects	Related Section(s)	Remarks
-------------	--------------------	---------

## A2. Use of Resources

Policies on the efficient use of resources, including energy, water and other raw materials.	Energy Efficiency, Water Management, Supply Chain Management	
KPI A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Greenhouse Gas Emission	
KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Electricity and Water Management	
KPI A2.3 Description of energy use efficiency initiatives and results achieved.	Energy Efficiency	
KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Electricity and Water Management	
KPI A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging	

## A3. The Environmental and Natural Resources

Policies on minimizing the issuer's significant impact on the environment and natural resources.	Energy Efficiency, Electricity and Water Management	
KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Protection	

## A4. Climate Change

Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change	
KPI A4.1 Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change	

# Environmental, Social and Governance Report

ESG Aspects	Related Section(s)	Remarks
-------------	--------------------	---------

## Part B. Social

### B1. Employment

Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment	
--	------------	--

KPI B1.1 Total workforce by gender, employment type, age group and geographical region.	The Team	
---	----------	--

KPI B1.2 Employment turnover rate by gender, age group and geographical region.	The Team	
---	----------	--

### B2. Health and Safety

Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety	
--	--------------------------------	--

KPI B2.1 Number and rate of work-related fatalities.	Occupational Health and Safety	
--	--------------------------------	--

KPI B2.2 Lost days due to work injury.	Occupational Health and Safety	
--	--------------------------------	--

KPI B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety	
--	--------------------------------	--

### B3. Development and Training

Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training	
---	--------------------------	--

KPI B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training	
---	--------------------------	--

KPI B3.2 The average training hours completed per employee by gender and employee category.	Development and Training	
---	--------------------------	--

# Environmental, Social and Governance Report

ESG Aspects	Related Section(s)	Remarks
-------------	--------------------	---------

## B4. Labour Standards

Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment	
---	------------	--

KPI B4.1 Description of measures to review employment practices to avoid child and forced labour.	Employment	
---	------------	--

KPI B4.2 Description of steps taken to eliminate such practices when discovered.	Employment	
--	------------	--

## B5. Supply Chain Management

Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	
--	-------------------------	--

KPI B5.1 Number of suppliers by geographical region.	Supply Chain Management	
--	-------------------------	--

KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management	
--	-------------------------	--

KPI B5.3 Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management	
---	-------------------------	--

KPI B5.4 Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management	
--	-------------------------	--



# Environmental, Social and Governance Report

ESG Aspects	Related Section(s)	Remarks
-------------	--------------------	---------

## B6. Product Responsibility

Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and method of redress.	Product Quality Assurance	
---	---------------------------	--

KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Quality Assurance	
---	---------------------------	--

KPI B6.2 Number of products and service-related complaints received and how they are dealt with.	Product Quality Assurance	
--	---------------------------	--

KPI B6.3 Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Rights	
--	------------------------------	--

KPI B6.4 Description of quality assurance process and recall procedures.	Product Quality Assurance	
--	---------------------------	--

KPI B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	Data Privacy	
--	--------------	--

## B7. Anti-corruption

Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption	
--	-----------------	--

KPI B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	
---	-----------------	--

KPI B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption	
---	-----------------	--

KPI B7.3 Description of anti-corruption training provided to directors and staff.	Anti-corruption	
---	-----------------	--

# Environmental, Social and Governance Report

ESG Aspects	Related Section(s)	Remarks
<b>B8. Community investment</b>		
Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure that its activities take into consideration the communities' interests.	Community Investment	
KPI B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment	
KPI B8.2 Resources contributed (e.g. money or time) to the focus area.	Community Investment	

# Biographies of Directors and Senior Management

## BOARD OF DIRECTORS

### Executive Directors

**Mr. Kim Byung Kwon (金炳權先生)**, aged 58, 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 52, is the executive Director, chief financial officer and a member of each 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 48, 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 Zioncom 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.

# Biographies of Directors and Senior Management

**Mr. Xiao Jingen (肖金根先生)**, aged 45, 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.

**Mr. Zhao Xiuming (趙修明先生)**, aged 45, was appointed as an executive Director on 11 October 2019. Mr. Zhao obtained a professional degree in Electric Automation from 四川建築材料工業學校 (transliterated as Sichuan Construction Material Vocational School), which was renamed as 西南工學院 (transliterated as the Southwest College of Engineering) and as 西南科技大學 (transliterated as the Southwest University of Science and Technology) in Sichuan in 1996 and a professional degree in business management from 吉林廣播電視大學 (transliterated as the University of Broadcast Television in Jilin) in 2006. He was an engineer from 1998 to 2013 in Jilin Province Maxcourt Hotel Limited and 吉林鼎泰企業發展有限公司 (transliterated as Jilin Dingtai Enterprise Development Company Limited). He has been doing business since 2013.

## Independent non-executive Directors

**Mr. Shin Dongmin (申東旻先生)**, aged 46, was appointed as an independent non-executive Director on 28 December 2018. He is the chairman of each of the remuneration committee and nomination committee, and a member of each of the audit committee and compliance committee of the Company. Mr. Shin has over 20 years of experience in finance and is currently the chief financial officer of Nanogen Pharmaceutical Biotechnology JSC in Vietnam, being a biological product company, and responsible for finance, accounting and investment relationship. Prior to that, he was a deputy general manager of the investment banking department in the period from January 2015 to December 2015 and the period from September 2012 to August 2013, a deputy general manager of the operation department from September 2013 to December 2014, and a deputy general manager of the private equity department from February 2012 to August 2012, in Mirae Asset Securities (HK) Limited (formerly known as Daewoo Securities (Hong Kong) Limited), being a securities firm, and was responsible for investments. He was a deputy general manager of the IPO business department of Mirae Asset Daewoo Co., Ltd., (formerly known as (KDB) Daewoo Securities Co., Ltd.) from July 1999 to December 2011, and was responsible for execution of initial public offerings projects. Mr. Shin graduated from Hongik University with a bachelor degree in business administration in February 1997. He obtained a master's degree in business administration from the Hong Kong University of Science and Technology in November 2015.



# Biographies of Directors and Senior Management

**Mr. Kwong Chun Man (鄺振文先生)**, aged 42, was appointed as an independent non-executive Director on 26 June 2019. He is the Chairman of the audit committee, and a member of each of the remuneration committee, nomination committee and compliance committee of the Company. Mr. Kwong is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Kwong obtained a Bachelor of Arts degree in Computing at The Hong Kong Polytechnic University in November 2001. Mr. Kwong was employed by Deloitte Touche Tohmatsu from 2001 to 2008 and was a manager when he left the employment. He was a vice president of Orient Securities Limited, an indirect wholly owned subsidiary of Orient Securities International Holdings Limited (stock code: 8001), from 1 June 2013 to 16 August 2015 and was responsible for its financial reporting and overall financial planning and budgeting. He was the company secretary of KNK Holdings Limited (stock code: 8039) from 21 September 2015 to 28 December 2020 and was also the financial controller of its subsidiaries and was responsible for overall group financial reporting and corporate finance matters.

**Mr. Lee Tsung Wah, Jonathan (李頌華先生)**, aged 55, was appointed as an independent non-executive Director on 31 March 2020. He is the Chairman of the Compliance Committee and a member of each of the audit committee, remuneration committee and nomination committee of the Company. He received his Bachelor of Laws degree from University of London and has been a Hong Kong practising solicitor since 1998. Mr. Lee is a partner with the corporate and securities department of the Hong Kong office of Messrs. Nixon Peabody CWL, Solicitors. Mr. Lee is a corporate lawyer with extensive experience in corporate finance, joint ventures, public takeovers, cross border acquisitions and divestments by private and publicly listed companies.

## SENIOR MANAGEMENT

**Mr. Liu Zhijun (劉志軍先生)**, aged 51, 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 10 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



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 71 to 157, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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.

# Independent Auditors' Report

## 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.

### Key audit matter

### How our audit addressed the key audit matter

#### ***Allowance for expected credit losses recognised in respect for trade receivables, deposits and other receivables***

Refer to Notes 5, 20 and 21 to the consolidated financial statements.

As at 31 December 2020, the Group had gross trade receivables of approximately HK\$89,908,000 and allowance for expected credit losses of approximately HK\$29,911,000.

Our procedures in relation to management's estimated allowance for expected credit losses of the trade receivables, deposits and other receivables as at 31 December 2020 included:

As at 31 December 2020, the Group had gross deposits and other receivables of approximately HK\$19,797,000 and allowance for expected credit losses of approximately HK\$12,000.

- Understanding and assessing the design implementation of management's key controls relating to credit control, debt collection and estimate of expected credit losses;

In general, the credit terms granted by the Group to the customers ranged between 30 to 120 days. Management performed periodic assessment on the recoverability of the trade receivables, deposits and other receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

- Checking, on a sample basis, the ageing profile of the trade receivables, deposits and other receivables as at 31 December 2020 to the underlying financial records and post year-end settlements to bank receipts;

- Inquiring of management for the status of each of the material trade receivables, deposits and other receivables past due as at year end and corroborating explanations from management with supporting evidence, such as internal credit assessment of selected customers, understanding ongoing business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the counterparties; and

# Independent Auditors' Report

## Key audit matter

## How our audit addressed the key audit matter

### ***Allowance for expected credit losses recognised in respect for trade receivables, deposits and other receivables*** (Continued)

We focused on this area due to the impairment assessment of trade receivables, deposits and other receivables under the expected credit losses model involved the use of significant management judgements and estimates.

- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

We found that the management judgement and estimates used to assess the recoverability of the trade receivables, deposits and other receivables and determine the allowance for expected credit losses to be supportable by available evidence.

### ***Carrying amount of inventories***

Refer to Notes 4(f) and 19 to the consolidated financial statements.

The Group held inventories of approximately HK\$186,870,000 as at 31 December 2020. 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 as at 31 December 2020 included:

- Evaluating procedures performed by management including its procedures in estimating the NRV 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 assessment to be consistent with the available information.

# Independent Auditors' Report

## **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 HKSAAs 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.

# Independent Auditors' Report

## **AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)*

As part of an audit in accordance with HKSAAs, we exercise professional judgement 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 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 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, actions taken to eliminate threats or safeguards applied.



# Independent Auditors' Report

## **AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)*

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, 21 April 2021

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
<b>Revenue</b>	7	<b>607,708</b>	573,137
Cost of sales		<b>(515,218)</b>	(484,082)
<b>Gross profit</b>		<b>92,490</b>	89,055
Other income	8	<b>13,853</b>	9,330
Changes in fair value of financial assets at fair value through profit or loss		<b>226</b>	615
Realised fair value loss of financial assets at fair value through profit or loss		<b>(143)</b>	(679)
Net allowance for expected credit losses in respect of trade receivables, deposits and other receivables		<b>(12,907)</b>	(8,940)
Selling and distribution expenses		<b>(22,887)</b>	(21,558)
Administrative expenses		<b>(45,664)</b>	(55,191)
Research and development expenses		<b>(27,904)</b>	(32,763)
<b>Loss from operations</b>		<b>(2,936)</b>	(20,131)
Finance costs	9	<b>(3,530)</b>	(3,862)
<b>Loss before taxation</b>	10	<b>(6,466)</b>	(23,993)
Taxation	11	<b>(1,729)</b>	(2,104)
<b>Loss for the year</b>		<b>(8,195)</b>	(26,097)
<b>Other comprehensive income for the year, net of tax</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Surplus on revaluation of properties		<b>3,062</b>	2,908
Deferred tax liabilities arising from revaluation of properties		<b>(741)</b>	(353)
		<b>2,321</b>	2,555
<b>Item that may be reclassified subsequently to profit or loss:</b>			
Exchange difference on translating of foreign operation		<b>4,525</b>	(6,680)
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>6,846</b>	(4,125)
<b>Total comprehensive loss for the year, net of tax</b>		<b>(1,349)</b>	(30,222)



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

**Loss for the year attributable to:**  
**Owners of the Company**  
**Non-controlling interests**

**Total comprehensive loss attributable to:**  
**Owners of the Company**  
**Non-controlling interests**

**Loss per share attributable to the owners of  
the Company**

Basic and diluted (HK cents)

Notes	2020 HK\$'000	2019 HK\$'000
	(10,594)	(26,381)
	2,399	284
	<b>(8,195)</b>	<b>(26,097)</b>
	(3,996)	(30,445)
	2,647	223
	<b>(1,349)</b>	<b>(30,222)</b>
15	<b>(1.61)</b>	<b>(4.00)</b>

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

# Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	136,526	132,317
Right-of-use assets	17	22,381	23,118
Financial assets at fair value through profit or loss	18	11,412	16,982
Prepayments	21	–	5,640
		<b>170,319</b>	178,057
<b>Current assets</b>			
Inventories	19	186,870	165,960
Trade and bills receivables	20	60,029	57,993
Prepayments, deposits and other receivables	21	42,961	35,667
Amounts due from directors	22	1,712	2,053
Tax recoverables		897	–
Pledged bank deposits	23	25,463	25,580
Cash and bank balances	23	9,452	25,925
		<b>327,384</b>	313,178
<b>Current liabilities</b>			
Trade and bills payables	24	186,148	173,045
Accruals, deposits received and other payables	25	22,239	15,775
Contract liabilities	26	18,216	39,565
Bank borrowings	27	83,457	71,614
Lease liabilities	28	11,211	8,156
Amount due to a shareholder	29	–	1,081
Tax payables		827	1,333
		<b>322,098</b>	310,569
<b>Net current assets</b>		<b>5,286</b>	2,609
<b>Total assets less current liabilities</b>		<b>175,605</b>	180,666

# Consolidated Statement of Financial Position

As at 31 December 2020

## Non-current liabilities

Lease liabilities  
Deferred tax liabilities

## Net assets

## Capital and reserves

Share capital  
Reserves

## Total equity attributable to owners of the Company

## Non-controlling interests

## Total equity

Notes	2020 HK\$'000	2019 HK\$'000
28	4,903	9,310
30	4,614	3,919
	<b>9,517</b>	13,229
	<b>166,088</b>	167,437
31	6,600	6,600
	147,815	151,811
	<b>154,415</b>	158,411
	<b>11,673</b>	9,026
	<b>166,088</b>	167,437

Approved and authorised for issue by the board of directors on 21 April 2021 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 2020

	Attributable to owners of the Company							Non-controlling interests	Total	
	Share capital	Share premium	Other reserve	Surplus reserve	Exchange reserve	Revaluation surplus reserve	Retained earnings			Sub-total
	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000 (Note d)	HK\$'000 (Note e)	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2019	6,600	58,924	31,992	2,959	238	21,345	59,239	181,297	-	181,297
(Loss)/profit for the year	-	-	-	-	-	-	(26,381)	(26,381)	284	(26,097)
Other comprehensive loss for the year	-	-	-	-	(6,619)	2,555	-	(4,064)	(61)	(4,125)
Loss and total comprehensive loss for the year	-	-	-	-	(6,619)	2,555	(26,381)	(30,445)	223	(30,222)
Transfer to surplus reserve	-	-	-	1,366	-	-	(1,366)	-	-	-
Deemed disposal of interest in a subsidiary (Note 35)	-	-	7,559	-	-	-	-	7,559	8,803	16,362
At 31 December 2019 and 1 January 2020	6,600	58,924	39,551	4,325	(6,381)	23,900	31,492	158,411	9,026	167,437
(Loss)/profit for the year	-	-	-	-	-	-	(10,594)	(10,594)	2,399	(8,195)
Other comprehensive income for the year	-	-	-	-	4,277	2,321	-	6,598	248	6,846
(Loss)/profit and total comprehensive loss for the year	-	-	-	-	4,277	2,321	(10,594)	(3,996)	2,647	(1,349)
Transfer to surplus reserve	-	-	-	1,548	-	-	(1,548)	-	-	-
<b>At 31 December 2020</b>	<b>6,600</b>	<b>58,924</b>	<b>39,551</b>	<b>5,873</b>	<b>(2,104)</b>	<b>26,221</b>	<b>19,350</b>	<b>154,415</b>	<b>11,673</b>	<b>166,088</b>

Notes:

- (a) Share premium represented the excess of share issue over the par value.
- (b) Other reserve represented the difference between the Group's share of nominal values of the paid-up capital of the subsidiary acquired over the Group's cost of acquisition of the subsidiary under common control upon Reorganisation.
- On 20 March 2019, the Group deemed disposal 27.63% equity interests of Zioncom Vietnam, an indirect wholly owned subsidiary of the Company, by way of increasing the registered capital of Zioncom Vietnam from US\$5,500,000 to US\$7,600,000. The non-controlling interests of Zioncom Vietnam agreed to pay US\$2,100,000 for the increase capital of Zioncom Vietnam. The Group recognised an increase in other reserve of approximately HK\$7,559,000.
- (c) Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.
- (d) Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.
- (e) Revaluation surplus reserve represents the revaluation gains or losses arising on the Land and Building situated in the PRC, for such reclassifications, the cumulative increase in fair value at the date of reclassification in excess of any previous accumulative depreciation and impairment losses is included in the property revaluation reserve, and will be transferred to retained earnings upon the retirement or disposal of the relevant property.

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

# Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
<b>Operating activities</b>			
Loss before taxation		(6,466)	(23,993)
<b>Adjustments for:</b>			
Investment income	8	(148)	(283)
Bank interest income	8	(292)	(340)
Written off of trade receivables	10	–	300
Written off of inventories	10	88	–
Finance costs	9	3,530	3,862
Loss/(gain) on disposal of property, plant and equipment	10	50	(202)
Changes in fair value of financial assets at fair value through profit or loss	10	(226)	(615)
Realised fair value loss of financial assets at fair value through profit or loss	10	143	679
Depreciation of property, plant and equipment	16	15,366	14,308
Depreciation of right-of-use assets	17	8,404	7,406
Allowance for expected credit losses on trade receivables		23,622	9,325
Allowance for expected credit losses on deposits and other receivables		1	195
Reversal of allowance for expected credit losses on trade receivables		(10,531)	(529)
Reversal of allowance for expected credit losses on deposits and other receivables		(185)	(51)
<b>Operating cash flows before movements in working capital</b>		<b>33,356</b>	<b>10,062</b>
(Increase)/decrease in inventories		(15,041)	12,555
Increase in trade and bills receivables		(13,220)	(4,975)
(Increase)/decrease in prepayments, deposits and other receivables		(15)	19,601
Decrease in amounts due from directors		341	169
Increase/(decrease) in trade and bills payables		3,178	(23,692)
Increase/(decrease) in accruals, deposits received and other payables		5,913	(9,187)
(Decrease)/increase in contract liabilities		(21,349)	9,119
(Decrease)/increase in amount due to a shareholder		(1,081)	1,081
Cash (used in)/generated from operating activities		(7,918)	14,733
Income tax paid		(3,227)	(1,787)
<b>Net cash (used in)/generated from operating activities</b>		<b>(11,145)</b>	<b>12,946</b>

# Consolidated Statement of Cash Flows

For the year ended 31 December 2020

Notes	2020 HK\$'000	2019 HK\$'000
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(10,951)	(13,245)
Proceeds from disposal of property, plant and equipment	505	531
Proceeds from disposal of financial assets at fair value through profit or loss	5,692	4,906
Bank interest income received	292	340
Investment income	148	283
Decrease in pledged bank deposits	1,595	4,477
<b>Net cash used in investing activities</b>	<b>(2,719)</b>	<b>(2,708)</b>
<b>Financing activities</b>		
Net proceeds from deemed disposal of a subsidiary	–	16,362
Proceeds from bank borrowings	60,730	63,977
Repayment of bank borrowings	(51,015)	(50,761)
Repayment of lease liabilities	(9,650)	(9,485)
Interest paid	(2,435)	(2,580)
<b>Net cash (used in)/generated from financing activities</b>	<b>(2,370)</b>	<b>17,513</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(16,234)</b>	<b>27,751</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>25,925</b>	<b>4,787</b>
<b>Effect of foreign exchange rate changes</b>	<b>(239)</b>	<b>(6,613)</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>9,452</b>	<b>25,925</b>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 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 registered office of the Company is located at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KYI-1108, Cayman Islands and the principal place of business of the Company is located in Office A, 9/F., Kings Wing Plaza 2, No. 1 On Kwan Street, Shatin, New Territories, Hong Kong.

The Company's immediate and ultimate holding companies are Lincats (BVI) Limited, a company incorporated in the British Virgin Islands ("**BVI**"), and Absolute Skill Holdings Limited, an investment holding company incorporated in Samoa with limited liability. Lincats (BVI) Limited is controlled by Mr. Kim Byung Kwon, an executive director of the Company. Absolute Skill Holdings Limited ("**Absolute Skill**") is wholly-owned by Ms. Sui Xiaohu, who is also a director of Absolute Skill.

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

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("**HKFRSs**")

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

### **Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions**

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at 1 January 2020.

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs in issued but not yet effective

HKFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>4</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>1</sup>
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

### Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (Continued)

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), HKASs, and Interpretations issued by the HKICPA, and accounting principles generally accepted in Hong Kong. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and by the Hong Kong Companies Ordinance.

### Basis of preparation

The consolidated financial statements has been prepared on the historical cost basis, except for certain properties and financial instruments which are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Basis of preparation** *(Continued)*

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 these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. 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 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Basis of consolidation** *(Continued)*

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

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

### ***Changes in the Group's ownership interests in existing subsidiaries***

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified accumulated impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 acquiree 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.

### Revenue and other income recognition

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue and other income recognition *(Continued)*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset is the right to consideration in exchange for goods or services that the Group has transferred to a customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Revenue and other income recognition** *(Continued)*

#### ***Contracts with multiple performance obligations (including allocation of transaction price)***

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

#### ***Existence of significant financing component***

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

#### ***Output method***

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Revenue and other income recognition** *(Continued)*

#### **Output method** *(Continued)*

The Group recognises revenue from the following major sources:

#### **(i) Revenue from the sales of networking and non-networking products**

The Group sells the networking and non-networking products directly to its customer and through consignment sales. For the sales of networking and non-networking products to the wholesale market, the Group considers the revenue is recognised when the control of the goods has transferred, being when the goods have been delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products. The customer has accepted the products and the performance obligation is satisfied at a point in time at which the products are delivered according to the term of sales contract. The normal credit term is 30 to 120 days upon delivery.

#### **(ii) Interest income**

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases

#### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### *The Group as lessee*

##### *Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

##### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to short-term leases of assets (i.e. those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option). The Group also applies the lease of low-value assets recognition exemption to lease of office equipment that are considered as low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### The Group as lessee (Continued)

##### Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for leases of low value assets, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets are depreciated on a straight-line basis over the shorter period of lease term and useful life of the underlying asset. The Group presents right-of-use assets as a separate line item in the consolidated statement of financial position.

##### Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

##### Lease liabilities

At the date of initial application of the lease, the Group recognises lease liabilities measured at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Leases** *(Continued)*

#### **The Group as lessee** *(Continued)*

##### *Lease liabilities (Continued)*

The lease payments include:

- fixed payments (including in-substance fixed lease payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the date of initial application, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The lease liabilities are presented as a separate line in the consolidated statement of financial position.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Leases** *(Continued)*

#### **The Group as lessee** *(Continued)*

##### *Lease modifications*

Except for Covid-19-related rent concession in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability less any lease incentives receivables, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Leases** *(Continued)*

#### **The Group as lessee** *(Continued)*

##### *Covid-19-related rent concessions*

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

### **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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies *(Continued)*

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 consolidated financial statement, 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 exchange 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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Foreign currencies** *(Continued)*

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.

### **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 "loss 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Taxation** *(Continued)*

#### **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.

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 for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Taxation** *(Continued)*

#### ***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 estimated 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.

Any revaluation increase arising from revaluation of property, plant and equipment is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognise in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

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% – 33 $\frac{1}{3}$ %
Machinery and equipment	10% – 33 $\frac{1}{3}$ %
Motor vehicles	15% – 20%
Leasehold improvement	10%

### 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, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Provisions** *(Continued)*

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. All regular way purchases or sales of financial assets are recognised and derecognised 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss (“**FVTPL**”)) 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 at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the financial assets and shareholders’ rights are presented as other revenue and other income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### Financial assets

##### *Classification and measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

##### Amortised cost and effective interest rate

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest method is a method of calculating the amortised cost of debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 gross carrying amount of the debt instrument on initial recognition.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial assets, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying effective interest rate to the gross carrying amount of the financial asset.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial assets** *(Continued)*

##### *Classification and measurement of financial assets (Continued)*

##### *Amortised cost and effective interest rate (Continued)*

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

##### Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or at FVTOCI are measured at FVTPL. Specifically;

- Investments in equity instruments are classified at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. Fair value is determined in the manner described in Note 5.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial assets** *(Continued)*

##### *Impairment of financial assets*

##### Impairment under expected credit losses (“ECL”) model

The Group recognises a loss allowances for ECL on financial assets which are subject to impairment assessment under HKFRS 9 (including trade and bills receivables, other receivables, deposits, amounts due from directors, pledged bank deposits and cash and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables. The ECL on these assets are assessed individually for significant balances or collectively using a provision matrix for the remaining balances with appropriate groupings based on shared credit risk characteristics of customers from the relevant operating segment.

For all other instruments, the Group measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

##### Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial assets** *(Continued)*

##### *Impairment of financial assets (Continued)*

##### Significant increase in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial assets** *(Continued)*

#### *Impairment of financial assets (Continued)*

#### Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is likely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial assets** *(Continued)*

##### *Impairment of financial assets (Continued)*

###### Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice when appropriate. Any recoveries made are recognised in profit or loss.

###### Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables, deposits and other receivables are each assessed as a separate group. Amounts due from directors are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial assets** *(Continued)*

##### *Impairment of financial assets (Continued)*

##### Measurement and recognition of ECL *(Continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, deposits and other receivables where the corresponding adjustment is recognised through a loss allowance account.

##### Derecognition of financial assets

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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

### **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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial liabilities and equity instruments** *(Continued)*

##### *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.

##### *Financial liabilities at amortised cost*

Financial liabilities including (trade and bills payables, accruals, deposits received and other payables, bank borrowings, lease liabilities and amount due to a shareholder) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### **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.

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:

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties transactions *(Continued)*

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) 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);
  - (ii) 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;
  - (iii) both entities are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) 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;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) 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
  - (viii) 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 Group'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 the Group and a related party.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, 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 and key sources of estimation uncertainty, 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 and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect its recoverable amount in the impairment test.

As at 31 December 2020, the carrying amounts of property, plant and equipment and right-of-use assets are HK\$136,526,000 and HK\$22,381,000 (2019: HK\$132,317,000 and HK\$23,118,000). No impairment losses were recognised during the years ended 31 December 2020 and 2019. Details are disclosed in Notes 16 and 17.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### (b) Provision of ECL for trade receivables, deposits and other receivables

Financial assets at amortised cost with significant balances and credit-impaired are assessed for ECL individually.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 5(b).

As at 31 December 2020, the carrying amounts of trade receivables, deposits and other receivables are approximately HK\$59,997,000 and HK\$19,785,000 respectively (net of allowance for expected credit losses of approximately HK\$29,911,000 and HK\$12,000 respectively).

As at 31 December 2019, the carrying amounts of trade receivables, deposits and other receivables are approximately HK\$57,961,000 and HK\$23,252,000 respectively (net of allowance for expected credit losses of approximately HK\$16,062,000 and HK\$195,000 respectively).

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables, deposits and other receivables are disclosed in Notes 5, 20 and 21.

### (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.

### (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 consolidated financial statements. However, no provision is recognised for costs that need to be incurred to operate in the future.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### (e) Income taxes and deferred taxes

The Group is subject to income taxes in Hong Kong, the PRC, Taiwan, Vietnam and Malaysia. 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 recognises 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.

The Group 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. Details of the valuation method, key assumptions and inputs used are disclosed in Note 16.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

### (h) Incremental borrowing rate

In determination on incremental borrowing rate, the Group applies judgement to determine the applicable rate to calculate the present value of lease payments. The incremental borrowing rate of the Group applied will significantly affects the amount of lease liabilities and right-of-use assets recognised.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
<b>Financial assets</b>		
<i>At amortised cost</i>		
– Trade and bills receivables	60,029	57,993
– Deposits and other receivables	19,785	23,252
– Amounts due from directors	1,712	2,053
– Pledged bank deposits	25,463	25,580
– Cash and bank balances	9,452	25,925
	<b>116,441</b>	134,803
<i>At fair value</i>		
– Financial assets at fair value through profit or loss	11,412	16,982
<b>Financial liabilities</b>		
<i>At amortised cost</i>		
– Trade and bills payables	186,148	173,045
– Accruals, deposits received and other payables	22,239	15,775
– Bank borrowings	83,457	71,614
– Lease liabilities	16,114	17,466
– Amount due to a shareholder	–	1,081
	<b>307,958</b>	278,981

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management

The directors monitor and manage 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 credit risk, market risk (including interest rate risk and foreign currency risk) and liquidity risk.

The Group's major financial instruments include, trade and bills receivables, deposits and other receivables, amounts due from directors, pledged bank deposits, cash and bank balances, trade and bills payables, accruals, deposits received and other payables, bank borrowings, lease liabilities and amount due to a shareholder. 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 risks and impairment assessment***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and bills receivables, deposits and other receivables, amounts due from directors, pledged bank deposit and cash and bank balances. At 31 December 2020, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

#### ***Trade receivables, deposits and other receivables***

Credit evaluations are performed on all customers requiring credit terms. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as to the economic environment.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management *(Continued)*

#### *Credit risks and impairment assessment (Continued)*

##### *Trade receivables, deposits and other receivables (Continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arises when the Group has significant exposure to individual customers. The Group has concentration of credit risk as 20.6% (2019: 30.5%) and 66.8% (2019: 70.1%) of the total trade receivables due from the Group's largest customer and the five largest customers respectively. The Group generally allows an average credit period of 30 to 120 days to its customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. As at 31 December 2020 and 2019, the Group does not provide any guarantees which would expose the Group to credit risk.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is 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. The Group applies simplified approach on trade receivables to provide for the ECL prescribed by HKFRS 9. The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management (Continued)

#### Credit risks and impairment assessment (Continued)

#### Trade receivables, deposits and other receivables (Continued)

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2020 and 2019:

	Expected loss rate %	Gross carrying amount HK\$'000	Allowance for expected credit loss HK\$'000	Net carrying amount HK\$'000
<b>At 31 December 2020</b>				
Collective assessment				
Current (not past due)	2.50	23,223	(581)	22,642
1 – 90 days past due	5.76	8,592	(495)	8,097
91 – 180 days past due	8.86	1,626	(144)	1,482
More than 180 days past due	21.89	763	(167)	596
Individual assessment	51.21	55,704	(28,524)	27,180
		89,908	(29,911)	59,997
	Expected loss rate %	Gross carrying amount HK\$'000	Allowance for expected credit loss HK\$'000	Net carrying amount HK\$'000
<b>At 31 December 2019</b>				
Collective assessment				
Current (not past due)	2.13	21,589	(460)	21,129
1 – 90 days past due	5.64	15,332	(864)	14,468
91 – 180 days past due	6.72	1,086	(73)	1,013
More than 180 days past due	55.16	3,064	(1,690)	1,374
Individual assessment	39.38	32,952	(12,975)	19,977
		74,023	(16,062)	57,961

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management *(Continued)*

#### *Credit risks and impairment assessment (Continued)*

##### *Trade receivables, deposits and other receivables (Continued)*

The closing loss allowances for including trade receivables, deposits and other receivables as at 31 December 2020 reconcile to the opening loss allowances as follows:

	<b>Trade receivables</b>	<b>Trade receivables</b>	<b>Deposits and other receivables</b>	<b>Total</b>
	<i>(Lifetime ECL non-credit impaired)</i>	<i>(Lifetime ECL credit impaired)</i>	<i>(12 months ECL non- credit impaired)</i>	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	(522)	(6,745)	(51)	(7,318)
Increase in loss allowance recognised in profit or loss during the year	(3,095)	(6,230)	(195)	(9,520)
Reversal of loss allowance recognised in profit or loss during the year	529	–	51	580
Exchange alignment	1	–	–	1
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019 and 1 January 2020	(3,087)	(12,975)	(195)	(16,257)
Increase in loss allowance recognised in profit or loss during the year	(7,558)	(16,064)	(1)	(23,623)
Reversal of loss allowance recognised in profit or loss during the year	10,016	515	185	10,716
Exchange alignment	(758)	–	(1)	(759)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2020</b>	<b>(1,387)</b>	<b>(28,524)</b>	<b>(12)</b>	<b>(29,923)</b>

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than agreed terms.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management *(Continued)*

#### *Credit risks and impairment assessment (Continued)*

##### *Trade receivables, deposits and other receivables (Continued)*

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables, deposits and other receivables are set out in Notes 20 and 21.

The management monitored the financial background and creditability of those debtors on an ongoing basis. The Group seeks to minimise its risk by dealing with counterparties which have good credit history. Majority of the trade receivables that are neither past due nor impaired have no default payment history. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

##### *Bills receivables*

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. The Group has assessed that the expected credit loss rate for these receivables are immaterial under 12 months expected credit losses method. Thus, no loss allowance for bills receivables was recognised as at 31 December 2020 and 2019.

##### *Amounts due from directors*

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

As at 31 December 2020 and 2019, the internal credit rating of amounts due from directors were performing. The Group has assessed that the expected credit loss rate for these receivables is immaterial under 12 months expected credit losses method. Thus no loss allowance for amounts due from directors was recognised.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management *(Continued)*

#### *Credit risks and impairment assessment (Continued)*

##### *Deposits with bank*

In respect to the Group's deposit with bank, the Group limits its exposure to credit risk by placing deposits with financial institution with high credit rating and no recent history of default. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations. Management will continue to monitor the position and will take appropriate action if their ratings are changed. As at 31 December 2020 and 2019, the Group has no significant concentration of credit risk in relation to deposit with bank.

In these regards, other than the credit risks mentioned above, the management considers the Group does not have any other significant credit risk and the exposures to these credit risks are monitored on an ongoing basis.

##### *Market risk*

##### *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 2020 HK\$'000	As at 31 December 2019 HK\$'000	As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000
USD	108,667	116,370	62,602	91,969
RMB	143,986	127,774	64,179	42,534
VND	10,313	7,227	26,550	16,386
	<b>262,966</b>	251,371	<b>153,331</b>	150,889



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management *(Continued)*

#### *Market risk (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% (2019: 5%) increase or decrease in HK\$ against RMB and VND. 5% (2019: 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% (2019: 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% (2019: 5%) against the HK\$. For a 5% (2019: 5%) weakening of the foreign currencies against the HK\$, there would be an equal and opposite impact.

	<b>Impacts on profit or loss</b>	
	<b>31 December 2020 HK\$'000</b>	31 December 2019 HK\$'000
RMB	<b>(3,898)</b>	(4,262)
VND	<b>812</b>	458

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management *(Continued)*

#### **Market risk** *(Continued)*

##### *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's income and operating cash flows are substantially independent of changes in market interest rates. Bank deposits and bank borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group monitors the interest rate exposure on a continuous basis and adjusts the portfolio of bank saving balances and borrowings where necessary.

##### *Sensitivity analysis*

Regarding the cash flow interest rate risk, the sensitivity analysis set out below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used represents management's assessment of the reasonably possible change in interest rates over the period.

If interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2020 would increase/decrease by approximately HK\$40,000 (2019: approximately HK\$184,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate borrowings.

##### *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 details the 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management (Continued)

#### Market risk (Continued)

#### Liquidity risk (Continued)

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 flows HK\$'000	Total carrying amount HK\$'000
<b>As at 31 December 2020</b>						
<b>Non-derivative financial liabilities</b>						
Trade and bills payables	-	186,148	-	-	186,148	186,148
Accruals, deposits received and other payables	-	22,239	-	-	22,239	22,239
Bank borrowings	2.73	84,898	-	-	84,898	83,457
Lease liabilities	6.40	11,841	4,693	307	16,841	16,114
		<b>305,126</b>	<b>4,693</b>	<b>307</b>	<b>310,126</b>	<b>307,958</b>

	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 flows HK\$'000	Total carrying amount HK\$'000
<b>As at 31 December 2019</b>						
<b>Non-derivative financial liabilities</b>						
Trade and bills payables	-	173,045	-	-	173,045	173,045
Accruals, deposits received and other payables	-	15,775	-	-	15,775	15,775
Bank borrowings	2.61	73,480	-	-	73,480	71,614
Lease liabilities	6.83	8,882	6,682	3,095	18,659	17,466
Amount due to a shareholder	-	1,081	-	-	1,081	1,081
		<b>272,263</b>	<b>6,682</b>	<b>3,095</b>	<b>282,040</b>	<b>278,981</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management *(Continued)*

*Market risk (Continued)*

*Liquidity risk (Continued)*

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 do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The Directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	<b>Maturity Analysis – bank borrowings subject to a repayment on demand clause based on scheduled repayments</b>		
	<b>Within one year</b>	<b>More than one year but less than two years</b>	<b>More than two years but less than five years</b>
	HK\$'000	HK\$'000	HK\$'000
<b>As at 31 December 2020</b>	<b>81,051</b>	<b>2,963</b>	<b>884</b>
As at 31 December 2019	67,513	2,652	3,315

### (c) Fair value of financial instruments

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).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value of financial instruments (Continued)

The Group 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 Group's financial assets are measured at fair value on a recurring basis.

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
	31 December 2020	31 December 2019			
<b>Financial assets at fair value through profit or loss</b>					
– Bonds	Nil	HK\$5,835,000	Level 1	Quoted bid prices in an active market	N/A
– Club membership	HK\$618,000	HK\$579,000	Level 2	Market Approach	Market comparable ranges from HK\$543,000 to HK\$702,000 as at 31 December 2020 (2019: HK\$513,000 to HK\$702,000) and the individual factors considered are the second hand quotation price of golf club.
– Key management personnel life insurance policies	HK\$10,794,000	HK\$10,568,000	Level 3	N/A	Account cash values

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### (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 from prior year.

The capital structure of the Group consists of total borrowings and total equity, comprising share capital, reserves and retained earnings as disclosed in the consolidated financial statements.

The Directors 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.

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

	2020 HK\$'000	2019 HK\$'000
Total borrowings (note (a))	99,571	90,161
Total equity (note (b))	166,088	167,437
Gearing ratio	60.0%	53.8%

Notes:

- (a) Total borrowings represent bank borrowings, lease liabilities and amount due to a shareholder as set out in Notes 27, 28 and 29.
- (b) Total equity includes share capital and reserves at the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 6. SEGMENT INFORMATION

During the years ended 31 December 2020 and 2019, 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:

	2020 HK\$'000	2019 HK\$'000
Korea	412,736	360,758
The People's Republic of China (the "PRC")	18,055	16,039
Vietnam	36,700	36,619
Other Asia (excluding Korea, the PRC and Vietnam)	102,513	103,410
Europe	6,718	43,871
South America	25,716	7,370
Africa	3,083	2,313
North America	2,187	2,757
	<b>607,708</b>	<b>573,137</b>

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

	2020 HK\$'000	2019 HK\$'000
Hong Kong	719	6,819
Mainland China	97,505	97,989
Vietnam	59,210	55,542
Others	1,473	725
	<b>158,907</b>	<b>161,075</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 6. SEGMENT INFORMATION *(Continued)*

### Information about major customers

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

	2020 HK\$'000	2019 HK\$'000
Customer A (note)	<b>370,100</b>	308,519

Note:

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

## 7. REVENUE

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

### (a) Disaggregation of revenue from contracts with customers

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

Type of goods or service	2020 HK\$'000	2019 HK\$'000
<b>Goods transferred at a point in time</b>		
Sales of router products	475,550	460,876
Sales of switch products	61,687	50,813
Sales of other networking products	46,219	21,936
Sales of non-networking products	24,252	39,512
<b>Total revenue from contracts with customers</b>	<b>607,708</b>	<b>573,137</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 7. REVENUE (Continued)

### (a) Disaggregation of revenue from contracts with customers (Continued)

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

	2020 HK\$'000	2019 HK\$'000
<b>Geographical markets</b>		
Korea	412,736	360,758
PRC	18,055	16,039
Vietnam	36,700	36,619
Other Asia (excluding Korea, the PRC and Vietnam)	102,513	103,410
Europe	6,718	43,871
South America	25,716	7,370
Africa	3,083	2,313
North America	2,187	2,757
Total revenue from contracts with customers	607,708	573,137

### (b) Performance obligations for contracts with customers

Details of performance obligations for contracts with customers for the years ended 31 December 2020 and 2019 are set out in Note 3.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 8. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Government grant (note)	3,211	6,536
Bank interest income	292	340
Exchange gain, net	9,829	–
Investment income	148	283
Gain on disposal of property, plant and equipment	–	202
Sundry income	373	1,969
	<b>13,853</b>	<b>9,330</b>

Note:

During the year ended 31 December 2020, the Group recognised government grant of approximately HK\$68,000 (2019: Nil) in respect of COVID-19-related subsidies which is related to Employment Support Scheme provided by the Hong Kong government. Besides, various government grants have been received mainly from Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation for the Group's business conducted in the PRC. There are no unfulfilled conditions or contingencies related to these grants.

## 9. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	2,534	2,534
Interest expenses on lease liabilities	996	1,328
	<b>3,530</b>	<b>3,862</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 10. LOSS BEFORE TAXATION

### Loss before taxation has been arrived at after charging/(crediting):

Directors' emoluments  
Other staff costs:  
Salaries and other benefits  
Bonuses  
Retirement scheme contributions

Notes	2020 HK\$'000	2019 HK\$'000
	<b>6,430</b>	6,464
	<b>79,047</b>	81,032
	<b>1,108</b>	2,030
	<b>5,562</b>	9,325
	<b>85,717</b>	92,387
	<b>1,294</b>	1,296
	<b>–</b>	300
	<b>88</b>	–
	<b>8,404</b>	7,406
	<b>283</b>	153
	<b>5,224</b>	4,803
	<b>7,059</b>	6,842
	<b>2,800</b>	2,510
	<b>15,366</b>	14,308
	<b>411,420</b>	390,218
	<b>(226)</b>	(615)
	<b>143</b>	679
	<b>50</b>	(202)
	<b>(9,829)</b>	671
	<b>322</b>	208
	<b>23,622</b>	9,325
	<b>1</b>	195
	<b>(10,531)</b>	(529)
	<b>(185)</b>	(51)
	<b>12,907</b>	8,940

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 11. TAXATION

	2020 HK\$'000	2019 HK\$'000
<b>Current taxation:</b>		
Provision for the year		
– Hong Kong Profits tax	–	–
– Other than Hong Kong	1,775	2,153
Over-provision in prior years	–	(119)
	1,775	2,034
<b>Deferred taxation:</b>		
(Credit)/charge for the year (Note 30)	(46)	70
	1,729	2,104

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

Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the years ended 31 December 2020 and 2019.

No provision of Hong Kong profits tax has been made as the Group had no assessable profits for the years ended 31 December 2020 and 2019.

In 2015, Zioncom (SZ) was a High and New Technology Enterprise defined by Shenzhen Finance Bureau, Administrator of Local Taxation of Shenzhen Municipality and Shenzhen Municipal office of the State Administration of Taxation (the “**Authority**”) and therefore was entitled to 15% preferential tax rate from PRC enterprise income tax for three years starting from year ended 31 December 2015 and renewed for three more years on 16 October 2018, according to the New PRC Enterprise Income Tax Law. The PRC enterprise income tax is calculated at 15% preferential tax rate on the estimated assessable profit for the years ended 31 December 2020 and 2019.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 11. TAXATION (Continued)

Taiwan Corporate Income Tax is calculated at 17% on the estimated assessable profit for the years ended 31 December 2020 and 2019.

Vietnam Corporate Income Tax is calculated at 20% of the estimated assessable profit. In accordance with the Law of Corporate Income Tax that profits earned by enterprises that carry out new investment projects in industrial zones, Zioncom Vietnam is entitled to an exemption from Corporate Income Tax for the first two years in which a taxable profit is earned and 50% tax reduction for the following four years. No provision of Profits Tax for the subsidiary in Vietnam for the years ended 31 December 2020 and 2019.

Malaysia Corporate Income Tax is calculated at 17% on the first MYD600,000 and 24% for remaining estimated assessable profit for the years ended 31 December 2020 and 2019. No provision of Corporate Income Tax for the subsidiary in Malaysia has been recognised as no assessable profit for the years ended 31 December 2020 and 2019.

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 2020 and 2019.

The taxation charge for the years ended 31 December 2020 and 2019 can be reconciled to the loss before taxation per consolidated statements of profit or loss and other comprehensive income as follows:

	2020 HK\$'000	2019 HK\$'000
Loss before taxation	(6,466)	(23,993)
Tax calculated at the rates applicable to profits in the jurisdiction concerned	(968)	(4,125)
Tax effect of expenses not deductible for tax purpose	3,057	2,799
Tax effect of income not taxable for tax purpose	(597)	(318)
Over-provision in prior years	–	(119)
Tax effect of deductible temporary differences not recognised	(24)	63
Tax effect of utilised the tax losses	(896)	(768)
Tax effect of unused tax losses not recognised	2,664	4,572
Tax effect of tax exemption granted	(1,507)	–
	<b>1,729</b>	<b>2,104</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors for the years ended 31 December 2020 and 2019 as follow:

	Year ended 31 December 2020			
Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000	
<b>Executive Directors</b>				
Mr. Kim Byung Kwon (note (i))	–	1,447	49	1,496
Mr. Kim Jun Yeob (note (i))	–	1,423	41	1,464
Mr. Koo Ja Chun (note (i))	–	1,423	41	1,464
Mr. Xiao Jingen (note (i))	–	1,385	45	1,430
Mr. Zhao Xiuming (note (iv))	–	240	–	240
<b>Independent Non-Executive Directors</b>				
Mr. Shin Dongmin (note (iii))	84	–	–	84
Mr. Kwong Chun Man (note (vii))	144	–	–	144
Mr. Lee Tsung Wah, Jonathan (note (viii))	108	–	–	108
	<b>336</b>	<b>5,918</b>	<b>176</b>	<b>6,430</b>

	Year ended 31 December 2019			
Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000	
<b>Executive Directors</b>				
Mr. Kim Byung Kwon (note (i))	–	1,473	45	1,518
Mr. Kim Jun Yeob (note (i))	–	1,445	39	1,484
Mr. Koo Ja Chun (note (i))	–	1,445	39	1,484
Mr. Xiao Jingen (note (i))	–	1,404	42	1,446
Mr. Zhao Xiuming (note (iv))	–	53	–	53
<b>Independent Non-Executive Directors</b>				
Mr. Yiu Kwing Sum (note (ii) and (v))	21	–	–	21
Mr. Ko Ming Tung, Edward (note (ii) and (vi))	300	–	–	300
Mr. Shin Dongmin (note (iii))	84	–	–	84
Mr. Kwong Chun Man (note (vii))	74	–	–	74
	<b>479</b>	<b>5,820</b>	<b>165</b>	<b>6,464</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 12. 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. Yiu Kwing Sum and Mr. Ko Ming Tung, Edward were appointed as independent non-executive directors of the Company on 18 December 2017.
- (iii) Mr. Shin Dongmin was appointed as independent non-executive director of the Company on 28 December 2018.
- (iv) Mr. Zhao Xiuming was appointed as executive director of the Company on 11 October 2019.
- (v) Mr. Yiu Kwing Sum was resigned as independent non-executive director of the Company on 1 April 2019.
- (vi) Mr. Ko Ming Tung, Edward was resigned as independent non-executive director of the Company on 1 January 2020.
- (vii) Mr. Kwong Chung Man was appointed as independent non-executive director of the Company on 26 June 2019.
- (viii) Mr. Lee Tsung Wah, Jonathan was appointed as independent non-executive director of the Company on 31 March 2020.

## 13. EMPLOYEES EMOLUMENTS AND SENIOR MANAGEMENT EMOLUMENTS

The five highest paid individuals included 4 and 4 of executive director of the Company for the years ended 31 December 2020 and 2019 respectively, details of whose emoluments are set out above in Note 12. The emoluments of the remaining individuals for the years ended 31 December 2020 and 2019 are 1 and 1 respectively and individuals disclosed are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other benefits	697	642
Bonuses	–	–
Retirement schemes contributions	18	18
	<b>715</b>	<b>660</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 13. 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:

	2020 HK\$'000	2019 HK\$'000
Nil to HK\$1,000,000	1	1

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

	2020 HK\$'000	2019 HK\$'000
Nil to HK\$1,000,000	–	–

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.

## 14. DIVIDENDS

The Board of Directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

## 15. LOSS PER SHARE

Loss for the year attributable to the owners of the Company

Weighted average number of ordinary shares in issue

	2020 HK\$'000	2019 HK\$'000
Loss for the year attributable to the owners of the Company	(10,594)	(26,381)
Weighted average number of ordinary shares in issue	660,000	660,000

The calculation of basic loss per share for the years ended 31 December 2020 and 2019 are calculated by dividing the loss for the year attributable to the owners of the Company over the weighted average number of ordinary shares in issue during the year.

Diluted loss per share were same as the basic loss per share as there were no potential dilutive ordinary shares exist during the years ended 31 December 2020 and 2019.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements 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
<b>Cost:</b>							
At 1 January 2019	75,506	1,767	25,414	86,480	5,565	45	194,777
Additions	318	265	967	9,333	1,345	881	13,109
Surplus on revaluation	2,908	-	-	-	-	-	2,908
Write back on revaluation	(4,008)	-	-	-	-	-	(4,008)
Disposals	-	-	-	(901)	(2,890)	-	(3,791)
Exchange alignment	(1,257)	(25)	(544)	(1,584)	(52)	(2)	(3,464)
At 31 December 2019 and 1 January 2020	73,467	2,007	25,837	93,328	3,968	924	199,531
Additions	-	67	972	7,897	2,015	-	10,951
Transfer from construction in-progress	-	-	-	868	-	(868)	-
Surplus on revaluation	3,062	-	-	-	-	-	3,062
Write back on revaluation	(4,182)	-	-	-	-	-	(4,182)
Disposals	-	-	-	(16)	(1,063)	-	(1,079)
Exchange alignment	3,546	99	1,745	4,997	161	(11)	10,537
<b>At 31 December 2020</b>	<b>75,893</b>	<b>2,173</b>	<b>28,554</b>	<b>107,074</b>	<b>5,081</b>	<b>45</b>	<b>218,820</b>
<b>Accumulated depreciation</b>							
At 1 January 2019	-	390	20,103	37,362	3,786	-	61,641
Charge for the year	4,008	341	1,097	8,413	449	-	14,308
Write back on revaluation	(4,008)	-	-	-	-	-	(4,008)
Disposals	-	-	-	(703)	(2,759)	-	(3,462)
Exchange alignment	-	(3)	(442)	(794)	(26)	-	(1,265)
At 31 December 2019 and 1 January 2020	-	728	20,758	44,278	1,450	-	67,214
Charge for the year	4,182	273	1,056	9,297	558	-	15,366
Write back on revaluation	(4,182)	-	-	-	-	-	(4,182)
Disposals	-	-	-	(14)	(510)	-	(524)
Exchange alignment	-	37	1,420	2,900	63	-	4,420
<b>At 31 December 2020</b>	<b>-</b>	<b>1,038</b>	<b>23,234</b>	<b>56,461</b>	<b>1,561</b>	<b>-</b>	<b>82,294</b>
<b>Carrying amounts</b>							
<b>At 31 December 2020</b>	<b>75,893</b>	<b>1,135</b>	<b>5,320</b>	<b>50,613</b>	<b>3,520</b>	<b>45</b>	<b>136,526</b>
At 31 December 2019	73,467	1,279	5,079	49,050	2,518	924	132,317

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Assets pledged as security

As at 31 December 2020 and 2019, the land and buildings with carrying amount of approximately HK\$75,893,000 and HK\$73,467,000 have been pledged to secure bank borrowings (Note 27) granted to the Group respectively.

As at 31 December 2020 and 2019, the machinery and equipment with carrying amount of approximately HK\$21,488,000 and HK\$19,292,000 have been pledged to secure bank borrowings (Note 27) granted to the Group respectively.

As at 31 December 2020 and 2019, the Group's land and buildings in the PRC and Vietnam were revalued based on valuations performed by Roma Valuation Limited, independent professional qualified valuers, approximately at HK\$75,893,000 and HK\$73,467,000 respectively. Revaluation surplus, net aggregate amount of deferred tax approximately of HK\$2,321,000 and HK\$2,555,000 resulting from the above revaluation were credited to the revaluation surplus reserve during the years ended 31 December 2020 and 2019 respectively.

The fair values of the Group's land and buildings at 31 December 2020 and 2019 are estimated by using significant unobservable inputs and the fair value measurement is categorised 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:

	2020 HK\$'000	2019 HK\$'000
At 1 January	73,467	75,506
Additions	–	318
Depreciation	(4,182)	(4,008)
Surplus on revaluation	3,062	2,908
Exchange alignment	3,546	(1,257)
At 31 December	<b>75,893</b>	73,467

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 hierarchy	Significant valuation technique	Valuation unobservable input	Range of unobservable input	
				31 December 2020	31 December 2019
The land and building held in the 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\$47,748 to HK\$57,988	HK\$52,176 to HK\$54,711
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 of saleable unit rate per square foot, the higher the fair value.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 17. RIGHT-OF-USE ASSETS

	<b>Land use rights</b> HK\$'000	<b>Office premises</b> HK\$'000	<b>Motor vehicles</b> HK\$'000	<b>Total</b> HK\$'000
<b>Cost</b>				
At 1 January 2019	9,172	18,047	390	27,609
Addition	–	3,402	582	3,984
Exchange alignment	(65)	(389)	(9)	(463)
<hr/>				
At 31 December 2019 and 1 January 2020	9,107	21,060	963	31,130
Addition	–	6,287	477	6,764
Exchange alignment	124	1,581	44	1,749
<hr/>				
<b>At 31 December 2020</b>	<b>9,231</b>	<b>28,928</b>	<b>1,484</b>	<b>39,643</b>
<hr/>				
<b>Accumulated depreciation</b>				
At 1 January 2019	560	–	145	705
Charge for the year	219	7,093	94	7,406
Exchange alignment	(5)	(92)	(2)	(99)
<hr/>				
At 31 December 2019 and 1 January 2020	774	7,001	237	8,012
Charge for the year	216	7,980	208	8,404
Exchange alignment	17	818	11	846
<hr/>				
<b>At 31 December 2020</b>	<b>1,007</b>	<b>15,799</b>	<b>456</b>	<b>17,262</b>
<hr/>				
<b>Carrying amounts</b>				
<b>At 31 December 2020</b>	<b>8,224</b>	<b>13,129</b>	<b>1,028</b>	<b>22,381</b>
<hr/>				
At 31 December 2019	8,333	14,059	726	23,118
<hr/>				

Notes:

- (a) The Group does not have the option to purchase the right-of-use assets for a nominal amount at the end of the lease terms.
- (b) As at 31 December 2020, the land use rights and motor vehicles with carrying amount of approximately HK\$8,224,000 and HK\$620,000 have been pledged to secure bank borrowings (Note 27) granted to the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK\$'000	2019 HK\$'000
Key management personnel life insurance policies (note (a))	10,794	10,568
Bonds (note (b))	–	5,835
Club membership (note (c))	618	579
	<b>11,412</b>	<b>16,982</b>

Notes:

- (a) On 19 March 2010 and 20 September 2012, the Group entered into key management personnel 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 and the total insured sum reduced to USD3,750,000 (equivalent to approximately HK\$29,063,000).

On 1 February 2018, the Group entered into another Policies with an insurance company to insure the Directors Mr. Kim Jun Yeob and Mr. Koo Ja Chun. Under the policies, the beneficiary and policy holder is the Company and the total insured sum is USD2,000,000 (equivalent to approximately HK\$15,500,000). The Company is required to pay an upfront deposit of USD754,379 (equivalent to approximately HK\$5,846,000) 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 28 August 2019, the Group terminated the life insurance policy and received net cash proceeds of approximately HK\$4,905,000 at the date of withdrawal, after deducted the withdrawal charges. The realised fair value loss of financial assets at fair value through profit or loss was recognised in profit or loss during the year.

The carrying amounts of the key management personnel life insurance policies approximated to its fair value as at 31 December 2020 and 2019. Any subsequent change in the fair value will be recognised through profit or loss. The entire amount of the rights under the payment for life insurance policies is denominated in United States Dollar.

- (b) As at 31 December 2019, the fair values of the bonds are determined by reference to the quoted prices from the financial institution. The bonds have been pledged as collateral for banking facilities.

On 6 July 2020, the Group disposed the bonds and received net cash proceeds of approximately HK\$5,692,000 at the date of settlement. The loss on disposal of financial assets at fair value through profit or loss was recognised in profit or loss during the year.

- (c) The club membership represents the indefinite useful life golf club membership. As at 31 December 2020 and 2019, the fair value of the club membership is arrived on the basis of a valuation carried out by an independent professional valuer.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 19. INVENTORIES

Raw materials  
Work in progress  
Finished goods

2020 HK\$'000	2019 HK\$'000
75,664	71,380
13,279	17,808
97,927	76,772
<b>186,870</b>	<b>165,960</b>

As at 31 December 2020, the inventories with carrying amount of approximately HK\$29,260,000 have been pledged to secure bank borrowings (Note 27) granted to the Group.

## 20. TRADE AND BILLS RECEIVABLES

Trade receivables  
Less: Allowance for expected credit losses

Bills receivables

2020 HK\$'000	2019 HK\$'000
89,908	74,023
(29,911)	(16,062)
59,997	57,961
32	32
<b>60,029</b>	<b>57,993</b>

As at 31 December 2020 and 2019, trade receivables (net of allowance for expected credit loss) from contracts with customers amounted to approximately HK\$59,997,000 and approximately HK\$57,961,000 respectively.

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

Within 30 days  
31 to 60 days  
61 to 90 days  
91 to 180 days  
Over 180 days

2020 HK\$'000	2019 HK\$'000
23,649	16,726
7,383	5,309
5,358	1,108
9,993	8,031
13,614	26,787
<b>59,997</b>	<b>57,961</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 20. TRADE AND BILLS RECEIVABLES *(Continued)*

The Group generally allows an average credit period range from 30 to 120 days to its customers.

Allowance for expected credit loss of HK\$29,911,000 have been recognised for trade receivables as at 31 December 2020 (2019: HK\$16,062,000).

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the customers from the date that credit was initially granted up to the end of each reporting period. The management also considers the forward-looking information and any change in the expected recovery of the trade receivables.

Details of assessment for expected credit loss of trade receivables for the years ended 31 December 2020 and 2019 are set out in Note 5(b).

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Deposits and prepayments (note)	<b>26,589</b>	21,060
Value-added tax receivables	<b>14,614</b>	13,143
Other receivables	<b>1,770</b>	7,299
	<b>42,973</b>	41,502
Less: Allowance for expected credit losses	<b>(12)</b>	(195)
	<b>42,961</b>	41,307
Analysed as:		
Non-current	–	5,640
Current	<b>42,961</b>	35,667
	<b>42,961</b>	41,307

Note:

As at 31 December 2020, the amount included prepayment to suppliers approximately HK\$19,216,000 (2019: HK\$7,424,000).

Details of assessment for expected credit loss of deposit and other receivables for the years ended 31 December 2020 and 2019 are set out in Note 5(b).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 22. AMOUNTS DUE FROM DIRECTORS

### Name of directors

Mr. Kim Jun Yeob  
Mr. Kim Byung Kwon

	Maximum balance outstanding during the year ended	
	2020 HK\$'000	2019 HK\$'000
Mr. Kim Jun Yeob	1,712	1,150
Mr. Kim Byung Kwon	903	903
	<b>1,712</b>	<b>2,053</b>

The amounts due from directors are non-trade, unsecured, interest-free and recoverable on demand.

Details of assessment for expected credit loss of amounts due from directors for the years ended 31 December 2020 and 2019 are set out in Note 5(b).

## 23. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

	2020 HK\$'000	2019 HK\$'000
Pledged bank deposits	25,463	25,580
Cash and bank balances	9,452	25,925
	<b>34,915</b>	<b>51,505</b>

Pledge bank deposits and cash and bank balances are denominated in the following currencies:

	2020 HK\$'000	2019 HK\$'000
HK\$	50	114
USD	3,139	21,790
RMB	26,161	23,695
VND	3,944	5,095
Taiwan Dollars ("NT\$")	498	749
Malaysian Ringgit ("MYR")	1,121	60
Philippine Piso ("PHP")	2	2
	<b>34,915</b>	<b>51,505</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 23. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES *(Continued)*

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 2020 and 2019, bank deposits of the Group of approximately HK\$25,463,000 and HK\$25,580,000 are pledged as collateral for bank facilities (Note 27).

The amount comprise bank balances held by the Group and pledged bank deposit bearing market interest rates from 0.01% to 1.5% (2019: 0.01% to 1.5%) per annum. The fair value of these assets approximates to the corresponding carrying amounts.

## 24. TRADE AND BILLS PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	138,621	110,523
Bills payables	47,527	62,522
	<b>186,148</b>	<b>173,045</b>

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:

	2020 HK\$'000	2019 HK\$'000
Within 30 days	67,791	44,946
31 to 60 days	30,744	24,650
61 to 90 days	17,698	13,740
91 to 180 days	21,117	24,783
Over 180 days	1,271	2,404
	<b>138,621</b>	<b>110,523</b>

All bills payable at the end of the reporting period are not yet due.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 25. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

Accruals  
Deposits received  
Other payables

2020 HK\$'000	2019 HK\$'000
8,375	8,721
8,509	2,918
5,355	4,136
<b>22,239</b>	<b>15,775</b>

## 26. CONTRACT LIABILITIES

Contract liabilities

2020 HK\$'000	2019 HK\$'000
<b>18,216</b>	39,565

Reconciliation of contract liabilities for the years ended 31 December 2020 and 2019:

	HK\$'000
At 1 January 2019	30,446
Receipt in advance from customers during the year	317,638
Revenue recognised during the year that was included in the contract liabilities at the beginning of the period	(30,446)
Revenue recognised upon the product sales during the year	<u>(278,073)</u>
At 31 December 2019 and 1 January 2020	39,565
Receipt in advance from customers during the year	348,751
Revenue recognised during the year that was included in the contract liabilities at the beginning of the period	(39,565)
Revenue recognised upon the product sales during the year	<u>(330,535)</u>
<b>At 31 December 2020</b>	<b><u>18,216</u></b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 27. BANK BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Bank loans:		
Secured fixed rate borrowings (note (a) and (b))	3,713	4,422
Secured floating rate borrowings (note (a) and (b))	79,744	67,192
	<b>83,457</b>	71,614
Secured term loan from bank that repayable within the period of:		
– less than 1 year	79,716	65,922
– more than 1 year but within 2 years	2,868	3,737
– more than 2 years but within 5 years	873	1,955
Secured term loan	83,457	71,614
Less: Amount classified as current liabilities		
Secured term loan due within one year or contain a repayment on demand clause	<b>(83,457)</b>	(71,614)
Amount classified as non-current liabilities	–	–

Notes:

- (a) The bank borrowings of the Group as at 31 December 2020 and 2019 respectively were secured by:
- (i) corporate guarantee provided by the Company for the years ended 31 December 2020 and 2019;
  - (ii) pledged bank deposits with carrying amounts of approximately HK\$25,463,000 and HK\$25,580,000 as at 31 December 2020 and 2019 respectively;
  - (iii) pledge of the financial assets at fair value through profit or loss (key management personnel life insurance policies) with carrying amounts of approximately HK\$10,794,000 and HK\$10,568,000 as at 31 December 2020 and 2019 respectively;
  - (iv) pledge of the financial assets at fair value through profit or loss (bonds) with carrying amounts of approximately HK\$5,835,000 as at 31 December 2019;
  - (v) pledge of the Group's land and building with carrying amounts of approximately HK\$75,893,000 and HK\$73,467,000 as at 31 December 2020 and 2019 respectively;
  - (vi) pledge of the Group's machinery and equipment with carrying amounts of approximately HK\$21,488,000 and HK\$19,292,000 as at 31 December 2020 and 2019 respectively.
  - (vii) pledge of the Group's right-of-use assets with carrying amounts of approximately HK\$8,844,000 as at 31 December 2020.
  - (viii) pledge of the Group's inventories with carrying amounts of approximately HK\$29,260,000 as at 31 December 2020.
- (b) The bank borrowings of the Group with financial institutions amounted to approximately HK\$83,457,000 and HK\$71,614,000 respectively, carried interest ranging from 1.6% to 5.65% and 3.10% to 4.27% per annum for the years ended 31 December 2020 and 2019 respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 28. LEASE LIABILITIES

The Group lease certain of its right-of-use assets.

Minimum lease payments due:

- within one year
- in the second to fifth years, inclusive

Less: Future finance charges

Present value of lease liabilities

Present value of lease liabilities:

- within one year
- in the second to fifth years, inclusive

Less: Amount due for settlement within one year

Amount due for settlement after one year

2020 HK\$'000	2019 HK\$'000
<b>11,841</b>	8,882
<b>5,000</b>	9,777
<b>16,841</b>	18,659
<b>(727)</b>	(1,193)
<b>16,114</b>	17,466
<b>11,211</b>	8,156
<b>4,903</b>	9,310
<b>16,114</b>	17,466
<b>(11,211)</b>	(8,156)
<b>4,903</b>	9,310

The weighted average incremental borrowing rates applied to lease liabilities range from to 4.0% to 13.4% (2019: from 6.5% to 13.4%).

## 29. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder as at 31 December 2019 is non-trade, unsecured, interest-free and repayable on demand.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 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 2020 and 2019 are as follows:

	<b>Accelerated tax depreciation</b> HK\$'000	<b>Revaluation of land and building</b> HK\$'000	<b>Total</b> HK\$'000
As at 1 January 2019	5	3,491	3,496
Charged to profit or loss (Note 11)	70	–	70
Charged to other comprehensive income	–	353	353
As at 31 December 2019 and 1 January 2020	75	3,844	3,919
Credited to profit or loss (Note 11)	(46)	–	(46)
Charged to other comprehensive income	–	741	741
<b>As at 31 December 2020</b>	<b>29</b>	<b>4,585</b>	<b>4,614</b>

As at 31 December 2020 and 2019, the Group has estimated tax losses of approximately HK\$43,978,000 and HK\$30,897,000 available for offset against future profits. No deferred tax assets have been recognised as it uncertain that there will be sufficient future profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely except for the tax losses arising in the PRC of that will expire in ten years for offsetting against future taxable profits. As at 31 December 2020 and 2019, there were no tax loss carried forward in the PRC.

## 31. SHARE CAPITAL

### Authorised:

Ordinary share of HK\$0.01 each as at 1 January 2019,  
31 December 2019, 1 January 2020 and 31 December 2020

**Number of  
Shares**  
'000

**Amount**  
HK\$'000

50,000,000

500,000

### Issued and fully paid:

As at 1 January 2019, 31 December 2019,  
1 January 2020 and 31 December 2020

660,000

6,600

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2020 HK\$'000	2019 HK\$'000
<b>Non-current asset</b>			
Investments in subsidiaries		9	9
<b>Current assets</b>			
Prepayments		150	866
Amounts due from subsidiaries		32,581	38,368
Cash and bank balances		6	6
		<b>32,737</b>	39,240
<b>Current liability</b>			
Accruals		2,931	4,399
<b>Net current assets</b>		<b>29,806</b>	34,841
<b>Net assets</b>		<b>29,815</b>	34,850
<b>Capital and reserves</b>			
Share capital	31	6,600	6,600
Reserves	33	23,215	28,250
<b>Total equity</b>		<b>29,815</b>	34,850

Approved and authorised for issue by the board of directors on 21 April 2021 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 33. RESERVES OF THE COMPANY

	Share premium HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
At 1 January 2019	58,924	(23,734)	35,190
Loss and total comprehensive loss for the year	–	(6,940)	(6,940)
At 31 December 2019 and 1 January 2020	58,924	(30,674)	28,250
Loss and total comprehensive loss for the year	–	(5,035)	(5,035)
<b>At 31 December 2020</b>	<b>58,924</b>	<b>(35,709)</b>	<b>23,215</b>

## 34. PRINCIPAL SUBSIDIARIES

- (a) As at 31 December 2020 and 2019, 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		Principal activities
			As at 31 December 2020 %	2019 %	
<b>Directly held:</b> Zioncom BVI Limited ("Zioncom BVI")	British Virgin Islands ("BVI"), 1 February 2016	US\$110	100	100	Investment holdings
<b>Indirectly held:</b> Zioncom (Hong Kong) Technology Limited ("Zioncom (Hong Kong)")	Hong Kong, 17 September 1999	HK\$32,000,000	100	100	Sale of networking products
吉翁電子(深圳)有限公司 ("Zioncom (Shenzhen)") (note 1)	The PRC, 9 March 2004	US\$7,980,000	100	100	Research and development, manufacturing and sale of networking products
Zioncom (Vietnam) Co.,Ltd ("Zioncom (Vietnam)")	Vietnam, 10 March 2015	US\$7,600,000	72.37	72.37	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	Sale of networking products
Zioncom Technology Sdn. Bhd. ("Zioncom (Malaysia)")	Malaysia, 17 May 2018	MYD\$1	100	100	Sale of networking products

note:

- There is limited liability company established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 34. PRINCIPAL SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiary that has material non-controlling interests:

The emolument of directors and chief executive for the year ended 31 December 2020, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is set out below:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020 %	2019 %	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Zioncom (Vietnam)	Vietnam	27.63	27.63	2,399	284	11,673	9,026

Summarised financial information in respect of each of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

### Zioncom (Vietnam)

	2020 HK\$'000	2019 HK\$'000
Current assets	60,662	45,296
Non-current assets	58,988	55,323
Current liabilities	(62,047)	(52,229)
Non-current liabilities	(200)	(566)
Equity attributable to owners of the Company	45,730	38,798
Non-controlling interests	11,673	9,026

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 34. PRINCIPAL SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiary that has material non-controlling interests: (Continued)

### Zioncom (Vietnam) (Continued)

	2020 HK\$'000	2019 HK\$'000
Revenue	158,261	139,095
Profit for the year	8,683	1,444
Profit attributable to owners of the Company	6,284	1,160
Profit attributable to non-controlling interests	2,399	284
Profit for the year	8,683	1,444
Other comprehensive income/(loss) attributable to owners of the Company	649	(235)
Other comprehensive income/(loss) attributable to non-controlling interests	248	(61)
Other comprehensive income/(loss) for the year	897	(296)
Total comprehensive income attributable to owners of the Company	6,933	925
Total comprehensive income attributable to non-controlling interests	2,647	223
Total comprehensive income for the year	9,580	1,148
Dividends paid to non-controlling interests	–	–
Net cash inflow/(outflow) from operating activities	2,391	(33,435)
Net cash outflow from investing activities	(5,948)	(3,026)
Net cash inflow from financing activities	4,206	37,741
Net cash inflow	649	1,280



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 35. CHANGE IN OWNERSHIP INTERESTS IN SUBSIDIARIES

On 20 March 2019, the Group deemed disposal 27.63% equity interests of Zioncom (Vietnam), an indirect wholly owned subsidiary of the Company, by way of increasing the registered capital of Zioncom (Vietnam) from US\$5,500,000 to US\$7,600,000. The full amount of the capital injection will be contributed in the form of cash and fully paid up by the two independent Investors as at the completion date. As a result, the Group's shareholding of Zioncom (Vietnam) was diluted but without loss of the control. The Group recognised an increase of non-controlling interests and other reserve of approximately HK\$8,803,000 and HK\$7,559,000 respectively.

## 36. CAPITAL COMMITMENTS

At the end of each reporting period, the Group had the following capital commitments:

	2020 HK\$'000	2019 HK\$'000
Authorised and contracted for capital contributions payable to an equity investment	594	557

## 37. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 37. RETIREMENT BENEFITS PLANS *(Continued)*

In accordance with the relevant rules and regulations in those countries other than Hong Kong and the 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 10.

## 38. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 38. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 38. 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 2020 and 2019.

## 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 12 and 13.

### (b) Balances with related parties

The amounts due from directors are non-trade, unsecured, interest free and recoverable on demand are set out in Note 22.

The amount due to a shareholder is non-trade, unsecured, interest free and repayable on demand are set out in Note 29.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 40. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure the lease liabilities granted to the Group or bank borrowings of the Group as follow:

Property, plant and equipment  
Right-of-use assets  
Inventories  
Financial assets at fair value through profit or loss  
Pledged bank deposits

2020 HK\$'000	2019 HK\$'000
97,381	92,759
8,844	–
29,260	–
10,794	16,403
25,463	25,580
<b>171,742</b>	<b>134,742</b>

## 41. NON-CASH TRANSACTIONS

- (a) During the year ended 31 December 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of approximately HK\$477,000 (2019: HK\$582,000) and approximately HK\$331,000 (2019: HK\$446,000), respectively, in respect of lease arrangements for motor vehicles which of approximately HK\$146,000 (2019: HK\$136,000) have made by the Group as down payment.
- (b) Changes in liabilities arising from financing activities:

	Bank borrowings HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
At 1 January 2019	59,035	22,230	81,265
<i>Changes from financing cash flows:</i>			
Proceeds from bank borrowings	63,977	–	63,977
Repayment of bank borrowings	(50,761)	–	(50,761)
Repayment of lease liabilities	–	(9,485)	(9,485)
Interest paid	(2,433)	(147)	(2,580)
<i>Non-cash changes:</i>			
Addition to right-of-use assets	–	3,848	3,848
Finance costs (Note 9)	2,534	1,328	3,862
Interest payables	(102)	–	(102)
Exchange alignment	(636)	(308)	(944)
At 31 December 2019	71,614	17,466	89,080

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 41. NON-CASH TRANSACTIONS (Continued)

(b) Changes in liabilities arising from financing activities: (Continued)

	<b>Bank borrowings</b>	<b>Lease liabilities</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020	71,614	17,466	89,080
<i>Changes from financing cash flows:</i>			
Proceeds from bank borrowings	60,730	–	60,730
Repayment of bank borrowings	(51,015)	–	(51,015)
Repayment of lease liabilities	–	(9,650)	(9,650)
Interest paid	(2,303)	(132)	(2,435)
<i>Non-cash changes:</i>			
Addition to right-of-use assets	–	6,618	6,618
Finance costs (Note 9)	2,534	996	3,530
Interest payables	(55)	–	(55)
Exchange alignment	1,952	816	2,768
<b>At 31 December 2020</b>	<b>83,457</b>	<b>16,114</b>	<b>99,571</b>

## 42. EVENTS AFTER THE REPORTING PERIOD

(1) On 31 December 2020 (after trading hours), Zioncom (Hong Kong), an indirect wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding (“MOU”) with an independent third party purchaser pursuant to which Zioncom (Hong Kong) proposed to sell approximately 22.5% equity interest in Zioncom (Vietnam). As at the date hereof, Zioncom (Hong Kong) owns 72.37% of Zioncom (Vietnam). The MOU remains valid and effective until the execution of the Formal Agreement or terminated by the parties in writing. The disposal has not been completed up to the date of this annual report.

Please refer to the announcements of the Company dated 31 December 2020 and 1 February 2021 for more information.

(2) The recent escalation of COVID-19 to a global pandemic has an adverse impact on market sentiments and has posed challenge to the whole world. In the opinion of the directors, COVID-19 has not resulted in material impact to the Company’s business, financial condition and results of operations during the year ended 31 December 2020 and its effect may continue in the year of 2021 and the Company will continue to closely monitor the development of the pandemic and take all possible and reasonable measures to mitigate the effect on the Company’s operations.

## 43. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 April 2021.

# Five Years' Financial Summary

For the year ended 31 December 2020

## RESULTS

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

	For the year ended 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	<b>607,708</b>	573,137	537,709	578,358	512,192
(Loss)/profit before taxation	<b>(6,466)</b>	(23,993)	(15,240)	3,906	16,793
Taxation	<b>(1,729)</b>	(2,104)	(2,648)	(3,186)	(2,925)
(Loss)/profit for the year	<b>(8,195)</b>	(26,097)	(17,888)	720	13,868
(Loss)/profit attributable to owners of the Company	<b>(10,594)</b>	(26,381)	(17,888)	720	13,868

## ASSETS AND LIABILITIES

	At 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Total assets	<b>497,702</b>	491,235	506,984	513,034	366,427
Total liabilities	<b>(331,614)</b>	(323,798)	(325,687)	(369,986)	(234,016)
Total equity attributable to owners of the Company	<b>166,088</b>	167,437	181,297	143,048	132,411

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

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

The financial information for the year ended 31 December 2016 was 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 3 to the consolidated financial statements.