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ZIONCOM HOLDINGS LIMITED

百家淘客股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8287)

AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

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

RESULTS

Reference is made to the announcement (“**Previous Results Announcement**”) of the Company and its subsidiaries (collectively the “**Group**”) dated 31 March 2020 in relation to the unaudited annual results for the year ended 31 December 2019 and the announcements of the Company dated 1 April 2020, 12 May 2020, 26 May 2020 and 1 June 2020 in relation to, among others, the delay in the publication of the Company’s audited annual results announcement for year ended 31 December 2019 and the despatch of the Company’s annual report for the year ended 31 December 2019.

The board (the “**Board**”) of Directors of the Company presents the audited consolidated results of the Group for the year ended 31 December 2019, together with the comparative audited figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

		2019	2018
	Notes	HK\$'000	HK\$'000
Revenue	5	573,137	573,709
Cost of sales		<u>(484,082)</u>	<u>(482,577)</u>
Gross profit		89,055	91,132
Other income	6	9,330	7,237
Changes in fair value of financial assets			
at fair value through profit or loss		615	(682)
Realised fair value loss of financial assets at fair value			
through profit or loss		(679)	–
Net allowance for impairment losses in respect of			
trade receivables, deposits and other receivables		(8,940)	(2,126)
Selling and distribution expenses		(21,558)	(19,718)
Administrative expenses		(55,191)	(63,638)
Research and development expenses		<u>(32,763)</u>	<u>(24,914)</u>
Loss from operations		(20,131)	(12,709)
Finance costs	7	<u>(3,862)</u>	<u>(2,531)</u>
Loss before taxation	8	(23,993)	(15,240)
Taxation	9	<u>(2,104)</u>	<u>(2,648)</u>
Loss for the year		<u><u>(26,097)</u></u>	<u><u>(17,888)</u></u>

	Notes	2019 HK\$'000	2018 HK\$'000
Other comprehensive loss for the year, net of tax			
<i>Items that will not be reclassified to profit or loss:</i>			
Surplus on revaluation of properties		2,908	2,866
Deferred tax liabilities arising from revaluation of properties		(353)	(247)
		<u>2,555</u>	<u>2,619</u>
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translating of foreign operation		(6,680)	(6,805)
Other comprehensive loss for the year, net of tax		<u>(4,125)</u>	<u>(4,186)</u>
Total comprehensive loss for the year, net of tax		<u><u>(30,222)</u></u>	<u><u>(22,074)</u></u>
Loss for the year attributable to:			
Owners of the Company		(26,381)	(17,888)
Non-controlling interests		284	–
		<u>(26,097)</u>	<u>(17,888)</u>
Total comprehensive loss attributable to:			
Owners of the Company		(30,445)	(22,074)
Non-controlling interests		223	–
		<u><u>(30,222)</u></u>	<u><u>(22,074)</u></u>
Loss per share attributable to the owners of the Company			
Basic and diluted (<i>HK cents</i>)	11	<u><u>(4.00)</u></u>	<u><u>(2.75)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		132,317	133,381
Prepaid lease payments		–	8,393
Right-of-use assets		23,118	–
Financial assets at fair value through profit or loss		16,982	21,965
Prepayments		5,640	–
		178,057	163,739
Current assets			
Inventories		165,960	181,837
Trade and bills receivables	12	57,993	62,101
Prepaid lease payments		–	219
Prepayments, deposits and other receivables		35,667	61,530
Amounts due from directors		2,053	2,222
Pledged bank deposits		25,580	30,549
Cash and bank balances		25,925	4,787
		313,178	343,245
Current liabilities			
Trade and bills payables	13	173,045	202,406
Accruals, deposits received and other payables		15,775	25,023
Contract liabilities		39,565	30,446
Bank borrowings		71,614	59,035
Lease liabilities/Obligations under finance leases		8,156	1,648
Amount due to a shareholder		1,081	–
Tax payables		1,333	1,098
		310,569	319,656
Net current assets		2,609	23,589
Total assets less current liabilities		180,666	187,328
Non-current liabilities			
Lease liabilities/Obligations under finance leases		9,310	2,535
Deferred tax liabilities		3,919	3,496
		13,229	6,031
Net assets		167,437	181,297
Capital and reserves			
Share capital	14	6,600	6,600
Reserves		151,811	174,697
Total equity attributable to owners of the Company		158,411	181,297
Non-controlling interests		9,026	–
Total equity		167,437	181,297

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *For the year ended 31 December 2019*

	Attributable to owners of the Company							Non-controlling interests HK\$'000	Total HK\$'000
	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)	Retained earnings HK\$'000	Sub-total HK\$'000	
At 1 January 2018	9	–	31,992	2,279	7,043	18,726	77,807	137,856	137,856
Loss for the year	–	–	–	–	–	–	(17,888)	(17,888)	(17,888)
Other comprehensive loss for the year	–	–	–	–	(6,805)	2,619	–	(4,186)	(4,186)
Loss and total comprehensive loss for the year	–	–	–	–	(6,805)	2,619	(17,888)	(22,074)	(22,074)
Transfer to surplus reserve	–	–	–	680	–	–	(680)	–	–
Capitalisation issue (Note 14)	4,611	(4,611)	–	–	–	–	–	–	–
Placing and public offer of shares upon listing (Note 14)	1,980	83,160	–	–	–	–	–	85,140	85,140
Expenses in connection with the issue of shares	–	(19,625)	–	–	–	–	–	(19,625)	(19,625)
At 31 December 2018 and 1 January 2019	6,600	58,924	31,992	2,959	238	21,345	59,239	181,297	181,297
Loss for the year	–	–	–	–	–	–	(26,381)	(26,381)	(26,097)
Other comprehensive loss for the year	–	–	–	–	(6,619)	2,555	–	(4,064)	(4,125)
Loss and total comprehensive loss for the year	–	–	–	–	(6,619)	2,555	(26,381)	(30,445)	(30,222)
Transfer to surplus reserve	–	–	–	1,366	–	–	(1,366)	–	–
Deemed disposal of interest in a subsidiary	–	–	7,559	–	–	–	–	7,559	16,362
At 31 December 2019	<u>6,600</u>	<u>58,924</u>	<u>39,551</u>	<u>4,325</u>	<u>(6,381)</u>	<u>23,900</u>	<u>31,492</u>	<u>158,411</u>	<u>167,437</u>

Notes:

- Share premium represented the excess of share issue over the par value.
- Other reserve represented the difference between the Group's share of nominal values of the paid-up capital of the subsidiary acquired over the Group's cost of acquisition of the subsidiary under common control upon Reorganisation.

On 20 March 2019, the Group disposed 27.63% equity interests of Zioncom Vietnam, an indirect wholly owned subsidiary of the Company, by way of increasing the registered capital of Zioncom Vietnam from US\$5,500,000 to US\$7,600,000. The non-controlling interests of Zioncom Vietnam agreed to pay US\$2,100,000 for the increase capital of Zioncom Vietnam. The Group recognised an increase in other reserve of approximately HK\$7,559,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 January 2016. The registered office of the Company is located at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KYI-1108, Cayman Islands and the principal place of business of the Company is located in Office A, 9/F., Kings Wing Plaza 2, No. 1 On Kwan Street, Shatin, New Territories, Hong Kong.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

3. APPLICATION OF NEW AND AMENDMENTS TO 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 (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

HKFRS 16 Leases

Since 1 January 2019, the Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 “Leases”, and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amount equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- (iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment;
- (iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options; and
- (v) relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The lessee's weighted average incremental borrowing rates applied are ranging from 6.5% to 13.4% for the group companies.

A reconciliation of the operating lease commitment as at 31 December 2018 to the lease liabilities as at 1 January 2019 is as follows:

	At 1 January 2019 HK\$'000
Operating lease commitments as at 31 December 2018	20,131
Less: Total future interest expenses	(1,947)
	<hr/>
Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities recognised as at 1 January 2019	18,184
Less: Short-term leases not recognised as liability	(137)
Add: Obligations under finance leases as at 31 December 2018	4,183
	<hr/>
Lease liabilities as at 1 January 2019	<u>22,230</u>
Analysis as:	
Non-current	14,101
Current	8,129
	<hr/>
	<u>22,230</u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	At 1 January 2019 <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 (<i>Note</i>)	18,047
Add: Prepaid lease payment	8,612
Add: Property, plant and equipment	245
	<hr/> 26,904 <hr/>
By class:	
Office premises and building	26,659
Motor vehicles	245
	<hr/> 26,904 <hr/> <hr/>

Note:

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 1 January 2019.

The following table summaries the impacts of the adoption of HKFRS 16 in the Group's consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current assets			
Property, plant and equipment	133,381	(245)	133,136
Right-of-use assets	–	26,904	26,904
Prepaid lease payments	8,393	(8,393)	–
Current assets			
Prepaid lease payments	219	(219)	–
Current liabilities			
Obligations under finance lease	1,648	(1,648)	–
Lease liabilities/obligations under finance leases	–	8,129	8,129
Non-current liabilities			
Obligations under finance lease	2,535	(2,535)	–
Lease liabilities/obligations under finance leases	–	14,101	14,101

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material ¹
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform ¹
HKFRS 3 (Amendments)	Definition of a Business ²
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 17	Insurance Contracts ³

¹ Effective for annual periods beginning on or after 1 January 2020.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for annual periods beginning on or after a date to be determined.

In addition to the above new and amendments to HKFRSs, a revised “Conceptual Framework for Financial Reporting” was issued in 2018. Its consequential amendments, the “Amendments to References to the Conceptual Framework” in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The directors of the Company anticipate that the application of all the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. SEGMENT INFORMATION

During the years ended 31 December 2019 and 2018, 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:

	2019 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
Korea	360,758	398,055
The People’s Republic of China (the “PRC”)	16,039	21,609
Vietnam	36,619	30,572
Other Asia (excluding Korea, the PRC and Vietnam)	103,410	79,852
Europe	43,871	17,754
South America	7,370	2,097
Africa	2,313	3,157
North America	2,757	20,613
	<u>573,137</u>	<u>573,709</u>

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

	2019 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
Hong Kong	6,819	157
Mainland China	97,989	85,599
Vietnam	55,542	55,456
Others	725	562
	<u>161,075</u>	<u>141,774</u>

Information about major customers

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Customer A (<i>Note</i>)	<u>308,519</u>	<u>302,577</u>

Note:

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

5. REVENUE

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

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.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Type of goods or service		
Goods transferred at a point in time		
Sales of router products	460,876	414,785
Sales of switch products	50,813	51,994
Sales of other networking products	21,936	70,055
Sales of non-networking products	39,512	34,507
Processing service income	<u>—</u>	<u>2,368</u>
Total revenue from contracts with customers	<u>573,137</u>	<u>573,709</u>

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.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Geographical markets		
Korea	360,758	398,055
The People's Republic of China (the "PRC")	16,039	21,609
Vietnam	36,619	30,572
Other Asia (excluding Korea, the PRC and Vietnam)	103,410	79,852
Europe	43,871	17,754
South America	7,370	2,097
Africa	2,313	3,157
North America	2,757	20,613
	<hr/>	<hr/>
Total revenue from contracts with customers	<u>573,137</u>	<u>573,709</u>

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

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

6. OTHER INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Government grant (<i>note</i>)	6,536	1,232
Bank interest income	340	235
Exchange gain, net	–	3,639
Investment income	283	249
Interest income on life insurance policies	–	407
Gain on disposal of property, plant and equipment	202	180
Sundry income	1,969	1,295
	<u>9,330</u>	<u>7,237</u>

Note:

Various government grants have been received mainly from Ministry of Industry and Information Technology and Shenzhen Science and Technology Innovation Commission for the Group's business conducted in the PRC. There are no unfulfilled conditions or contingencies related to these grants.

7. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest expenses on bank borrowings wholly repayable within five years	2,534	2,258
Interest expenses on finance leases	–	273
Interest expenses on lease liabilities/obligations under finance leases	1,328	–
	<u>3,862</u>	<u>2,531</u>

8. LOSS BEFORE TAXATION

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Loss for the year has been arrived at after charging/(crediting):		
Directors' emoluments	6,464	6,318
Other staff costs:		
Salaries and other benefits	81,032	80,390
Bonuses	2,030	717
Retirement scheme contributions	9,325	8,546
	<u>92,387</u>	<u>89,653</u>
Auditors' remuneration		
– audit services	1,296	1,200
– listing services (included in listing expenses)	–	93
Written off of trade receivables	300	101
Amortisation of land use right	–	222
Depreciation of right-of-use asset	7,406	–
Depreciation of property, plant and equipment		
– selling and distribution expenses	153	12
– administrative expenses	4,803	4,904
– cost of sales	6,842	6,506
– research and development expenses	2,510	2,307
	<u>14,308</u>	<u>13,729</u>
Cost of inventories recognised as an expenses	390,218	394,200
Changes in fair value of financial assets		
at fair value through profit or loss	(615)	682
Realised fair value loss of financial assets at fair value		
through profit or loss	679	–
(Gain)/loss on disposal of property, plant and equipment	(202)	180
Exchange loss, net	671	–
Compensation expenses	–	1,344
Operating lease rental expenses in respect of rented premises	–	9,115
Expenses relating to short-term leases	208	–
Listing expenses (<i>Note</i>)	–	483
Net allowances for expected credit losses on trade		
receivables, deposits and other receivables		
– Allowance for expected credit losses		
on trade receivables	9,325	5,851
– Allowance for expected credit losses		
on deposits and other receivables	195	–
– Reversal of allowance for expected credit losses		
on trade receivables	(529)	(3,720)
– Reversal of allowance for expected credit losses		
on deposits and other receivables	(51)	(5)
	<u>8,940</u>	<u>2,126</u>

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

9. TAXATION

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current taxation:		
Provision for the year		
– Hong Kong Profits tax	–	966
– Other than Hong Kong	2,153	1,699
Over-provision in prior years	(119)	–
	<u>2,034</u>	<u>2,665</u>
Deferred taxation:		
Charge/(credit) for the year	70	(17)
	<u>2,104</u>	<u>2,648</u>

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

Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the years ended 31 December 2019 and 2018.

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

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

Taiwan Corporate Income Tax is calculated at 17% on the estimated assessable profit for the years ended 31 December 2019 and 2018.

Vietnam Corporate Income Tax is calculated at 20% of the estimated assessable profit for the years ended 31 December 2019 and 2018. No provision of Profits Tax for the subsidiary in Vietnam as there are sufficient unused tax losses to utilize the assessable profits for the year ended 31 December 2019. There were no assessable profit for the year ended 31 December 2018.

Malaysia Corporate Income Tax is calculated at 17% on the first MYD500,000 and 24% for remaining estimated assessable profit for the year ended 31 December 2019. No provision of Corporate Income Tax for the subsidiary in Malaysia has been recognised as no assessable profit for the year ended 31 December 2019.

No Provision for taxation has been recognised for companies incorporated in the Cayman Islands and the BVI as they are not subject to any tax during the years ended 31 December 2019 and 2018.

10. DIVIDENDS

The Directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

11. LOSS PER SHARE

	2019 HK\$'000	2018 HK\$'000
Loss for the year attributable to the owners of the Company	<u>(26,381)</u>	<u>(17,888)</u>
Weighted average number of ordinary shares in issue	<u>660,000,000</u>	<u>650,778,082</u>
Basic and diluted loss per share (<i>HK cents</i>)	<u>(4.00)</u>	<u>(2.75)</u>

The calculation of basic loss per share for the years ended 31 December 2019 and 2018 are calculated by dividing the loss for the year attributable to the owners of the Company over the weighted average number of ordinary shares in issue during the year.

Diluted loss per share were same as the basic loss per share as there were no potential dilutive ordinary shares in exist during the years ended 31 December 2019 and 2018.

12. TRADE AND BILLS RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	74,023	69,346
Less: Allowance for expected credit losses	<u>(16,062)</u>	<u>(7,267)</u>
	57,961	62,079
Bills receivables	<u>32</u>	<u>22</u>
	<u><u>57,993</u></u>	<u><u>62,101</u></u>

As at 31 December 2019 and 2018, trade receivables from contracts with customers amounted to approximately HK\$57,961,000 and approximately HK\$62,079,000 respectively.

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	16,726	10,260
31 to 60 days	5,309	9,989
61 to 90 days	1,108	2,483
91 to 180 days	8,031	9,318
Over 180 days	<u>26,787</u>	<u>30,029</u>
	<u><u>57,961</u></u>	<u><u>62,079</u></u>

The Group generally allows an average credit period range from 30 to 120 days to its customers. Receivables that were neither past due nor impaired related to customers for whom there was no default. Receivables that were past due but not impaired related to customers that have good creditworthiness. Based on past experience, the management considered no impairment is necessary as there has not been a significant change in credit quality of these balances, which are still considered fully recoverable.

13. TRADE AND BILLS PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	110,523	126,120
Bills payables	<u>62,522</u>	<u>76,286</u>
	<u><u>173,045</u></u>	<u><u>202,406</u></u>

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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	44,946	44,234
31 to 60 days	24,650	22,674
61 to 90 days	13,740	15,567
91 to 180 days	24,783	35,541
Over 180 days	2,404	8,104
	<u>110,523</u>	<u>126,120</u>

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

14. SHARE CAPITAL

	Number of Shares	Amount <i>HK\$</i>
Authorised:		
Ordinary share of HK\$0.01 each as at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	<u>50,000,000,000</u>	<u>500,000,000</u>
Issued and fully paid:		
As at 1 January 2018	858,000	8,580
Capitalisation issue (<i>Note</i>)	461,142,000	4,611,420
Issue of new shares under the Share Offer (<i>Note</i>)	<u>198,000,000</u>	<u>1,980,000</u>
As at 31 December 2018, 1 January 2019 and 31 December 2019	<u>660,000,000</u>	<u>6,600,000</u>

Note:

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.

MATERIAL DIFFERENCES BETWEEN THE ANNUAL RESULTS IN THE PREVIOUS RESULTS ANNOUNCEMENT AND THE ANNUAL RESULTS IN THIS ANNOUNCEMENT

Taking into account that the financial information contained in the Previous Results Announcement was unaudited as at the date of its publication and subsequent adjustments have been made to such information, the shareholders and potential investors of the Company are advised to pay attention to the material differences between the annual results set out in the Previous Results Announcement and the annual results disclosed in this announcement, the principal details and reasons are set out below:

Consolidated Statement of Profit or Loss (Extract)

	Year ended 31 December 2019 (Disclosed in the Previous Results Announcement) (HK\$'000) (unaudited)	Year ended 31 December 2019 (Disclosed in this announcement) (HK\$'000) (audited)	Difference (HK\$'000)	Notes
Revenue	573,829	573,137	(692)	1
Cost of sales	(484,857)	(484,082)	775	1
Gross profit	88,972	89,055	83	
Other income	12,641	9,330	(3,311)	2
Change in fair value of financial assets at fair value through profit or loss	615	615	–	
Realised fair value loss on disposal of financial assets at fair value through profit or loss	(678)	(679)	(1)	
Net allowance for impairment losses in respect of trade receivables, deposits and other receivables	(7,013)	(8,940)	(1,927)	3
Selling and distribution expenses	(21,558)	(21,558)	–	
Administrative expenses	(49,675)	(55,191)	(5,516)	4
Research and development expenses	(25,373)	(32,763)	(7,390)	5
Loss from operations	(2,069)	(20,131)	(18,062)	
Finance costs	(3,862)	(3,862)	–	
Loss before taxation	(5,931)	(23,993)	(18,062)	
Taxation	(2,224)	(2,104)	120	6
Loss for the year	<u>(8,155)</u>	<u>(26,097)</u>	<u>(17,942)</u>	
Loss per share attributable to the owner of the Company				
Basic and diluted (HK cents)	<u>(1.3)</u>	<u>(4.0)</u>	<u>(2.7)</u>	

Notes:

1. The change resulted from an adjustment on sales and cost of sales when sales invoices and relevant documents available from inter-companies located in PRC and Vietnam after the resumption of operations in those countries.
2. The change resulted from a reclassification of approximately HK\$3.3 million exchange gain from other income to administrative expense.
3. The change resulted from an increase of approximately HK\$1.8 million and HK\$0.1 million in allowance for impairment losses in respect of trade receivables and other receivables after reassessment by valuer.
4. The change resulted from (i) reclassification of approximately HK\$3.3 million exchange gain from other income, (ii) realisation of approximately HK\$3.2 million prepaid professional services fee due to services rendered, and offset by (iii) reversal of approximately HK\$0.4 million and HK\$0.6 million office expenses paid on behalf of holding company and subsidiary in Taiwan respectively.
5. The change resulted from realisation of approximately HK\$7.4 million prepaid research and development expenses due to services rendered.
6. The change resulted from an decrease of HK\$0.1 million in profit tax arising from subsidiary in Hong Kong.

Consolidated Statement of Financial Position (Extract)

	Year ended 31 December 2019 (Disclosed in the Previous Results Announcement) (HK\$'000) (unaudited)	Year ended 31 December 2019 (Disclosed in this announcement) (HK\$'000) (audited)	Difference (HK\$'000)	Notes
Non-current assets				
Property, plant and equipment	133,113	132,317	(796)	7
Prepaid lease payments	–	–	–	
Financial assets at fair value through profit and loss	16,982	16,982	–	
Right-of-use assets	22,611	23,118	507	8
Prepayments	–	5,640	5,640	9
	172,706	178,057	5,351	
Current assets				
Inventories	170,622	165,960	(4,662)	10
Trade and bills receivables	60,839	57,993	(2,846)	11
Prepaid lease payments	–	–	–	
Prepayments, deposits and other receivables	55,308	35,667	(19,641)	12
Amounts due from directors	–	2,053	2,053	13
Loan to shareholder	972	–	(972)	13
Pledged bank deposits	25,581	25,580	(1)	14
Cash and bank balances	25,924	25,925	1	14
	339,246	313,178	(26,068)	
Current liabilities				
Trade and bills payables	172,163	173,045	882	15
Accruals, deposits received and other payables	16,627	15,775	(852)	16
Contract liabilities	39,565	39,565	–	
Amount due to director	191	–	(191)	16
Bank borrowings	71,614	71,614	–	
Lease liabilities/obligations under finance lease	8,157	8,156	(1)	14
Amount due to a shareholder	–	1,081	1,081	13
Tax payables	1,452	1,333	(119)	6
	309,769	310,569	800	

	Year ended 31 December 2019 (Disclosed in the Previous Results Announcement) (HK\$'000) (unaudited)	Year ended 31 December 2019 (Disclosed in this announcement) (HK\$'000) (audited)	Difference (HK\$'000)	Notes
Net current assets	29,477	2,609	(26,868)	
Total assets less current liabilities	202,183	180,666	(21,517)	
Non-current liabilities				
Lease liabilities/obligations under finance lease	9,310	9,310	–	
Deferred tax liabilities	3,919	3,919	–	
	13,229	13,229	–	
Net assets	188,954	167,437	(21,517)	
Capital and reserves				
Share capital	6,600	6,600	–	
Reserves	165,726	151,811	(13,915)	17
Total equity attributable to owners of the Company	172,326	158,411	(13,915)	
Non-controlling interests	16,628	9,026	(7,602)	18
Total equity	188,954	167,437	(21,517)	

Notes:

- The change resulted from (i) reclassification of approximately HK\$0.7 million leased assets from property, plant and equipment to right-of-use assets due to adoption of HKFRS 16 after reassessment by valuer, and (ii) adjustment of approximately HK\$0.1 million depreciation of property, plant and equipment.
- The change resulted from reclassification of approximately HK\$0.2 million non-current prepayment of leasehold land to other receivables and offset by HK\$0.7 million leased assets from property, plant and equipment.
- The change resulted from reclassification of HK\$5.6 million deposit paid from intercompanies to a supplier to acquire machineries; therefore, it is non-current in nature.

10. The change resulted from (i) reversal of approximately HK\$4.5 million good in transit among inter-companies; and (ii) adjustment of approximately HK\$0.1 million on sales and related cost of sales after relevant documents available from inter-companies.
11. The change resulted from (i) an increase of approximately HK\$1.8 million in allowance for impairment losses in respect of trade receivables after reassessment by valuer; (ii) reclassification of approximately HK\$1 million trade deposit to other receivables.
12. The change resulted from (i) reclassification of approximately HK\$3.2 million prepaid professional fee and approximately HK\$7.4 million prepaid research and development costs to administrative expenses and research and development costs due to services rendered; (ii) reversal of approximately HK\$9.2 million inter-company transactions, related trade deposits and inter-company balances; (iii) an increase of approximately HK\$0.1 million in allowance for impairment losses in respect of other receivables after reassessment by valuer; and (iv) offset by reclassification of approximately HK\$1 million trade deposit paid to a supplier from trade receivables and reversal of approximately HK\$0.4 million office expense from administrative expenses as payment was made in advance.
13. The change resulted from reclassification of approximately HK\$1.1 million funding from a shareholder to amount due from directors.
14. The change resulted from rounding number adjustment.
15. The change resulted from an adjustment of approximately HK\$0.9 million on exchange difference on trade payables balance.
16. The change resulted from (i) reclassification of approximately HK\$0.3 and HK\$0.4 million trade deposit received from trade receivables and other receivables to other payables, (ii) reversal of settlement of accrued administrative expenses amounted to approximately HK\$0.4 million from profit and loss (iii) offset by reclassification of approximately HK\$0.2 million accrued expenses from other payables to amount due to a director.
17. The change in loss for the year attributable to owners of the Company mainly resulted from some adjustments of the items set out herein.
18. The change resulted from an adjustment on approximately HK\$7.5 million other reserves arising from disposal of a subsidiary by the Group and approximately HK\$0.1 million profit of a subsidiary shared to non-controlling shareholders.

Save for the material differences disclosed above and the corresponding changes thereto, there are no material changes to the financial information disclosed in the Previous Results Announcement.

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\$26.4 million attributable to equity holders of the Company for the year ended 31 December 2019. 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.

The Group sold its branded products mainly on a wholesale basis through its distributors covering many countries and regions including Korea, the PRC, Vietnam, Hong Kong, Taiwan and Malaysia, etc. In addition, the 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\$34.6 million and HK\$44.3 million respectively for the year ended 31 December 2019, which in aggregate contributed approximately 13.8% 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 53.8% of the Group’s total revenue for the year ended 31 December 2019, and approximately 62.9% of the revenue was generated from the Group’s largest market, Korea for the year ended 31 December 2019. Revenue generated from Korea decreased by approximately 9.4%. The decrease was mainly due to the fact that change in economic conditions of the Group’s export countries, such as interest rates, currency exchange rates, inflation, deflation, political uncertainty, taxation, stock market performance and general consumer confidence, may affect the volume of purchase of the Group’s customers. Any change in the sales orders from the Group’s customers in the Group’s export countries resulting from any change in global or regional economic conditions may also affect the Group’s business operations and financial performance.

OUTLOOK

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

Below are some industry trends for 2020:

Wi-Fi 6: Some of the latest handheld mobile devices are Wi-Fi 6 enabled and as 5G phones are not yet in wide circulation and 5G services are not fully rolled out and unlikely to be the ultra fast speed connectivity that was promised or that we will see in future years, it is likely that more people will be using Wi-Fi 6 than 5G.

IoT: In 2020, the Internet of Things (IoT) is predicted to generate an additional US\$344B in revenues, as well as to drive US\$177B in cost reductions. IoT and smart devices are already increasing performance metrics of major US-based factories. They are in the hands of employees, covering routine management issues and boosting their productivity by 40-60%.

The current business environment remains overshadowed by the United States and PRC trade tensions with a possible trade truce and the recent COVID-19 outbreak in China and the rest of the world. In relation to the COVID-19 outbreak, the expectation is for a temporary but significant disruption in the near-term. The speed of recovery and the extent of any long term impact remain uncertain but will depend on the duration and severity of the outbreak and associated containment measures. Despite this, the Group will continue to pursue and maintain a conservative but proactive investment approach, focusing on product innovation, market share gain, geographical expansion and operational excellence, so as to bring better returns for the shareholders and ensure the Company stays competitive in the market.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded revenue of approximately HK\$573.1 million, the revenue remained stable comparing with that of approximately HK\$573.7 million for the year ended 31 December 2018. Set out below is the revenue breakdown of the Group for the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	HK\$'000	%	HK\$'000	%
Type of goods or service				
Goods transferred at a point in time				
Sales of router products	460,876	80.4	414,785	72.3
Sales of switch products	50,813	8.9	51,994	9.1
Sales of other networking products	21,936	3.8	70,055	12.2
Sales of non-networking products	39,512	6.9	34,507	6.0
Processing service income	—	—	2,368	0.4
Total revenue from contracts with customers	573,137	100	573,709	100

The revenue from router products increased by approximately 11% for the year ended 31 December 2019 as comparing with that of the previous year. The increase was mainly due to the increase in sales orders from the Group's customers on 4G LTE routers during the year ended 31 December 2019. The revenue from processing services and other networking products decreased by approximately 100% and 68.7%, respectively. The decreases were mainly due to the Group's adjustment of marketing strategy focusing on wireless router and and suspension of provision of processing services. 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

The Group's gross profit decrease by approximately 2.3% from approximately HK\$91.1 million for the year ended 31 December 2018 to approximately HK\$89.1 million for the year ended 31 December 2019. The Group's cost of sales comprises costs of materials, direct labour, manufacturing overhead, subcontracting services fee and other overheads. The cost of sales increase by approximately 0.3% from approximately HK\$482.6 million for the year ended 31 December 2018 to approximately HK\$484.1 million for the year ended 31 December 2019.

The gross profit margin remained stable at approximately 15.5% for the year ended 31 December 2019 (2018: approximately 15.9%). The decrease of gross profit is in line with the increase of cost of sales.

Other income

The other income of the Group increased by approximately 28.9% to approximately HK\$9.3 million for the year ended 31 December 2019 from HK\$7.2 million for the year ended 31 December 2018, primarily attributable to an increase of HK\$5.3 million in government grant from HK\$1.2 million for the year ended 31 December 2018 to HK\$6.5 million for the year ended 31 December 2019, and partly offset by a net exchange loss of approximately HK\$0.7 million which was included in administrative expenses for the year ended 31 December 2019 (2018: net exchange gains of HK\$3.7 million).

Selling and distribution expenses

Selling and distribution expenses increased by approximately 9.3% to approximately HK\$21.6 million for the year ended 31 December 2019 from approximately HK\$19.7 million for the year ended 31 December 2018, which was i) mainly due to an increase of approximately HK\$0.9 million and HK\$2.9 million in sales team salaries and customer rebate from approximately HK\$5.7 million and HK\$1.1 million for the year ended 31 December 2018 to approximately HK\$6.6 million and HK\$4.0 million for the year ended 31 December 2019 because of expansion of sales team and the increase in promotion activities such as incentive to products sales, respectively; and ii) partly offset by a decrease of approximately HK\$2.0 million in transportation fee from approximately HK\$5.0 million for the year ended 31 December 2018 to HK\$3.0 million for the year ended 31 December 2019 due to relocation of major production lines from PRC to Vietnam.

Administrative expenses

The administrative expenses of the Group for the year ended 31 December 2019 amounted to approximately HK\$55.2 million; representing a decrease of approximately HK\$8.4 million as compared with approximately HK\$63.6 million for the year ended 31 December 2018. The decrease was mainly attributable to i) a decrease of approximately HK\$6 million in staff costs from HK\$19 million for the year ended 31 December 2018 to approximately HK\$13 million for the year ended 31 December 2019 due to more staff recruited in Vietnam where the average staff costs were lowered; ii) a decrease of approximately HK\$1.3 million and HK\$1 million in compensation expenses and other tax expenses from approximately HK\$1.3 million and HK\$3.7 million for the year ended 31 December 2018 to nil and approximately HK\$2.7 million for the year ended 31 December 2019.

Research and development expenses

Research and development expenses increased by approximately 31.5% to approximately HK\$32.8 million for the year ended 31 December 2019 from approximately HK\$24.9 million for the year ended 31 December 2018, which was mainly due to the increase of HK\$7.9 million in spending on research and development activities for product development.

Finance costs

Finance costs increased by approximately 52.6% to approximately HK\$3.9 million for the year ended 31 December 2019 from approximately HK\$2.5 million for the year ended 31 December 2018, which was mainly due to the increase of interest expenses on bank borrowings which increased by approximately HK\$12.6 million from approximately HK\$59.0 million for the year ended 31 December 2018 to approximately HK\$71.6 million for the year ended 31 December 2019. The increase was mainly attributable to (i) new bank borrowing raised by the Group, offset by repayment of bank borrowing during the year ended 31 December 2019 and (ii) interest expenses on lease liabilities of approximately HK\$1.3 million which arose by the initial application of HKFRS 16 during the year ended 31 December 2019.

Loss for the year

As a result of the foregoing, the loss for the year ended 31 December 2019 amounted to approximately HK\$26.1 million, compared with the loss of approximately HK\$17.9 million for the year ended 31 December 2018. The loss for the year is aggregated from the increase of expenses stated above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, total borrowings of the Group amounted to approximately HK\$74.5 million (2018: approximately HK\$63.2 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 2019, the cash and bank balances and pledged bank deposit of the Group amounted to approximately HK\$51.5 million (2018: approximately HK\$35.3 million). Details on the average interest rate and maturity profile of the Group's financial liabilities is set out in the note 5 to the consolidated financial statements.

As at 31 December 2019, debt to equity ratio of the Group was 22.4% (2018: 15.4%). 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 2019 was approximately 1.0 time (2018: approximately 1.1 time).

As at 31 December 2019, gearing ratio of the Group was 45.2% (2018: 34.9%). 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 2019, cash and bank balances of the Group amounted to approximately HK\$25.9 million (2018: approximately HK\$4.8 million).

As at 31 December 2019, the Group's net current assets amounted to approximately HK\$2.6 million (2018: approximately HK\$23.6 million). The decrease was mainly due to (i) a decrease of approximately HK\$25.9 million in other receivables as result of a significant drop of approximately HK\$16.6 million in prepayment to suppliers from approximately HK\$24.1 million as at 31 December 2018 to approximately HK\$7.4 million as at 31 December 2019; and (ii) an increase of HK\$12.8 million in bank borrowing for the Group's operation from approximately HK\$59 million as at 31 December 2018 to approximately HK\$71.6 million as at 31 December 2019. The Group's operations are financed principally by revenue generated from its business operation, available cash and bank balance as well as bank borrowing.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

CAPITAL COMMITMENTS

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

	2019 HK\$'000	2018 HK\$'000
Authorised and contracted for capital contributions payable to an equity investment	<u>557</u>	<u>–</u>

PLEDGE OF ASSETS

As at 31 December 2019, pledged bank deposits of approximately HK\$25.6 million (2018: approximately HK\$30.5 million), property, plant and equipment with a carrying value of approximately HK\$73.5 million (2018: approximately HK\$75.5 million), financial assets at fair value through profit or loss with a carrying value of approximately HK\$16.4 million (2018: approximately HK\$21.4 million) of the Group were pledged to secure the Group's bank borrowings. Bank borrowings guaranteed by personal guarantee have been replaced by a corporate guarantee on the date of Listing.

EXCHANGE RATE EXPOSURE

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

As at 31 December 2019, 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 2019, 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

As at 31 December 2019, we recorded financial assets of approximately HK\$17.0 million (2018: approximately HK\$22.0 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	
	2019 HK\$'000	2018 HK\$'000
Key management personnel life insurance policies	10,568	15,913
Bonds	5,835	5,460
Club membership	579	592
Total	16,982	21,965

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 2019, 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 decreased by approximately HK\$5 million to approximately HK\$17.0 million as at 31 December 2019 from approximately HK\$22.0 million as at 31 December 2018 was mainly due to disposal of financial assets of approximately HK\$5.6 million offset by an increase in fair value of financial assets of approximately HK\$0.5 million during the year ended 31 December 2019.

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.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at the date of this announcement, the Group did not have any other plans for material investments and capital assets except for those disclosed in the section headed "Future Plan and Use of Proceeds" in the prospectus of the Company dated 28 December 2017 (the "**Prospectus**") and the composite document dated 20 September 2019 in relation to the mandatory unconditioned cash offer to acquire all the issued shares of Company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2019, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies, save as disclosed in the first quarterly report of the Company for the three months ended 31 March 2019.

EMPLOYEES AND EMOLUMENT POLICIES

The Group had 924 employees (including Directors) as at 31 December 2019 (2018: 878 employees) in Hong Kong, the PRC, Taiwan, Malaysia and Vietnam. The Group places emphasis on work experience in the networking industry in hiring its research and development staff, designers, merchandising staff and quality control staff. In order to recruit, develop and retain talented employees, the Group offers competitive remuneration packages to its staff, including internal promotion opportunities and performance based bonus. The Group enters into standard employment contracts with its staff which contain provisions on intellectual property rights and confidentiality.

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

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

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

USE OF PROCEEDS

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

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 2019.

CORPORATE GOVERNANCE PRACTICES

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

During the year ended 31 December 2019, the Company has complied with all the applicable code provisions of the Code, save and except the following:

Code Provision A.2.7 of the Code provides that the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. During the year ended 31 December 2019, a formal meeting could not be arranged between the chairman of the Board and all the independent non-executive Directors without the executive Directors present due to their tight schedules. Although such meeting was not held during the year ended 31 December 2019, the chairman of the Board has directly communicated with one of the independent non-executive director individually. Nevertheless the chairman of the Board could be contacted by email or phone to discuss any potential concerns and/or questions that the independent non-executive Directors might have and would arrange to set up follow-up meetings, whenever necessary.

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

Code Provision C.2.5 of the Code provides that the issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report. The Board reviewed the need for setting up an internal audit function during the year ended 31 December 2019 and considered that there was no immediate need after taking into account the Group's current circumstances, such as the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for the internal control of the Group and for reviewing its effectiveness.

Code Provision I(f) of the Code provides that disclosure be made in regards to details of non-compliance with Rules 5.05(1) and (2), and 5.05A of the GEM Listing Rules and an explanation of the remedial steps taken to address non-compliance. On 1 April 2019, Mr. Yiu Kwing Sum resigned as independent non-executive Director leaving only two independent non-executive Directors which did not meet the requirements pursuant to the above Rules. Mr. Kwong Chun Man was appointed on 26 June 2019 to fill the casual vacancy. Mr. Kwong was subject to election by the shareholders at the first general meeting after his appointment and was re-elected on 14 November 2019. Please refer to the Company's announcement dated 1 April 2019, 26 June 2019 and 14 November 2019 for more information.

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

The Group has adopted the required standard of dealing set out in Rules 5.46 to 5.67 of the GEM Listing Rules (the “**Standard of Dealings**”), as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he has complied with the required Standard of Dealing for the year ended 31 December 2019 and up to the date of this announcement.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

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

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

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

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

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

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

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

Please refer to the announcements of the Company dated 1 January 2020 and 31 March 2020 for more information.

SUPPLEMENTAL INFORMATION

Adoption of Chinese Name and Adoption of Chinese Stock Short Name

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

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

COVID-19 Coronavirus Outbreak

The business operation of the Group has been moderately affected by the COVID-19 coronavirus outbreak (the “**Epidemic**”). Some of the customers’ repayments are in unexpected arrears. In addition, strict anti-epidemic measures implemented in the PRC have resulted in difficulties for some of the Group’s employees in reporting for duty in the PRC, which has adversely affected the operational efficiency of the Group. The Company expects that the situation will gradually improve following effective control of the Epidemic.

EVENTS AFTER THE REPORTING PERIOD

Up to the date of this announcement, there was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the year ended 31 December 2019.

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 audited annual results of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee in a meeting held on 4 June 2020.

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

Hong Kong, 4 June 2020

As at the date of this announcement, the executive directors of the Company are Mr. Kim Byung Kwon, Mr. Kim Jun Yeob, Mr. Koo Ja Chun, Mr. Xiao Jingen and Mr. Zhao Xiuming; and the independent non-executive directors are Mr. Kwong Chun Man, Mr. Shin Dongmin and Mr. Lee Tsung Wah, Jonathan (“Directors”).

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