ZIONCOM

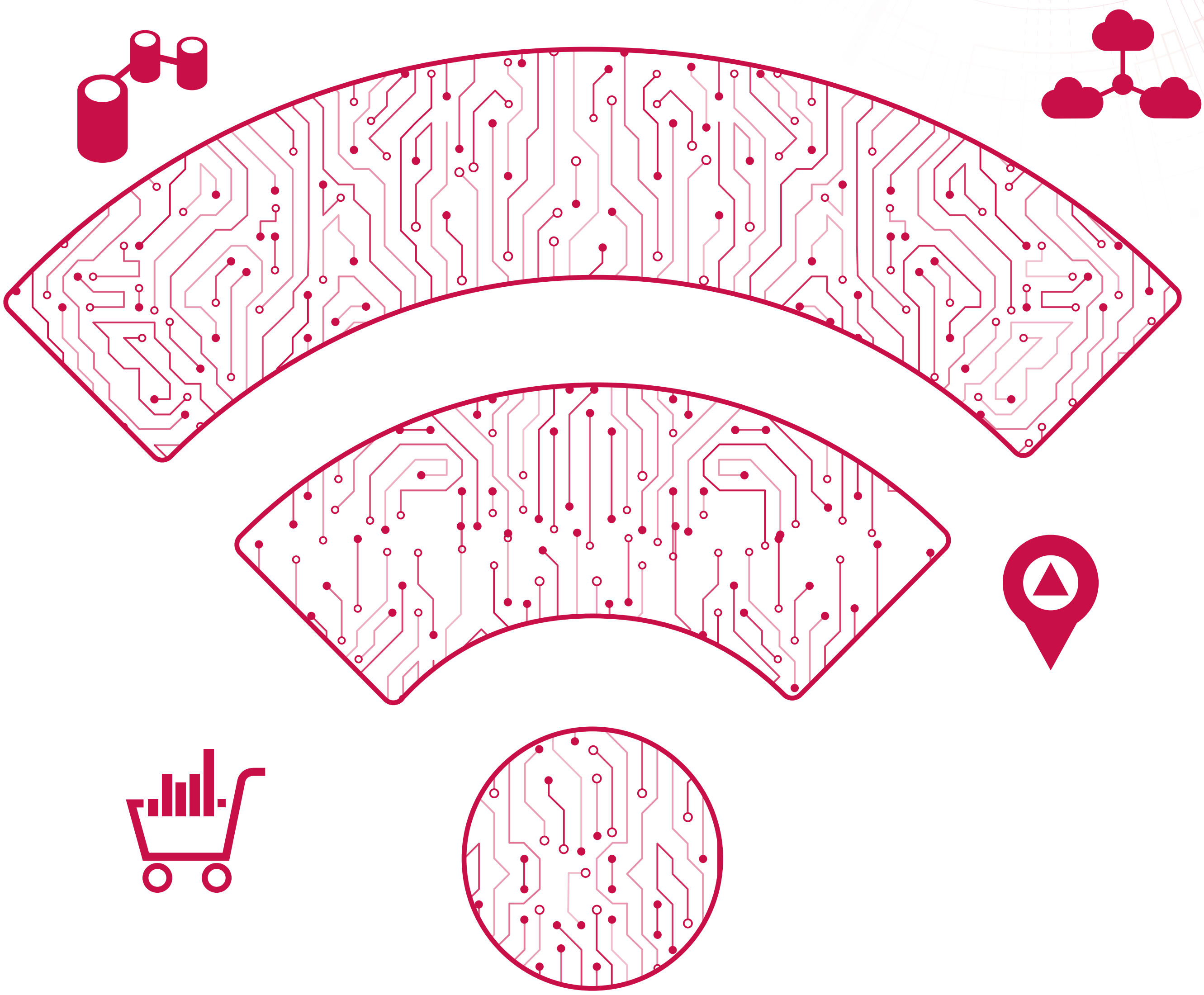
Zioncom Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8287

ANNUAL REPORT

2018



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

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

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

Independent Non-Executive Directors:

Mr. Kim Kwang Hyun（金廣鉉先生）
(resigned with effect from 28 December 2018)
Mr. Oh Sung Jin（吳成鎮先生）
(resigned with effect from 28 December 2018)
Mr. Yiu Kwing Sum（姚炯深先生）
Mr. Ko Ming Tung, Edward（高明東先生）
Mr. Shin Dongmin（申東旼先生）
(appointed with effect from 28 December 2018)

COMPANY SECRETARY

Mr. Lee Pui Chung (李沛聰先生)
(resigned with effect from 12 March 2019)

AUTHORISED REPRESENTATIVES

Mr. Kim Jun Yeob（金俊燁先生）
Mr. Koo Ja Chun（具滋千先生）
(appointed with effect from 12 March 2019)
Mr. Lee Pui Chung（李沛聰先生）
(resigned with effect from 12 March 2019)

COMPLIANCE OFFICER

Mr. Kim Jun Yeob（金俊燁先生）

AUDIT COMMITTEE

Mr. Yiu Kwing Sum（姚炯深先生）*(Chairman)*
Mr. Kim Kwang Hyun（金廣鉉先生）
(resigned with effect from 28 December 2018)
Mr. Oh Sung Jin（吳成鎮先生）
(resigned with effect from 28 December 2018)
Mr. Ko Ming Tung, Edward（高明東先生）
Mr. Shin Dongmin（申東旼先生）
(appointed with effect from 28 December 2018)

REMUNERATION COMMITTEE

Mr. Oh Sung Jin（吳成鎮先生）
(resigned with effect from 28 December 2018)
Mr. Kim Kwang Hyun（金廣鉉先生）
(resigned with effect from 28 December 2018)
Mr. Kim Jun Yeob（金俊燁先生）
Mr. Ko Ming Tung, Edward（高明東先生）
(appointed with effect from 28 December 2018)
Mr. Shin Dongmin（申東旼先生）*(Chairman)*
(appointed as committee Chairman
with effect from 28 December 2018)

NOMINATION COMMITTEE

Mr. Kim Kwang Hyun（金廣鉉先生）
(resigned with effect from 28 December 2018)
Mr. Koo Ja Chun（具滋千先生）
Mr. Oh Sung Jin（吳成鎮先生）
(resigned with effect from 28 December 2018)
Mr. Ko Ming Tung, Edward（高明東先生）
(appointed with effect from 28 December 2018)
Mr. Shin Dongmin（申東旼先生）*(Chairman)*
(appointed as committee Chairman
with effect from 28 December 2018)

Corporate Information

COMPLIANCE COMMITTEE

Mr. Ko Ming Tung, Edward（高明東先生）*(Chairman)*
Mr. Kim Jun Yeob（金俊燁先生）
Mr. Kim Kwang Hyun（金廣鉉先生）
(resigned with effect from 28 December 2018)
Mr. Oh Sung Jin（吳成鎮先生）
(resigned with effect from 28 December 2018)
Mr. Yiu Kwing Sum（姚炯深先生）
Mr. Shin Dongmin（申東旼先生）
(appointed with effect from 28 December 2018)

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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The Hongkong and Shanghai Banking
Corporation Limited

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Lego Corporate Finance Limited
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Hong Kong

STOCK CODE

8287

COMPANY'S WEBSITE

www.zioncom.net

Chairman's Statement

Dear Shareholders,

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

Since our establishment in 1999, the Group has been focusing on research and development, manufacturing and sales, and has been committed to providing clients from 40 countries and regions around the globe with quality networking products.

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

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

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, 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$17.9 million for the year ended 31 December 2018, 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 2018, 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, 29 March 2019

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

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

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

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

Management Discussion and Analysis

OUTLOOK

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

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

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

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

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

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

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

Cost of sales and gross profit

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

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

Other income

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

Selling and distribution expenses

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

Administrative expenses

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

Research and development expenses

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

Finance costs

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

(Loss)/profit for the year

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, total borrowings of the Group amounted to approximately HK$63.2 million (2017: approximately HK$64.3 million) which represented the interest bearing bank loans at floating rates, interest bearing bank loans on fixed terms and finance leases of motor vehicle and machines. As at 31 December 2018, the cash and bank balances and pledged bank deposit of the Group amounted to approximately HK$35.3 million (2017: approximately HK$58.3 million). Details on the average interest rate and maturity profile of the Group's financial liabilities is set out in the note 6 to the consolidated financial statements.

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

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

As at 31 December 2018, cash and bank balances of the Group amounted to approximately HK$4.8 million (2017: approximately HK$32.6 million).

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

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENTS

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

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2018, pledged bank deposits of approximately HK$30.5 million (2017: approximately HK$25.7 million), property, plant and equipment with a carrying value of approximately HK$75.5 million (2017: approximately HK$79.9 million), financial assets at fair value through profit or loss/other financial assets with a carrying value of approximately HK$21.4 million (2017: approximately HK$16.0 million including an amount of approximately HK$5.9 million classified as available-for-sale investments as at 31 December 2017) of the Group were pledged to secure the Group's bank borrowings. Bank borrowings guaranteed by personal guarantee have been replaced by a corporate guarantee on the date of Listing.

EXCHANGE RATE EXPOSURE

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

As at 31 December 2018, the Group did not have a foreign currency hedging policy. However, the management will continue to closely monitor the Group's foreign exchange exposure and will consider hedging significant foreign currency risk should the need arise.

SIGNIFICANT INVESTMENTS HELD

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

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

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

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

Management Discussion and Analysis

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

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

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

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

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

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

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 2018, approximately 24.2% of the total trade receivables were due from the Group's five largest customers whereas none was due from the Group's largest customer. The Group reviews and monitors the level of exposure to credit risk from time to time ensure that follow-up actions are taken to recover overdue debts. In addition, at the end of each reporting year, the recoverability of each trade debt is evaluated so as to ensure that adequate impairment losses are made for irrecoverable amounts.

Interest rate risk

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

Liquidity risk

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

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 2018.

Management Discussion and Analysis

Business implementation plan as set out in Prospectus	Actual progress up to 31 December 2018
Increasing the market penetration of our 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	– The Group has maintained three salespersons in Taiwan, one salesperson in Malaysia and one salesperson in the Philippines for exploring emerging markets in Asia
– To organise overseas promotion campaign and to place advertisements in both printed and online media	– The Group has organised overseas promotion campaigns and placed advertisements in both printed and online media
Introducing automation system to our Shajing production facilities for lowering our 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 our research and development capacity	
– To maintain the six software developers hired for enhancing our software research and development capacity	– The Group has maintained the six software developers hired for enhancing our software research and development capacity
– To maintain the three hardware developers hired for enhancing our hardware research and development capacity	– The Group has maintained the three hardware developers hired for enhancing our research and development capacity
Reducing our gearing ratio by repaying finance lease facilities	
– To reduce our gearing ratio by repaying finance lease facilities	– The Group has repaid approximately HKS2.3 million finance lease liabilities

Management Discussion and Analysis

USE OF PROCEEDS

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

CHANGE OF USE OF PROCEEDS

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

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

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

REASONS FOR CHANGE IN USE OF PROCEEDS

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

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

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

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

(3) Enlarging our R&D capacity

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

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

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

(5) Outsourcing to external R&D company

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

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

(6) Sourcing of raw materials to increase production volume

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

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 2018.

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.

Save as disclosed above, there was no change in the capital structure of the Company during the year ended 31 December 2018.

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 35 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 2018 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 17 of this annual report. In addition, various financial risks have been disclosed in note 6 to the consolidated financial statements.

An analysis using financial key performance indicators

An analysis of the Group's performance during the year ended 31 December 2018 using financial performance indicators is provided in the section headed "Four Years' Financial Summary" on page 148 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 43 to 48 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 the Prospectus, the Group is not aware of any material non-compliance with the laws and regulations that have significant impact on the business of the Group during the year ended 31 December 2018. All of the non-compliance incidents as disclosed in the Prospectus that are capable of being rectified had been rectified.

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

The Group also maintains a good relationship with its suppliers. During the year ended 31 December 2018, 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 2018, there was no dispute on salary payments and all accrued remunerations were settled on or before their respective due dates, as stipulated under the individual employee's employment contract. The Group also ensures that all the employees are reasonably remunerated by regular review of the policies on salary increment, promotion, bonus, allowances and all other related benefits.

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

EMPLOYEES AND EMOLUMENT POLICIES

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

The Group also reviews the performance of the Group's staff periodically and consider the result of such review for staff's annual bonus, salary review and promotion appraisal. The Company has also adopted a share option scheme, details of which are set out on pages 26 to 28 of this annual report and the section headed "Statutory and General Information – D. Share Option Scheme" in Appendix IV to the Prospectus.

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

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

Report of the Directors

RESULTS AND APPROPRIATIONS

The financial results of the Group for the year ended 31 December 2018 and the financial positions of the Company and the Group as at 31 December 2018 are set forth in the audited consolidated financial statements on page 58 to 147 of this annual report.

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

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last four financial years is set out on page 148 of this annual report. This summary does not form part of the audited consolidated financial statements in this annual report.

RESERVES

Movements in reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 61 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company has distributable reserves of approximately HK$59,239,000 available for distribution to shareholders of the Company (2017: approximately HK$82,933,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year ended 31 December 2018 are set out in note 17 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended 31 December 2018 are set out in the paragraph headed "Share Structure" above and note 32 to the consolidated financial statements in this annual report.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this annual 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

Independent Non-Executive Directors

Mr. Kim Kwang Hyun (resigned with effect from 28 December 2018)
Mr. Oh Sung Jin (resigned with effect from 28 December 2018)
Mr. Yiu Kwing Sum
Mr. Ko Ming Tung, Edward
Mr. Shin Dongmin (appointed with effect from 28 December 2018)

In accordance with the articles of association of the Company (the "Articles"), Mr. Shin Dongmin will retire at the forthcoming annual general meeting, and being eligible, will offer himself for re-election as an independent non-executive Director at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

Pursuant to the letters of appointment between the Company and the independent non-executive Directors, the independent non-executive Directors have been appointed for a term of three years commencing from the Listing Date (except for Mr. Shin Dongmin who was appointed with effect from 28 December 2018) 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 49 to 51 of this annual report.

DIRECTORS' REMUNERATIONS

Details of the remunerations of the Directors during the year ended 31 December 2018 are set out in note 13 to the consolidated financial statements in this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2018 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 2018.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the paragraph headed "Share Option Scheme" in this annual report, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company subsisting during or at the end of the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 72.6% and sales to the Group's largest customer amounted to approximately 52.7% of the total revenue for the year ended 31 December 2018, respectively. Purchases from the Group's five largest suppliers accounted for approximately 41.9% and purchases from the Group's largest supplier amounted to approximately 19.8% of the total purchases for the year ended 31 December 2018.

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 2018.

Report of the Directors

RELATED PARTY TRANSACTIONS

Related party transactions of the Group during the year ended 31 December 2018 are disclosed in note 39 to the consolidated financial statements in this annual report. They did not constitute connected transactions or continuing connected transactions, which are required to comply with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

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

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

DIVIDENDS

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

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 2018.

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 2018.

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

The Listing took place on 18 January 2018.

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

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

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

Note:

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

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

Name of Directors	Name of associated corporation	Capacity	No. share(s) held	Percentage of issued share capital
Mr. Kim Byung Kwon	Lincats	Beneficial owner	1,636	81.8%
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 Listing Date and the date of this annual report, none of the Directors or chief executive of the Company had any interest or short position in Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

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

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

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

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

SHARE OPTION SCHEME

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

1. Purpose of the Share Option Scheme

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

2. Who may join

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

3. Grant and Acceptance of Option

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

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

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

4. Subscription Price of Shares

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

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

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

(c) the nominal value of the Shares.

5. Maximum number of Shares

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

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

6. **Time of exercise of Option**

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

7. **Period of Share Option Scheme**

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

No share option had been granted since the adoption of the Share Option Scheme up to the date of this annual report and there was no share option outstanding as at 31 December 2018.

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

INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2018, none of the Directors or any of their respective close associates (as defined under the GEM Listing Rules) are engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such persons has or may have with the Group.

DEED OF NON-COMPETITION

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

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

DIRECTORS’ EMOLUMENT POLICY

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

INTERESTS OF COMPLIANCE ADVISER

As notified by the Company’s compliance adviser, Lego Corporate Finance Limited (the “Compliance Adviser”), save for the Compliance Adviser’s agreement entered into between the Company and the Compliance Adviser dated 22 June 2017, neither the Compliance Adviser nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of the Company or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 December 2018.

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, 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 31 to 42 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done concurred in or omitted in or about the execution of their duty or supposed duty in their offices, except such (if any) as they shall incur of sustain through their own fraud or dishonesty. Such permitted indemnity provision has been in force throughout the year ended 31 December 2018. The Company has arranged appropriate Directors’ and officers’ liability insurance coverage for the Directors and officers of the Group.

AUDITORS

The consolidated financial statements for the year ended 31 December 2018 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

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

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

On behalf of the Board

Mr. Kim Byung Kwon
Chairman and Executive Director

Hong Kong, 29 March 2019

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 2018, the Company has complied with all the applicable code provisions of the Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENT, RE-ELECTION AND RETIREMENT OF THE DIRECTORS

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

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

Pursuant to the Articles, Mr. Shin Dongmin will retire from office as independent non-executive Director at the forthcoming AGM, and being eligible, will offer himself for re-election.

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

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

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

BOARD OF DIRECTORS

The Directors who held office during the year ended 31 December 2018 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

Independent Non-Executive Directors
Mr. Kim Kwang Hyun (resigned with effect from 28 December 2018)
Mr. Oh Sung Jin (resigned with effect from 28 December 2018)
Mr. Yiu Kwing Sum
Mr. Ko Ming Tung, Edward
Mr. Shin Dongmin (appointed with effect from 28 December 2018)

The brief biographic details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 49 to 51 of the annual report.

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

FUNCTIONS OF THE BOARD

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

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

BOARD MEETINGS AND PROCEDURES

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

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 2018 are summarised as follows:

	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	Compliance Committee meeting	General meeting
Executive Directors						
Mr. Kim Byung Kwon	4/4	N/A	N/A	N/A	N/A	N/A
Mr. Kim Jun Yeob	4/4	N/A	2/2	N/A	4/4	N/A
Mr. Koo Ja Chun	4/4	N/A	N/A	2/2	N/A	N/A
Mr. Xiao Jingen	4/4	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Kim Kwang Hyun (resigned with effect from 28 December 2018)	4/4	4/5	2/2	2/2	4/4	N/A
Mr. Oh Sung Jin (resigned with effect from 28 December 2018)	4/4	5/5	2/2	2/2	4/4	N/A
Mr. Yiu Kwing Sum	4/4	5/5	N/A	N/A	4/4	N/A
Mr. Ko Ming Tung, Edward	4/4	5/5	N/A	N/A	4/4	N/A
Mr. Shin Dongmin (appointed with effect from 28 December 2018)	N/A	N/A	N/A	N/A	N/A	N/A

BOARD COMMITTEES

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

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

AUDIT COMMITTEE

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

The Audit Committee currently consists of three members, namely Mr. Yiu Kwing Sum (Chairman), Mr. Shin Dongmin and Mr. Ko Ming Tung, Edward, all being independent non-executive Directors. The Group's final results for the year ended 31 December 2018 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 2018. 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 2018, recommended to the Board to re-appoint HLB Hodgson Impey Cheng Limited as the auditors of the Group for the year ending 31 December 2019, subject to approval by the shareholders of the Company at the forthcoming AGM and reviewed the audited consolidated financial statements and annual results announcement of the Group for the year ended 31 December 2018. The Audit Committee also reviewed risk management and internal control systems of the Group and made recommendations to the Board accordingly.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with effect from 18 January 2018 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee are, among others, to make recommendation to the Board on the policy and structure relating to all Directors and senior management of the Group; determine the remuneration packages of individual executive Directors and senior management; and ensure that none of the Directors determine their own remuneration.

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

The Remuneration Committee held two meetings for the year ended 31 December 2018. Details of the attendance of the Remuneration Committee meeting are set out above.

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

NOMINATION COMMITTEE

The Company established the Nomination Committee with effect from 18 January 2018 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Nomination Committee are, among others, to review the structure, size, composition diversity of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors.

The Nomination Committee currently consists of three members, namely, Mr. Shin Dongmin (Chairman) and Mr. Ko Ming Tung, Edward, both of whom are independent non-executive Directors and Mr. Koo Ka Chun, an executive Director. The majority of the members of the Nomination Committee are independent non-executive Directors.

The Nomination Committee held two meetings for the year ended 31 December 2018. Details of the attendance of the Nomination Committee meeting are set out above.

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

COMPLIANCE COMMITTEE

The Company established the Compliance Committee with effect from 18 January 2018 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. Ko Ming Tung, Edward (Chairman), Mr. Shin Dongmin and Mr. Yiu Kwing Sum, all of whom are independent non-executive Directors and Mr. Kim Jun Yeob, an executive Director.

In accordance with the undertaking as disclosed in the section headed "Business – Risk Management, Internal Control and Corporate Governance Measures" in the prospectus of the Company dated 28 December 2017 (the "Prospectus"), the Compliance Committee engaged a compliance director on 9 April 2018 who is a Hong Kong qualified solicitor with more than three years of relevant experience working as an in-house lawyer or similar experience and is responsible for the Group's internal control procedures to ensure its compliance with the GEM Listing Rules and other applicable laws and regulations.

The Compliance Committee held four meetings for the year ended 31 December 2018. Details of the attendance of the Compliance Committee meeting are set out above.

The major works performed by the Compliance Committee for the year ended 31 December 2018 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 it was not aware of any material non-compliance incidents during the year ended 31 December 2018.

DIVERSITY OF THE BOARD

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

All independent non-executive Directors have been appointed for a fixed term. Pursuant to the letters of appointment between the Company and the independent non-executive Directors, the independent non-executive Directors have been appointed for a term of three years commencing from the date of Listing (except Mr. Shin Dongmin who was appointed with effect from 28 December 2018) which may be terminated by either party by giving three months' written notice. Every Director is subject to re-election on retirement by rotation in accordance with the Articles. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers the independent non-executive Directors to be independent as at the date of the annual report.

DIRECTORS' INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT

Each newly appointed Director will receive a formal, comprehensive and tailored induction on the first occasion of his appointment to ensure that he has a proper understanding of the Company's operations and business and is fully aware of the Director's responsibilities under the statues and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

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 2018 and up to the date of this annual report are summarised as follows:

Name of Directors	Type of trainings
Mr. Kim Byung Kwon	A, B
Mr. Kim Jun Yeob	A, B
Mr. Koo Ja Chun	A, B
Mr. Xiao Jingen	A, B
Mr. Kim Kwang Hyun (resigned with effect from 28 December 2018)	A, B
Mr. Oh Sung Jin (resigned with effect from 28 December 2018)	A, B
Mr. Yiu Kwing Sum	A, B
Mr. Ko Ming Tung, Edward	A, B
Mr. Shin Dongmin (appointed with effect from 28 December 2018)	A, B

A: attending seminars/conferences/forums/training sessions

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

COMPANY SECRETARY

Mr. Lee Pui Chung, a member of the Hong Kong Institute of Certified Public Accountants, was appointed as the company secretary of the Company on 31 May 2016 and resigned with effect from 12 March 2019. Mr. Lee was also appointed as the financial controller of the Group in 18 January 2018 and resigned with effect from 9 December 2018.

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 2018, the company secretary had taken no less than 20 hours of relevant professional training.

The Company is in the process of identifying a suitable candidate to fill the vacancy of the company secretary. Further announcement will be made by the Company in relation to such appointment as and when appropriate.

SENIOR MANAGEMENT'S REMUNERATION

The senior management's remuneration payment of the Group during the year ended 31 December 2018 falls within the following bands:

	Number of individuals
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 the annual report. The Directors adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

EXTERNAL AUDITORS' REMUNERATION

The Company engaged HLB Hodgson Impey Cheng Limited as its auditors for the year ended 31 December 2018. 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 2018, the fee payable to HLB Hodgson Impey Cheng Limited in respect of its statutory audit services provided to the Group was HK$1,200,000.

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 2018 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.

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 2018, the Board 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 Board considers the risk management and internal control systems effective and adequate. 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.

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.

In accordance with the undertaking as disclosed in the section headed "Business – Risk Management, Internal Control and Corporate Governance Measures" in the Prospectus, the Compliance Committee engaged a compliance director on 9 April 2018 who is a Hong Kong qualified solicitor with more than three years of relevant experience working as an in-house lawyer or similar experience and is responsible for the Group's internal control procedures to ensure its compliance with the GEM Listing Rules and other applicable laws and regulations.

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

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

In light of the foregoing, the Directors reviewed the Group's risk management and internal control systems during the year ended 31 December 2018 and are of the view that the Group's risk management and internal control systems are adequate and effective.

THE SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Shareholders, investors and interested parties can make enquiries directly to the Company through the following e-mail: 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:	(86) 755-6136-3344
E-mail:	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.

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 2018.

Environmental, Social and Governance Report

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

For the year ended 31 December 2018, the Group is principally engaged in manufacturing and sales of networking products and non-networking products.

The Group's businesses are situated in Hong Kong, the PRC, Taiwan and Vietnam. The registered office in Hong Kong is located in Office A, 9/F, Kings Wing Plaza 2, No. 1 On Kwan Street, Shatin, New Territories, Hong Kong. The Group's headquarters is located in Room 702, 7/F, Block D, 4 Building, Shenzhen Software Industry Base, Xuefu Road, Nanshan District, Shenzhen, Guangdong, China.

This ESG Report describes the management approach and performance of the Group in environmental and social aspects. Corporate governance is not included here as it has been dealt with separately in the section headed "Corporate Governance Report" on pages 31 to 42 in this annual report. This ESG Report covers the period from 1 January 2018 to 31 December 2018. This ESG Report covers the Group's headquarters and the trading business operated by the Group.

ENVIRONMENT

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

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

For the year ended 31 December 2018, the Group was not aware of any material non-compliance with the relevant environmental laws and regulations that would have a significant impact on the Group relating to air and green house gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Emissions

For the year ended 31 December 2018, the Group had effectively managed emissions of relevant greenhouse gases and non-hazardous wastes. The Group was not aware of any hazardous waste arisied from the Group's operation during the year ended 31 December 2018. Main types of emissions discharged by the Group are as follows:

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

Greenhouse Gases

Greenhouse gas emissions are measured regularly by converting total consumption of electricity and car fuel using Intergovernmental Panel on Climate Change ("IPCC") conversion factors. Based on this methodology, the total emission of the Group during the financial year ended 31 December 2018 was shown in the following table:

Item	FY 2018	IPCC Conversion Factor	Greenhouse Gas (tCO_2)
Electricity (kwh)	3,895,223	0.00047	1,831
Car Fuel (Litter)	17,603	0.00208	37
TOTAL EMISSION			1,868

Non-hazardous Wastes

The non-hazardous wastes including food waste, household garbage, plastic packaging materials and boxes generated from the Group's factories in the PRC and Vietnam during the financial year ended 31 December 2018 was approximately 75 tonnes in total. These non-hazardous wastes were generated from the normal daily operation and were mainly from canteen, household and packing.

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

Energy-saving and greenhouse gas emissions reduction

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

Use of Resources

The main natural resources used by the Group are electricity, water, paper and packing materials. During the financial year ended 31 December 2018, total consumption of the main natural resources are provided as follow:

Total Consumption of Natural Resources

USE OF NATURAL RESOURCES (Unit)	2018 CONSUMPTION
Electricity (kwh)	3,895,223
Water (tonnes)	66,929
Paper (tonnes)	27
Packing materials (tonnes)	767

Electricity and water

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

Packaging Material Consumption

The packaging materials consumed by our Group during the financial year ended 31 December 2018 were mainly packaging trays and carton boxes. These are in line with customer's standard packaging requirement. The total weight of trays and carton boxes used for the Group's products in the financial year ended 31 December 2018 were approximately 767 tonnes.

Paper

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

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

The Environment and Natural Resources

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

SOCIAL

Employment and Labour Practices

Employment and Labour Standards

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

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

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

As a means to avoid employing child labour, our recruitment process requires a copy of identification document for age verification from newly recruited employees.

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 2018, save as disclosed in the prospectus (the "Prospectus") of the Company dated 28 December 2017, there were no substantial cases of non-compliance in relation to employment laws and regulations that would have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. All of the non-compliance incidents as disclosed in the Prospectus that are capable of being rectified in this regard had been rectified. Further, the Group has complied with the relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.

As of 31 December 2018, the Group had a total of 878 employees. Breakdowns of the employees by gender, age group, geographical region and employment type are set out below:

Number of employees

By gender:	
Female	470
Male	408
By region:	
Hong Kong	9
The PRC	572
Taiwan	30
Vietnam	267
By employment type:	
Full-time	878
Part-time	–

Health and Safety

The Group recognises the importance of maintaining a safe and healthy working environment to provide sufficient protection to the Group's staff. The Group has adopted and implemented occupational health and safety procedures and measures for the Group's business operations, so as to ensure that all employees are aware of the safety procedures, protective equipment procedures and social and environmental responsibility. These include guidelines for operational and safety control procedures, occupational health management procedures, equipment operation and maintenance procedures, emergency control procedure and social and environmental responsibility. For the year ended 31 December 2018, the Group complied with relevant workplace health and safety laws relating to providing a safe working environment and protecting employees from occupational hazards. Further, the Group endeavors to protect employees from work related injuries. During the year ended 31 December 2018, there was no injury case related to work.

Training and Development

The Group believes that people development enacts a vital role of the fundamental basis for business growth. The Group provides different trainings to each department of the Group from time to time to enhance their industry, technical and product knowledge, as well as their familiarity with industry quality standards and work safety standards. Other than on-the-job training, employees are encouraged to take part in external training to strengthen their skills, knowledge, and professionalism. The Group also assists relevant employees in fulfilling the continuous professional training hour requirement.

Operating Practices

Supply Chain Management

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

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

Product Responsibility

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

The Subsidiaries strictly abided by the relevant laws and regulations in order to protect data and privacy of customers. For the year ended 31 December 2018, save as disclosed in the Prospectus, the Group complied with the relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided, and the Subsidiaries did not receive any complaints relating to breach of customer privacy/loss of customer information. All of the non-compliance incidents as disclosed in the Prospectus in this regard had been rectified. Since then, the Group complied with all the laws and regulation related to sales of networking products for example obtained and renew annually the radio licences and obtained testing certificate before export the products to the relevant countries.

Anti-corruption

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

For the year ended 31 December 2018, the Group complied with the relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering, and no cases of corruption were reported within the Group.

Community Investment

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.

Biographies of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Kim Byung Kwon (金炳權先生), aged 56, 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 50, 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 46, 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 43, is the executive Director. Mr. Xiao is the head of the Group's manufacturing department and also the head of the Group's research and development department. Mr. Xiao joined the Group in December 2002 and is responsible for production planning, overseeing the Group's production department and research and development department of the Group. Mr. Xiao has over 10 years of experience in research and development and production management. From May 2011 to December 2015, Mr. Xiao served as a supervisor of Shenzhen Shengshi Zhongtang Technology Co., Ltd.* (深圳市盛世眾唐科技有限公司), a company engaged in sale of electronic products. Mr. Xiao graduated from the Nanchang Aerospace Engineering Institute* (南昌航空工業學院(now known as Nanchang Hangkong University* (南昌航空大學)) with a diploma in electronics information technology in July 1998. He obtained a master's degree in business administration from Beijing University of Technology and Science* (北京科技大學) in June 2013.

Independent non-executive Directors

Mr. Shin Dongmin (申東旼先生), aged 44, 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 18 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. Yiu Kwing Sum (姚炯深先生), aged 46, was appointed as an independent non-executive Director on 18 December 2017. He is the chairman of the audit committee and a member of the compliance committee of the Company. Mr. Yiu has over 10 years of experience in accountancy. Other than his role as the independent non-executive Director, Mr. Yiu is a director of Objective CPA Limited, FAHY Holdings Limited and FAHY Group Limited, where the above companies are primarily engaged in providing accounting services. Mr. Yiu received his bachelor degree of arts in Accounting & Finance from University of Glamorgan in June 1996. Mr. Yiu has been an associate member of Association of International Accountants since 18 November 2011 and an associate member of HKICPA since 5 May 2009.

Mr. Ko Ming Tung, Edward (高明東先生), aged 58, was appointed as an independent non-executive Director on 18 December 2017. He is also the chairman of the compliance committee and a member of each of the audit committee, remuneration committee and nomination committee of the Company. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 26 years.

Currently, Mr. Ko is an independent non-executive director of Sinofert Holdings Limited (Stock Code: 297), Wai Chun Group Holdings Limited (Stock Code: 1013), EverChina Int'l Holdings Company Limited (Stock Code: 202), Chia Tai Enterprises International Limited (Stock Code: 3839) and Sterling Group Holdings (Stock Code: 1825), all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Ko was a non-executive director of Harmonic Strait Financial Holdings Limited (now known as Asia Investment Finance Group Limited) (Stock Code: 33) from May 2011 to July 2015, whose shares are listed on the Main Board of the Stock Exchange and was an independent non-executive director of Chinese Energy Holdings Limited (Stock Code: 8009) from August 2015 to August 2017, whose shares are listed on GEM of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Liu Zhijun (劉志軍先生), aged 49, is the Group's research and development manager and is responsible for research and development of the Group's products. He joined the Group in September 2010. Mr. Liu has over nine years of experience in research, development and design of electronic and networking products. Prior to joining the Group, Mr. Liu had been appointed as head of production technology, engineering manager and development manager in Shenzhen Fengyun Industry Co., Ltd.* (深圳市風雲實業有限公司). Mr. Liu graduated from Xi'an Industrial Institute* (西安工業學院) (which is now known as Xi'an Technological University* (西安工業大學)) with a bachelor degree in Applied Technology in Electronics in July 1997.

* *For identification purposes only*

Independent Auditors' Report

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

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

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

OPINION

We have audited the consolidated financial statements of Zioncom (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 147, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

The Key Audit Matters	How our audit address the key audit matters
Impairment assessment of trade and bills receivables	
Refer to note 5(b) and note 22 to the consolidated financial statements.	
As at 31 December 2018, the Group had gross trade and bills receivables of approximately HK$69,368,000 (2017: HK$81,170,000) and provision for impairment of approximately HK$7,267,000 (2017: HK$ Nil). In general, the credit terms granted by the Group to the customers ranged between 30 to 180 days (2017: 30 to 180 days). Management performed periodic assessment on the recoverability of the trade and bills receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade and bills 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. We focused on this area due to the impairment assessment of trade and bills receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to management's impairment assessment of the trade and bills receivables as at 31 December 2018 included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the ageing profile of the trade and bills receivables as at 31 December 2018 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 and bills receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and 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 judgment and estimates used to assess the recoverability of the trade and bills receivables and determine the impairment provision to be supportable by available evidence.

The Key Audit Matters	How our audit address the key audit matters
Carrying amount of inventories	
Refer to Notes 5(f) and 21 to the consolidated financial statements.	
The Group held inventories of approximately HK$181,837,000 as at 31 December 2018. Inventories are carried at the lower of cost and net realisable value ("NRV"). The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become obsolete or if their selling prices have declined. Management determines the lower of cost and NRV of inventories by considering the ageing profile, inventory obsolescence and estimated selling price of individual inventory items.	Our audit procedures in relation to management's assessment on NRV and obsolescence of inventories included: • Evaluating procedures performed by management including its procedures in estimating the NRV the inventories and conducting periodic review on inventory obsolescence; • Observing client's inventory counts to identify whether there is any damaged or obsolete inventory; and • Testing on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices. We consider the management conclusion to be consistent with the available information.

OTHER INFORMATION

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

- 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, related safeguards.

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, 29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	8	**573,709**	578,358
Cost of sales		**(482,577)**	(488,478)
Gross profit		**91,132**	89,880
Other income	9	**10,962**	7,416
Changes in fair value of financial assets at fair value through profit or loss		**(682)**	–
Selling and distribution expenses		**(19,718)**	(11,861)
Administrative expenses		**(69,489)**	(55,888)
Research and development expenses		**(24,914)**	(22,564)
(Loss)/profit from operations		**(12,709)**	6,983
Finance costs	10	**(2,531)**	(3,077)
(Loss)/profit before taxation	11	**(15,240)**	3,906
Taxation	12	**(2,648)**	(3,186)
(Loss)/profit for the year		**(17,888)**	720
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of properties		**2,866**	2,654
Deferred tax liabilities arising from revaluation of properties		**(247)**	(612)
		2,619	2,042
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating of foreign operation		**(6,805)**	7,755
Gain arising from changes in fair value of available-for-sale financial assets		**–**	120
		(6,805)	7,875
Other comprehensive (loss)/income for the year		**(4,186)**	9,917
Total comprehensive (loss)/income for the year		**(22,074)**	10,637
(Loss)/profit for the year attributable to the owners of the Company		**(17,888)**	720
Total comprehensive (loss)/income attributable to owners of the Company		**(22,074)**	10,637
(Loss)/earnings per share attributable to the owners of the Company			
Basic and diluted (HK cents)	16	**(2.75)**	0.16

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	17	**133,381**	129,470
Prepaid lease payments	18	**8,393**	8,790
Available-for-sale financial assets	19	**–**	6,505
Financial assets at fair value through profit or loss	20	**21,965**	–
Other financial assets	20	**–**	10,088
		163,739	154,853
Current assets			
Inventories	21	**181,837**	146,247
Trade and bills receivables	22	**62,101**	81,170
Prepaid lease payments	18	**219**	224
Prepayments, deposits and other receivables	23	**61,530**	72,230
Amount due from directors	24	**2,222**	–
Pledged bank deposits	25	**30,549**	25,676
Cash and bank balances	25	**4,787**	32,634
		343,245	358,181
Current liabilities			
Trade and bills payables	26	**202,406**	239,860
Accruals, deposits received and other payables	27	**25,023**	61,490
Contract liabilities	28	**30,446**	–
Bank borrowings	29	**59,035**	57,832
Obligations under finance leases	30	**1,648**	2,282
Tax payables		**1,098**	1,069
		319,656	362,533
Net current assets/(liabilities)		**23,589**	(4,352)
Total assets less current liabilities		**187,328**	150,501

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Obligations under finance leases	30	**2,535**	4,187
Deferred tax liabilities	31	**3,496**	3,266
		6,031	7,453
Net assets		**181,297**	143,048
Capital and reserves			
Share capital	32	**6,600**	9
Reserves		**174,697**	143,039
Total equity attributable to owners of the Company		**181,297**	143,048

Approved and authorised for issue by the Board of Directors on 29 March 2019 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 2018

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

Notes:

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

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

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

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

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
(Loss)/profit before taxation	**(15,240)**	3,906
Adjustments for:		
Amortisation of land use right	**222**	226
Investment income	**(249)**	(236)
Bank interest income	**(235)**	(202)
Written off of trade receivables	**101**	644
Interest income on life insurance policies	**(407)**	(395)
Finance costs	**2,531**	3,077
Insurance expenses deducted from life insurance policies	**167**	161
Gain/(loss) on disposal of property, plant and equipment	**180**	(3)
Changes in fair value of financial assets at fair value through profit or loss	**682**	–
Depreciation of property, plant and equipment	**13,729**	10,911
Operating cash flows before movements in working capital	**1,481**	18,089
Increase in inventories	**(42,861)**	(34,789)
Decrease/(increase) in trade and bills receivables	**13,565**	(20,167)
Decrease/(increase) in prepayments, deposits and other receivables	**8,778**	(28,442)
Increase in amount due from directors	**(2,222)**	–
(Decrease)/increase in trade and bills payables	**(29,281)**	50,777
(Decrease)/increase in accruals, deposits received and other payables	**(4,879)**	33,534
Decrease in contract liabilities	**(732)**	–
Cash (used in)/generated from operating activities	**(56,151)**	19,002
Income tax refund	**1,141**	4,316
Income tax paid	**(3,739)**	(4,746)
Net cash (used in)/generated from operating activities	**(58,749)**	18,572
Investing activities		
Payment for acquisitions of property, plant and equipment	**(20,555)**	(19,377)
Proceeds from disposal of property, plant and equipment	**397**	170
Payment of acquisitions of financial assets at fair value through profit or loss	**(5,846)**	–
Bank interest income received	**235**	202
Investment income	**249**	236
Decrease in pledged bank deposits	**(5,802)**	(8,011)
Net cash used in investing activities	**(31,322)**	(26,780)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Financing activities		
Net proceeds from issue shares upon share offer	**65,515**	–
Proceeds from bank borrowings	**4,276**	31,844
Repayment of bank borrowings	**(1,374)**	–
Repayment of obligations under finance leases	**(2,283)**	(2,198)
Interest paid	**(2,531)**	(3,077)
Net cash generated from financing activities	**63,603**	26,569
Net (decrease)/increase in cash and cash equivalents	**(26,468)**	18,361
Cash and cash equivalents at the beginning of the year	**32,634**	11,870
Effect of foreign exchange rate changes	**(1,379)**	2,403
Cash and cash equivalents at the end of the year	**4,787**	32,634

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

1. GENERAL INFORMATION

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

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

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

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

2. REORGANISATION

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

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

2. REORGANISATION *(Continued)*

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

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

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

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

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

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

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

(a) Impact on the consolidated financial statements

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

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

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

(b) HKFRS 9 Financial Instruments

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

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

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

Accounting policies resulting from application of HKFRS 9 disclosed in Note 4.

Summary of effects arising from initial application of HKFRS 9

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

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

(b) HKFRS 9 Financial Instruments *(Continued)*

Classification and measurement

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

Note:

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

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

(ii) Reclassification from other financial assets to FVTPL

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

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

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

(b) HKFRS 9 Financial Instruments *(Continued)*

Impairment under ECL model

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

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

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

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

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

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

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

(c) HKFRS 15 Revenue from Contracts with Customers

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

(i) Sales of networking and non-networking products

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

(iii) Processing services income

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in note 4.

Summary of effects arising from initial application of HKFRS 15

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

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

Presentation of assets and liabilities related to contracts with customers

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

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

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

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

Summary of effects arising from initial application of HKFRS 15 *(Continued)*

Timing of revenue recognition

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

New and revised HKFRSs issued but not yet effective

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

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

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

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

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

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$20,131,000 as disclosed in Note 36 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

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

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

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

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

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

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Merger accounting for common control combination

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

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

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

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.

4. 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 acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of profit or loss and other comprehensive income.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue 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.

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 and 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.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the 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.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(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 good or service to the customer.

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.

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 180 days upon delivery.

Payment of the transaction price is due immediately when the customer purchases the networking and non-networking products.

(ii) Processing services income

Processing services income is recognised in the accounting period in which the services are based on the actual service provided.

(iii) 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 creditimpaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018)

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

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

Processing services income is recognised when the service is provided.

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

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

Leasing

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

The Group as lessee

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting 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 foreign currency translation reserve (attributable to non-controlling interests as appropriate).

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

Research and development costs

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

Borrowing costs

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

Retirement benefit costs

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax *(Continued)*

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

Current and deferred tax for the reporting period

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

Property, plant and equipment

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

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

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

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.

4. 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 1/3%
Machinery and equipment	10% – 33 1/3%
Motor vehicles	15% – 20%
Leasehold improvement	10%
Leasehold land	Over the leased term
Construction in progress	Nil

Impairment of assets other than goodwill

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. 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 since 1 January 2018. 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) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transition in note 3)

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transition in note 3) (Continued)

Financial assets that meet the following conditions are subsequently measured at 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transition in note 3) (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or at fair value through other comprehensive income ("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 recongnising the gains and losses on them on different bases. The Group has not designated any debt instruments as 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 6.

Financial assets at FVTOCI

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assess' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, expect for the recognition of impairment gains or losses, interest income and foreign exchange gains/loss which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other (loss)/gain, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (loss)/gain, net and impairment expenses are presented as separate line item in the consolidated statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 3)

Impairment under ECL model

The Group recognises a loss allowances for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, deposits, amount 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, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 3) (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 credit rating (if available);

- 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 3) (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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 3) (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 adjusted by 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 and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 3) (Continued)

Measurement and recognition of ECL *(Continued)*

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

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 and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and measurement to financial assets (before application of HKFRS 9 on 1 January 2018)

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

Effective interest method

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and measurement to financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Loans and receivables

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and measurement to financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

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

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

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

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

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

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

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

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

4. 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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

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:

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

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

   (b) has significant influence over the Group; or

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties transactions *(Continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(a) Impairment of property, plant and equipment

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

(b) Provision of ECL for trade and other receivables

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 6(b).

As at 31 December 2018, the carrying amount of trade receivable and other receivables are HK$62,079,000 and HK$745,000 respectively (net of loss allowance of HK$7,267,000 and HK$51,000 respectively).

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and other receivables are disclosed in notes 6, 22 and 23.

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

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

(e) Income taxes and deferred taxes

The Group is subject to income taxes in Hong Kong, the PRC and Taiwan. Significant judgement is required in determining provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group 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.

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

(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.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
At amortised cost (including cash and bank balances)		
– Other financial assets	–	10,088
– Trade and bills receivables	62,101	81,170
– Deposits and other receivables	36,997	55,082
– Amount due from directors	2,222	–
– Pledged bank deposits	30,549	25,676
– Cash and bank balances	4,787	32,634
	136,656	204,650
At fair value		
– Available-for-sale financial assets	–	6,505
– Financial assets at fair value through profit or loss	21,965	–

	2018 HK$'000	2017 HK$'000
Financial liabilities		
At amortised cost		
– Trade and bills payables	202,406	239,860
– Accruals, deposits received and other payables	25,023	61,490
– Contract liabilities	30,446	–
– Bank borrowings	59,035	57,832
– Obligations under finance leases	4,183	6,469
	321,093	365,651

(b) Financial risk management

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

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

The Group's major financial instruments include financial asset at fair value through profit or loss, trade and bills receivables, deposits and other receivables, amount due from directors, pledged bank deposits, cash and bank balances, trade and bills payables, accruals, deposits received and other payables, bank borrowings and obligations under finance leases. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit 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, deposit and other receivables, amount due from directors, pledged bank deposit and cash and bank balances. At 31 December 2018, 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 and bills receivables 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.

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 a concentration of credit risk in certain individual customers. The Group generally allows an average credit period of 30 to 180 days to its customers. As at 31 December 2018 and 2017, our trade receivables which were past due but not impaired amounted to approximately HK$43,216,000 and HK$39,135,000, representing approximately 69.6% and 48.2% of the total trade receivables as at the respective dates, out of which approximately HK$29,792,000 and HK$20,642,000, representing approximately 68.9% and 52.7% were past due more than 180 days, respectively. 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 2018 and 2017, the Group does not provide any guarantees which would expose the Group to credit risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Credit risks and impairment assessment *(Continued)*

Trade and bills receivables and other receivables (Continued)

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. Under HKAS 39, impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1 January 2018, 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 (2017: incurred loss model). 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.

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables as at 1 January 2018 and 31 December 2018:

At 31 December 2018	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	HK$'000	HK$'000
Current (not past due)	–	18,863	–
1 – 90 days past due	0.02%	8,913	(15)
91 – 180 days past due	0.21%	4,670	(144)
More than 180 days past due	10.25%	36,900	(7,108)
	10.48%	69,346	(7,267)

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Credit risks and impairment assessment *(Continued)*

Trade and bills receivables and other receivables (Continued)

At 1 January 2018	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	HK$'000	HK$'000
Current (not past due)	–	42,010	–
1 – 90 days past due	0.01%	16,205	(12)
91 – 180 days past due	0.19%	2,288	(148)
More than 180 days past due	6.13%	20,642	(4,976)
	6.33%	81,145	(5,136)

The closing loss allowances for including trade receivables, deposits and other receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables	**Deposits and other receivables**	**Total**
	HK$'000	HK$'000	HK$'000
At 31 December 2017-HKAS 39	–	–	–
Amounts re-measured through opening – retained profits	(5,136)	(56)	(5,192)
At 1 January 2018-HKFRS 9	(5,136)	(56)	(5,192)
Increase in loss allowance recognised in profit or loss during the year	(5,851)	–	(5,851)
Reversal of loss allowance recognised in profit or loss during the year	3,720	5	3,725
At 31 December 2018-HKFRS 9	(7,267)	(51)	(7,318)

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Credit risks and impairment assessment *(Continued)*

Trade and bills receivables and other receivables (Continued)

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 30 – 180 days past due.

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.

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 and bills and other receivables are set out in Note 22 and 23.

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.

Amount 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 2018, 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.

6. 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 continues to monitor the position and will take appropriate action if their ratings are changed. As at 31 December 2018 and 2017, 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.

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.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Foreign currency risk *(Continued)*

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 2018 HK$'000	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000
USD	**68,764**	49,626	**69,832**	76,832
RMB	**149,242**	164,920	**46,290**	57,098
VND	**6,633**	2,358	**43,275**	14,452
	224,639	216,904	**159,397**	148,382

Sensitivity analysis

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

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

	Impacts on profit or loss	
	31 December 2018 HK$'000	31 December 2017 HK$'000
RMB	**(5,147)**	(5,391)
VND	**1,832**	605

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Sensitivity analysis *(Continued)*

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

Interest rate risk

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

Liquidity risk

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

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(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	More than one year but less than two years	More than two years but less than five years	Total undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018						
Non-derivative financial liabilities						
Trade and bills payables	–	202,406	–	–	202,406	202,406
Accruals, deposits received and other payables	–	25,023	–	–	25,023	25,023
Contract liabilities	–	30,446	–	–	30,446	30,446
Bank borrowings	5.87%	62,501	–	–	62,501	59,035
Obligations under finance leases	4.08%	1,781	1,190	1,456	4,427	4,183
		322,157	1,190	1,456	324,803	321,093

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

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

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

	Maturity Analysis – bank borrowings subject to a repayment on demand clause based on scheduled repayments		
	Within one year HK$'000	**More than one year but less than two years** HK$'000	**More than two years but less than five years** HK$'000
As at 31 December 2018	**50,680**	**3,607**	**8,214**
As at 31 December 2017	52,975	3,479	2,970

(c) Fair value estimation

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

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value estimation *(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.

	Fair value as at				
Financial assets	**31 December 2018**	**31 December 2017**	**Fair value hierarchy**	**Valuation Techniques and key inputs**	**Significant unobservable inputs**
Financial assets at fair value through profit or loss					
– Key management personnel life insurance policies	HK$15,913,000	N/A	Level 3	N/A	Account cash values
– Bonds	HK$5,460,000	HK$5,881,000	Level 1	Quoted bid prices in an active market	N/A
– Club membership	HK$592,000	HK$624,000	Level 2	Market Approach	Market comparable ranges from As at 31 December 2018 HK$513,000 to HK$718,000 (31 December 2017: HK$615,000 to HK$711,000) and the individual factors considered are the second hand quotation price of golf club.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value estimation *(Continued)*

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

(d) Capital risk management

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

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

The Directors 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:

	2018 **HK$'000**	2017 HK$'000
Total borrowings (Note (a))	**63,218**	64,301
Total equity (Note (b))	**181,297**	143,048
Gearing ratio	**34.9%**	45.0%

Notes:

(a) Total borrowings represent bank borrowings and obligations under finance leases as set out in Notes 29 and 30.

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

7. SEGMENT INFORMATION

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

Geographical information

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

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

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

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

Information about major customers

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

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

Note:

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

8. REVENUE

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

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

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

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

8. REVENUE *(Continued)*

(b) Performance obligations for contracts with customers

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

(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.

9. OTHER INCOME

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

10. FINANCE COSTS

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

11. (LOSS)/PROFIT BEFORE TAXATION

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

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

12. TAXATION

	2018 HK$'000	2017 HK$'000
Current taxation:		
Provision for the year		
– Hong Kong Profits tax	**966**	436
– Other than Hong Kong	**1,699**	2,753
Over-provision in prior years	**–**	(20)
	2,665	3,169
Deferred taxation:		
(Credited)/charged for the year (Note 31)	**(17)**	17
	2,648	3,186

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

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

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

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

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

12. TAXATION *(Continued)*

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

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

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

The taxation charge for the years ended 31 December 2018 and 2017 can be reconciled to the (loss)/profit before taxation per consolidated statements of profit or loss and other comprehensive income as follows:

	2018 **HK$'000**	2017 HK$'000
(Loss)/profit before taxation	**(15,240)**	3,906
Tax calculated at the rates applicable to profits in the jurisdiction concerned	**(2,938)**	274
Tax effect of expenses not deductible for tax purpose	**4,182**	2,408
Tax effect of income not taxable for tax purpose	**(48)**	(70)
Over-provision in prior years	**–**	(20)
Tax effect of deductible temporary differences not recognized	**(21)**	17
Tax effect of utilised tax losses not recognized	**1,473**	577
	2,648	3,186

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the Directors for the years ended 31 December 2018 and 2017 as follow:

	2018 HK$'000	2017 HK$'000
Directors' fees	479	–
Salaries and other benefits	5,596	2,888
Bonuses	–	1,232
Retirement schemes contributions	243	227
	6,318	4,347

	Year ended 31 December 2018				
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Kim Byung Kwon (Note (i))	–	1,429	–	70	1,499
Mr. Kim Jun Yeob (Note (i))	–	1,401	–	60	1,461
Mr. Koo Ja Chun (Note (i))	–	1,401	–	60	1,461
Mr. Xiao Jingen (Note (i))	–	1,365	–	53	1,418
Independent Non-Executive Directors					
Mr. Kim Kwang Hyun (Note (ii)) and (iii))	56	–	–	–	56
Mr. Oh Sung Jin (Note (ii)) and (iii))	56	–	–	–	56
Mr. Yiu Kwing Sum (Note (ii))	80	–	–	–	80
Mr. Ko Ming Tung, Edward (Note (ii))	286	–	–	–	286
Mr. Shin Dongmin (Note (iv))	1	–	–	–	1
	479	5,596	–	243	6,318

13. DIRECTORS' EMOLUMENTS *(Continued)*

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

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

(iii) Mr. Kim Kwang Hyun and Mr. Oh Sung Jin were resigned as independent non-executive director of the Company on 28 December 2018.

(iv) Mr. Shin Dong min was appointed as independent non-executive director of the Company on 28 December 2018.

14. EMPLOYEES EMOLUMENTS AND SENIOR MANAGEMENT EMOLUMENTS

The five highest paid individuals included 4 and 3 of executive directors of the Company for the years ended 31 December 2018 and 2017 respectively, details of whose emoluments are set out above in Note 13. The emoluments of the remaining individuals for the years ended 31 December 2018 and 2017 are 1 and 2 respectively and individuals disclosed are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	501	793
Bonuses	200	94
Retirement schemes contributions	18	18
	719	905

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

	2018 HK$'000	2017 HK$'000
Nil to HK$1,000,000	1	2

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

	2018 HK$'000	2017 HK$'000
Nil to HK$1,000,000	1	1

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

15. DIVIDENDS

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

16. (LOSS)/EARNINGS PER SHARE

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

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

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

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

17. PROPERTY, PLANT AND EQUIPMENT

	Land and Building HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and office equipment HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2017	48,910	1,188	22,487	46,248	5,531	24,069	148,433
Additions	–	266	360	24,309	–	3,990	28,925
Transferred from Construction in progress to Land and Building	28,076	–	–	–	–	(28,076)	–
Surplus on revaluation	2,654	–	–	–	–	–	2,654
Write back on revaluation	(3,357)	–	–	–	–	–	(3,357)
Written-off	–	–	(65)	–	–	–	(65)
Disposals	–	–	(8)	(166)	–	–	(174)
Exchange alignment	3,591	97	1,712	3,454	183	63	9,100
At 31 December 2017 and 1 January 2018	79,874	1,551	24,486	73,845	5,714	46	185,516
Additions	–	291	3,034	16,298	932	–	20,555
Surplus on revaluation	2,866	–	–	–	–	–	2,866
Write back on revaluation	(3,970)	–	–	–	–	–	(3,970)
Disposals	–	–	(771)	(102)	(517)	–	(1,390)
Exchange alignment	(3,264)	(75)	(1,335)	(3,561)	(174)	(1)	(8,410)
At 31 December 2018	**75,506**	**1,767**	**25,414**	**86,480**	**5,955**	**45**	**195,167**
Accumulated depreciation							
At 1 January 2017	–	104	17,883	23,440	3,687	–	45,114
Provided for the year	3,357	76	1,146	5,991	341	–	10,911
Write back on revaluation	(3,357)	–	–	–	–	–	(3,357)
Written-off	–	–	(12)	–	–	–	(12)
Disposals	–	–	(7)	–	–	–	(7)
Exchange alignment	–	10	1,395	1,834	158	–	3,397
At 31 December 2017 and 1 January 2018	–	190	20,405	31,265	4,186	–	56,046
Provided for the year	3,970	213	1,472	7,749	325	–	13,729
Write back on revaluation	(3,970)	–	–	–	–	–	(3,970)
Disposals	–	–	(694)	(13)	(466)	–	(1,173)
Exchange alignment	–	(13)	(1,080)	(1,639)	(114)	–	(2,846)
At 31 December 2018	**–**	**390**	**20,103**	**37,362**	**3,931**	**–**	**61,786**
Carrying amount							
At 31 December 2018	**75,506**	**1,377**	**5,311**	**49,118**	**2,024**	**45**	**133,381**
At 31 December 2017	79,874	1,361	4,081	42,580	1,528	46	129,470

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

Assets pledged as security

As at 31 December 2018 and 2017, the land and buildings with carrying amount of approximately HK$75,506,000 and HK$79,874,000 have been pledged to secure bank borrowings (Note 29) granted to the Group respectively.

As at 31 December 2018 and 2017, the motor vehicles with carrying amount of approximately HK$245,000 and HK$305,000 have been pledged to secure finance lease payables (Note 30) granted to the Group respectively.

As at 31 December 2018 and 2017, the Group's land and buildings in PRC and Vietnam were revalued based on valuations performed by Roma Valuation Limited, independent professional qualified valuers, approximately at HK$75,506,000 and HK$79,874,000 respectively. Revaluation surplus, net aggregate amount of deferred tax approximately of HK$2,619,000 and HK$2,042,000 resulting from the above revaluation were credited to the revaluation surplus reserve during the years ended 31 December 2018 and 2017 respectively.

The fair values of the Group's land and buildings at 31 December 2018 and 2017 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:

	2018 **HK$'000**	2017 HK$'000
Carrying amount:		
At 1 January	**79,874**	48,910
Additions	**–**	28,076
Depreciation	**(3,970)**	(3,357)
Surplus on revaluation	**2,866**	2,654
Exchange differences	**(3,264)**	3,591
At 31 December	**75,506**	79,874

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

Assets pledged as security *(Continued)*

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

Class of property	Fair value Class of hierarchy	Significant Value Technique	Valuation unobservable input	Range of unobservable input 31 December 2018	31 December 2017
The Land and building held in PRC	Level 3	Market comparable method	Saleable unit rate per square foot which compare with similar location and other factor such as floor level, building age, size and conditions of the properties*	HK$51,253 to HK$52,392	HK$54,054 to HK$57,658
The land and building held in Vietnam	Level 3	Depreciation replacement cost method	An estimate of the market value for existing use of land, plus the current cost of replacement of existing structures less deduction of physical deterioration and all relevant forms at obsolescence and optimization	N/A	N/A

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

18. PREPAID LEASE PAYMENTS

	HK$'000
Cost	
At 1 January 2017	4,821
Additions	4,563
Exchange difference	(24)
At 31 December 2017 and 1 January 2018	9,360
Exchange difference	(188)
At 31 December 2018	**9,172**
Accumulated amortisation	
At 1 January 2017	121
Amortisation	226
Exchange difference	(1)
At 31 December 2017 and 1 January 2018	346
Amortisation	222
Exchange difference	(8)
At 31 December 2018	**560**
Carrying amount	
At 31 December 2018	**8,612**
At 31 December 2017	9,014

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

	2018 **HK$'000**	2017 HK$'000
Current assets	**219**	224
Non-current assets	**8,393**	8,790
	8,612	9,014

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

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

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Bonds (Note a)	–	5,881
Club membership (Note b)	–	624
	–	6,505

Notes:

(a) The bonds were unlisted and classified as available-for-sale investments are stated at fair value as at 31 December 2017 and reclassify to financial assets at fair value through profit or loss (note 20) at 1 January 2018 upon initial application of HKFRS 9. As at 31 December 2018 and 2017, 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.

(b) The club membership represents the indefinite useful life golf club membership. It classified as available-for-sale investments are stated fair value as at 31 December 2017 and reclassify to financial assets at fair value through profit or loss (note 20) at 1 January 2018 upon initial application of HKFRS 9. As at 31 December 2018 and 2017, the fair value of the club membership is arrived on the basis of a valuation carried out by an independent professional valuer.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Key management personnel life insurance policies (Note a)	15,913	10,088
Bonds (Note b)	5,460	–
Club membership (Note c)	592	–
	21,965	10,088

Notes:

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER FINANCIAL ASSETS *(Continued)*

Notes:

(a) *(Continued)*

On 1 February 2018, the Group entered into life insurance policies (the "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.

At the inception date and up to year ended 31 December 2017, the other financial assets are carried at amortised cost using the effective interest method, less any identified impairment loss. Interest income on life insurance policies is recognised in the consolidated statement of profit or loss and other comprehensive income. After adoption of HKFRS 9 at 1 January 2018, the other financial assets were reclassified as FVTPL, no adjustment was made to its carrying amount of at 1 January 2018 as the carrying amount of the payment for the life insurance policies approximated to its fair value upon initial application of HKFRS 9. 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) The bonds were unlisted and classified as available-for-sale investments are stated at fair value as at 31 December 2017 and reclassify to Financial assets at fair value through profit or loss at 1 January 2018 upon initial application of HKFRS 9. As at 31 December 2018 and 2017, 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.

(c) The club membership represents the indefinite useful life golf club membership. It classified as available-for-sale investments are stated fair value as at 31 December 2017 and reclassify to Financial assets at fair value through profit or loss at 1 January 2018 upon initial application of HKFRS 9. As at 31 December 2018 and 2017, the fair value of the club membership is arrived on the basis of a valuation carried out by an independent professional valuer.

21. INVENTORIES

	2018	2017
	HK$'000	HK$'000
Raw materials	**73,355**	73,133
Work in progress	**18,147**	15,479
Finished goods	**90,335**	57,635
	181,837	146,247

22. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

22. TRADE AND BILLS RECEIVABLES *(Continued)*

Ageing analysis of trade receivables which are past due but not impaired *(Continued)*

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

	2018 HK$'000	2017 HK$'000
Within 30 days	6,169	7,418
31 to 60 days	2,298	6,173
61 to 90 days	431	2,614
91 to 180 days	4,526	2,288
Over 180 days	29,792	20,642
	43,216	39,135

Loss allowance of approximately HK$7,267,000 have been recognised for trade receivables during the year ended 31 December 2018 (2017: approximately HK$Nil).

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 after the application of HKFRS 9 since 1 January 2018.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in note 6(b).

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Deposits and prepayments (Note i)	50,676	44,124
Value-added tax receivables	10,109	25,845
Other receivables	745	2,261
	61,530	72,230

Note:

(i) As at 31 December 2018, the amount included prepayment to suppliers approximately HK$24,055,000 (2017: approximately HK$17,753,000).

Details of impairment assessment of deposit and other receivables for the year ended 31 December 2018 are set out in Note 6(b).

24. AMOUNT DUE FROM DIRECTORS

	2018 HK$'000	2017 HK$'000
Name of directors		
Mr. Kim Jun Yeob	1,319	–
Mr. Kim Byung Kwon	903	–
	2,222	–

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

Details of impairment assessment of amount due from directors for the year ended 31 December 2018 are set out in Note 6(b).

25. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Pledged bank deposits	30,549	25,676
Cash and bank balances	4,787	32,634
	35,336	58,310

Cash and bank balances are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Hong Kong Dollars ("HK$")	7,897	7,997
United States Dollars ("US$")	639	21,302
Renminbi ("RMB")	25,832	21,984
Taiwan Dollars ("NT$")	469	792
Vietnam Dollars ("VND")	497	6,232
Philippine Piso ("PHP")	1	2
Malaysian Ringgit ("MYR")	1	1
	35,336	58,310

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.

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

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 2018 and 2017, bank deposits of the Group of approximately HK$30,549,000 and HK$25,676,000 are pledged as collateral for bank facilities.

The amount comprise bank balances held by the Group and pledged bank deposit bearing market interest rates from 0.35% to 1.5% (2017: 0.05% to 1.5%) per annum. The fair value of these assets approximates the corresponding carrying amount.

26. TRADE AND BILLS PAYABLES

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

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

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

Bills payables are all mature within 150 days.

27. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	2018	2017
	HK$'000	HK$'000
Accruals	**13,077**	22,343
Deposits received	**6,612**	37,311
Other payables	**5,334**	1,836
	25,023	61,490

28. CONTRACT LIABILITIES

	2018	2017
	HK$'000	HK$'000
Contract liabilities	**30,446**	–

The movement of contract liabilities during the year is the follow,

	HK$'000
At 1 January 2018	–
Impact on Initial application of HKFRS 9	31,178
Restated balance at 1 January 2018	31,178
Receipt from customers upon entering sales contracts during the year	301,845
Revenue recognised upon the product sales	(302,577)
At 31 December 2018	**30,446**

29. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank loans:		
Secured fixed rate borrowings (note (a) and (b))	**6,130**	2,296
Secured floating rate borrowings (note (a) and (b))	**52,905**	55,536
	59,035	57,832
Secured term loan from bank that repayable within the period of:		
– less than one year	**48,221**	52,447
– more than 1 year but within 2 years	**3,181**	1,740
– more than 2 years but within 5 years	**7,633**	3,645
Secured term loan	**59,035**	57,832
Less: Amount classified as current liabilities		
Secured term loan due within one year or contain a repayment on demand clause	**(59,035)**	(57,832)
Amount classified as non-current liabilities	**–**	–

Notes:

(a) The bank borrowings of the Group as at 31 December 2018 and 2017 respectively were secured by:

(i) personal guarantee provided by one of the controlling shareholders of the Company for the year ended 31 December 2017;

(ii) corporate guarantee provided by the Group for the year ended 31 December 2018;

(iii) pledged bank deposits with carrying amounts of approximately HK$30,549,000 and HK$25,676,000 as at 31 December 2018 and 2017 respectively;

(iv) pledge of the financial asset at fair value through profit or loss (key management personnel life insurance policies) with carrying amounts of approximately HK$15,913,000 and HK$10,088,000 as at 31 December 2018 and 2017 respectively;

(v) pledge of the financial assets at fair value through profit or loss (bonds) with carrying amounts of approximately HK$5,460,000 and HK$5,881,000 as at 31 December 2018 and 2017 respectively;

(vi) pledge of the Group's land and building with carrying amounts of approximately HK$75,506,000 and HK$79,874,000 as at 31 December 2018 and 2017 respectively;

(b) The loans of the Group with financial institutions amounted to approximately HK$59,035,000 and HK$57,832,000 respectively, carried interest ranging from 2.86% to 4.52% and 2.79% to 4.00% per annum for the years ended 31 December 2018 and 2017 respectively.

30. OBLIGATIONS UNDER FINANCE LEASES

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

	2018 HK$'000	2017 HK$'000
Minimum lease payments under finance leases		
– within one year	1,781	2,506
– in the second to fifth years, inclusive	2,646	4,430
	4,427	6,936
Less: Future finance charges	(244)	(467)
Present value of finance leases	4,183	6,469

	2018 HK$'000	2017 HK$'000
Present value of minimum lease payments under finance leases		
– within one year	1,648	2,282
– in the second to fifth years, inclusive	2,535	4,187
	4,183	6,469
Less: Amount due for settlement within one year	(1,648)	(2,282)
Amount due for settlement after one year	2,535	4,187

31. 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 2018 and 2017 are as follows:

	Accelerated tax depreciation HK$'000	Revaluation of land and building HK$'000	Total HK$'000
As at 1 January 2017	5	2,632	2,637
Charged to profit or loss (Note 12)	17	–	17
Charge to other comprehensive income	–	612	612
As at 31 December 2017 and 1 January 2018	22	3,244	3,266
Credited to profit or loss (Note 12)	(17)	–	(17)
Charge to other comprehensive income	–	247	247
As at 31 December 2018	**5**	**3,491**	**3,496**

As at 31 December 2018 and 2017, the Group has estimated tax losses of approximately HK$7,092,000 and HK$1,445,000 available for offset against future profits. No deferred tax assets has been recognised as it uncertain that there will be sufficient futures profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

32. SHARE CAPITAL

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

Notes:

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

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

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

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

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Non-current asset			
Investment in subsidiary		9	9
Current assets			
Deposits and prepayments		–	9,458
Amount due from a subsidiary		48,275	–
Cash and bank balances		9	42
		48,284	9,500
Current liabilities			
Accruals		6,503	14,645
Amount due to a subsidiary		–	14,495
Amount due to a shareholder		–	1
		6,503	29,141
Net current assets/(liabilities)		41,781	(19,641)
Net assets/(liabilities)		41,790	(19,632)
Capital and reserves			
Share Capital	32	6,600	9
Reserves	34	35,190	(19,641)
Total Equity		41,790	(19,632)

Approved and authorised for issue by the Board of Directors on 29 March 2019 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.

34. RESERVES OF THE COMPANY

	Share premium HK$'000	Accumulated Loss HK$'000	Total HK$'000
As at 1 January 2017	–	(5,419)	(5,419)
Loss and total comprehensive loss for the year	–	(14,222)	(14,222)
As at 31 December 2017 and 1 January 2018	–	(19,641)	(19,641)
Loss and total comprehensive loss for the year	–	(4,093)	(4,093)
Capitalisation issue (Note 32)	(4,611)	–	(4,611)
Placing and public offers of shares upon listing	83,160	–	83,160
Expenses in connection with the issue of shares	(19,625)	–	(19,625)
As at 31 December 2018	**58,924**	**(23,734)**	**35,190**

35. PRINCIPAL SUBSIDIARIES

Upon completion of the Reorganisation and as at 31 December 2018 and 2017, 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	Attributable equity interest and voting power held by the Company As at 31 December 2018 %	2017 %	Principal activities
Directly held:					
Zioncom BVI Limited ("Zioncom BVI")	British Virgin Islands ("BVI"), 1 February 2016	US$110	100	100	Investment holdings
Indirectly held:					
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)")	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$5,500,000	100	100	Manufacturing and sale of networking products
台灣吉翁電子股份有限公司 ("Zioncom (Taiwan)")	Taiwan, 30 September 2015	NT$10,000,000	100	100	Sale of networking products

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

	2018 HK$'000	2017 HK$'000
Within one year	6,690	6,055
In the second to fifth years, inclusive	13,441	21,285
	20,131	27,340

Operating lease payments represent rentals payable by the Group for certain of its premises. Leases are negotiated at terms which range from 1 to 4 years (2017: 1 to 5 years). The Group does not have an option to purchase the leased premises at the expiry of the lease period.

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.

37. RETIREMENT BENEFITS PLANS *(Continued)*

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

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

The contributions paid and payable to the schemes by the Group are disclosed in Note 11.

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.

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.

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 2018 and 2017.

39. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Compensation of key management personnel

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

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

The personal guaranteed provided by one of the controlling shareholder of the Company released during the year ended 31 December 2018.

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

(c) Balances with related parties

The amount due from directors are non-trade, unsecured, interest free and recoverable on demand are set out in note 24.

40. PLEDGE OF ASSETS

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

	2018	2017
	HK$'000	HK$'000
Property, plant and equipment	**75,506**	79,874
Financial assets at fair value through profit or loss	**21,373**	–
Available-for-sale financial assets	**–**	5,881
Other financial assets	**–**	10,088
Pledged bank deposits	**30,549**	25,676
	127,428	121,519

41. NON-CASH TRANSACTIONS

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

(b) Changes in liabilities arising from financing activities

	Bank Borrowings	**Obligations under finances leases**	**Total**
	HK$'000	HK$'000	HK$'000
At at 1 January 2018	57,832	6,469	64,301
Proceedings from bank borrowings	4,276	–	4,276
Repayment of Bank borrowings	(1,374)	–	(1,374)
Repayment of obligations under finance leases	–	(2,283)	(2,283)
Finance costs	2,258	273	2,531
Non-cash items:			
Interest paid	(2,258)	(273)	(2,531)
Foreign exchange movement	(1,699)	(3)	(1,702)
At 31 December 2018	**59,035**	**4,183**	**63,218**

42. EVENTS AFTER THE REPORTING PERIOD

On 27 February 2019, Zioncom (Hong Kong), an indirect wholly owned subsidiary of the Company, entered into the capital contribution agreement ("Agreement") with two investors (the "Investors") in relation to the Zioncom Vietnam capital injection ("Capital Injection") in the aggregate amount of US$2,100,000. Pursuant to the Agreement and subject to completion, the charter capital of Zioncom Vietnam will be increased 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 by the Investors. On 20 March 2019 completion of the Capital Injection took place pursuant to the Agreement with Zioncom (Hong Kong) and the Investors, and Zioncom (Vietnam) became a non wholly-owned subsidiary of the Company. For details of Capital Injection, please refer to announcement dated 27 February 2019 and 20 March 2019.

43. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

Four Years' Financial Summary

RESULTS

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

	For the year ended 31 December			
	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**537,709**	578,358	512,192	537,703
(Loss)/profit before tax	**(15,240)**	3,906	16,793	17,141
Taxation	**(2,648)**	(3,186)	(2,925)	(6,695)
(Loss)/profit for the year	**(17,888)**	720	13,868	10,446
(Loss)/profit attributable to owners of the Company	**(17,888)**	720	13,868	10,446

ASSETS AND LIABILITIES

	At 31 December			
	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**506,984**	513,034	366,427	359,209
Total liabilities	**(325,687)**	(369,986)	(234,016)	(249,409)
Total equity attributable to owners of the Company	**181,297**	143,048	132,411	109,800

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

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

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