

ZIONCOM HOLDINGS LIMITED

Incorporated in the Cayman Islands with limited liability

Stock Code : 8287



S H A R E O F F E R



Sole Sponsor



Joint Bookrunners and Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Zioncom Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	: 198,000,000 Shares
Number of Placing Shares	: 178,200,000 Shares (subject to re-allocation)
Number of Public Offer Shares	: 19,800,000 Shares (subject to re-allocation)
Maximum Offer Price	: HK\$0.52 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full upon application in Hong Kong dollars and subject to refund on final pricing)
Nominal value	: HK\$0.01 per Share
Stock code	: 8287

Sole Sponsor



Joint Bookrunners and Joint Lead Managers



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

A copy of this prospectus, having attached thereto the documents specified in "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by the Price Determination Agreement between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or about Thursday, 11 January 2018, or such later date as may be agreed by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company. Applicants for the Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.52 for each Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund of the Offer Price finally determined is lower than HK\$0.52 per Offer Share (the maximum Offer Price). The Offer Price will not be more than HK\$0.52 per Offer Share and is expected to be not less than HK\$0.28 per Offer Share. The Joint Lead Managers (for themselves and on behalf of the Underwriters) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the Price Determination Date. In such a case, a notice of the reduction of the indicative Offer Price range will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.zioncom.net, not later than the morning of the last day for lodging applications under the Share Offer. If our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by that date or such later date as agreed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in "Risk factors" in this prospectus.

Prospective investors of the Offer Shares should note that the obligations of the Underwriters under the Underwriting Agreement are subject to termination by the Joint Lead Managers (for themselves and on behalf of the Underwriters) upon the occurrence of any of the events set out in "Underwriting — Underwriting arrangements, commissions and expenses — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of these termination provisions are set out in "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with Regulation S of the U.S. Securities Act.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at www.hkexnews.hk in order to obtain up-to-date information on GEM listed issuers.

EXPECTED TIMETABLE

	Date
	<i>(Note 1)</i>
Application Lists open <i>(Note 2)</i>	11:45 a.m. on Monday, 8 January 2018
Latest time for lodging WHITE and YELLOW Application Forms and to give electronic application instructions to HKSCC <i>(Note 3)</i>	12:00 noon on Monday, 8 January 2018
Application Lists close <i>(Note 2)</i>	12:00 noon on Monday, 8 January 2018
Expected Price Determination Date <i>(Note 4)</i>	Thursday, 11 January 2018
Announcement of (i) the final Offer Price; (ii) the level of indication of interest in the Placing; (iii) the level of applications in the Public Offer; (iv) the basis of allotment of the Public Offer Shares; and (v) the number of Offer Shares reallocated, if any, between the Public Offer and the Placing to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.zioncom.net <i>(Note 5)</i> on or before	Wednesday, 17 January 2018
Results of allocation in the Public Offer will be available at www.iporesults.com.hk (alternatively: English https://www.eipo.com.hk/en/Allotment ; Chinese https://www.eipo.com.hk/zh-hk/Allotment) with a "search by ID" function from	Wednesday, 17 January 2018
Announcement of results of allotment of the Public Offer (with successful applicants' identification documents numbers, where applicable) available through a variety of channels as described in "How to Apply for Public Offer Shares — Publication of results" in this prospectus from	Wednesday, 17 January 2018
Despatch/collection of Share certificates of the Offer Shares or deposit of Share certificates of the Offer Shares into CCASS in respect of wholly or partially successful applications under the Public Offer on or before <i>(Notes 6 and 8)</i>	Wednesday, 17 January 2018
Refund cheques in respect of wholly successful (if applicable) and wholly or partially unsuccessful applications under the Public Offer to be despatched on or before <i>(Notes 7 and 8)</i>	Wednesday, 17 January 2018
Dealings in Shares on GEM to commence at	9:00 a.m. on Thursday, 18 January 2018

The application for the Offer Shares will commence on Thursday, 28 December 2017 through Monday, 8 January 2018, being longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, 17 January 2018. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 18 January 2018.

EXPECTED TIMETABLE

Notes:

- (1) All times and dates refer to Hong Kong local times and dates. Details of the structure of the Share Offer, including its conditions, are set out in “Structure and Conditions of the Share Offer” of this prospectus. If there is any change in the above expected timetable, an announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and our website at www.zioncom.net.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 8 January 2018, the Application Lists will not open or close on that day. Further information is set forth in “How to Apply for Public Offer Shares — 9. Effect of bad weather on the opening of the Application Lists” in this prospectus. If the Application Lists do not open and close on Monday, 8 January 2018, the dates mentioned in this section may be affected.
- (3) Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC should refer to “How to Apply for Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (4) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Thursday, 11 January 2018 (or such later date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters). If the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, the Share Offer (including the Public Offer) will not become unconditional and will lapse immediately.
- (5) None of the websites or any of the information contained therein forms part of this prospectus.
- (6) All Share certificates will only become valid certificates of title of the Shares to which they relate at 8:00 a.m. on Thursday, 18 January 2018 provided that the Share Offer has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms. If the Public Offer does not become unconditional or the Underwriting Agreement is terminated, we will make an announcement as soon as possible.
- (7) Refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.
- (8) Applicants who have applied on **WHITE** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have indicated in their Application Forms that they are eligible to collect any refund cheques and share certificates in person, may do so from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 17 January 2018. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporation’s chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Hong Kong Share Registrar at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques, if any, in person but may not elect to collect their share certificates

EXPECTED TIMETABLE

which will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms. Further information is set out under "How to apply for Public Offer Shares — 13. Despatch/collection of share certificates and refund monies" in this prospectus.

Particulars of the structure of the Share Offer, including the conditions thereto, are set out in "Structure and Conditions of the Share Offer" in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong. You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters have not authorised any persons to provide you with information that is different from what is contained in this prospectus. Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or affiliates of any of them or any other persons or parties involved in the Share Offer. The contents of our Company's website at www.zioncom.net do not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OUR BUSINESS

We are a manufacturer 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. Our operations are mainly based in the PRC. Our main products are routers, which provide for wired and wireless transmission of data to devices while maintaining wired connection with modems. We also manufacture and sell 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.

BUSINESS MODEL

During the Track Record Period, we generated our revenue mainly from the sale of (i) EMS products; (ii) Branded Products, and (iii) OEM products; and providing processing services.

Under our EMS business model, we manufacture products either with our inputs for the design and specifications, or with our design inputs with specifications provided by our customers. Our EMS products include Jointly Developed Products and other EMS products. We manufacture our Jointly Developed Products for EFM, our largest customer during the Track Record Period. The Jointly Developed Products are manufactured under EFM’s brand *ipTIME* that we have jointly developed with EFM and we sell to EFM on an order-by-order basis pursuant to the supply agreement entered into between EFM and us. Pursuant to the Joint Development Agreement between EFM and us, EFM is responsible for the research and development of the software to be installed in the Jointly Developed Products and the product case and package designs; and we are responsible for the research and development of the hardware and manufacturing of the Jointly Developed Products.

We manufacture Branded Products under the brand *TOTOLINK*. We sell our Branded Products mainly on a wholesale basis through our distributors. As at 30 June 2017, we had over 65 distributors in 40 countries and regions.

We rely heavily on the Korean market. During the Track Record Period, Korea was our largest sales market. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, revenue arising from sales to customers located in Korea represented approximately 66.9%, 70.9% and 67.2% of our total sales during the corresponding periods respectively.

In addition, we manufacture and sell certain products to our customers on an OEM basis. Under the OEM business model, we manufacture products primarily based on our customers’ design and specifications.

Please refer to “— Key Operational and Financial Data — Revenue” in this section for breakdown of our revenue by business models (with major product types) during the Track Record Period for details.

OUR PRODUCTS

We offer a wide range of high quality networking products to cater for the different Wi-Fi speeds and different wireless network standards. Our wireless routers can deliver Wi-Fi speeds of up to a data

SUMMARY

rate of 2.6 Gbps and 1.9 Gbps for Jointly Developed Products and Branded Products, respectively. Our suite of products include networking protocols currently developed from 802.11ac (being one of the fifth generation wireless network standards) and 802.11 b/g/n (being the older wireless network standards). For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, we sold over 60 different models of our Branded Products to our customers.

Our routers can be categorised into consumer routers with 4 ports that are primarily targeted for home use and small scale commercial applications and others routers either with 2, 8, 16, 24 ports or with 4G LTE or VPN functions. Our 4 port wireless routers may be categorised into two groups, based on wireless network standard with 802.11ac protocol, a fifth generation wireless technology, as one category and 802.11 b/g/n protocols, the older generations of wireless technologies, as another category.

SUMMARY

The following table sets forth a breakdown of our revenue from sale of products by types of products (other than processing service fee) for the Track Record Period:

	For the year ended 31 December					For the six months ended 30 June									
	2015		2016		2016		2017		2017						
	Percentage of total revenue from sale of products	Average selling price	Revenue	Percentage of total revenue from sale of products	Average selling price	Revenue	Percentage of total revenue from sale of products	Average selling price	Revenue	Percentage of total revenue from sale of products					
	HK\$'000	units'000	HK\$	HK\$'000	%	units'000	HK\$	HK\$'000	%	units'000	HK\$				
<i>(Unaudited)</i>															
Routers															
- 4 ports 802.11 ac protocol	119,489	700	170.7	139,269	28.5	832	167.4	60,426	27.0	370	163.3	74,934	30.9	434	172.7
- 4 ports 802.11 b/g/n protocols	240,610	3,054	78.8	183,215	37.5	2,527	72.5	91,345	40.8	1,215	75.2	70,732	29.2	1,007	70.2
- Other routers ⁽¹⁾	15,911	34	468.0	19,764	4.0	34	581.3	8,791	3.9	15	586.1	32,380	13.3	143	226.4
Subtotal	376,010	3,788	99.3	342,248	70.0	3,393	100.9	160,562	71.7	1,600	100.4	178,046	73.4	1,584	112.4
Ethernet switches	40,440	625	64.7	46,657	9.6	690	67.6	20,750	9.3	318	65.3	19,626	8.1	277	70.9
Other networking products⁽²⁾	56,090	1,142	49.1	61,621	12.6	1,183	52.1	25,794	11.5	500	51.6	28,887	11.9	532	54.3
Non-networking products⁽³⁾	46,870	381	123.0	37,830	7.8	419	90.3	16,704	7.5	181	92.3	16,050	6.6	200	80.3
Total	519,410	5,936	87.5	488,356	100.0	5,685	85.9	223,810	100.0	2,599	86.1	242,609	100.0	2,593	93.6

Notes:

- (1) Other routers included 2, 8, 16 and 24 ports routers, VPN routers and 4G LTE routers.
- (2) Other networking products mainly included LAN cards, Wi-Fi modules and Access Points.
- (3) Non-networking products mainly included action cameras, hard disk cases, power banks and USB hubs.

SUMMARY

PRICING MODEL

We generally adopt a cost-plus policy for the pricing of all our products. Any downward adjustment on the standard profit margin would require management's approval. For our Branded Products, we provide our distributors with a range of retail prices as guidance but allow them the discretion to determine the retail price.

OUR CUSTOMERS AND DISTRIBUTORS

We have three main categories of customers for our products sold: (i) our EMS customers, which include EFM, customer of our Jointly Developed Products and other EMS customers; (ii) our direct customers and our distributors and consignees of our Branded Products; and (iii) our OEM customers. Please see "Business — Customers" in this prospectus for information on some of our major customers.

Sales to our five largest customers represented approximately 77.8%, 76.6% and 74.7% of our total revenue for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. Sales to EFM, our largest customer for the same periods represented 59.1%, 63.0% and 56.7% of our total revenue, respectively.

We have 13 years of relationship with EFM. EFM is based in Korea. Pursuant to the supply agreement between EFM and us, we sell the Jointly Developed Products to EFM on an order-by-order basis for a term of three years commencing April 2015 to March 2018. On 3 March 2017, we have entered into the Joint Development Agreement with EFM, pursuant to which we will be the exclusive supplier of the networking products to EFM for a term of three years and is renewable for another three years unless otherwise notified by either party no later than two months prior to expiry of the agreement. For further details regarding our relationship with EFM, please see "Business — Customers — EFM" in this prospectus.

We have an extensive sales and distribution network for our Branded Products globally. We sell our Branded Products mainly through our distributors. As at 30 June 2017, we had over 65 distributors in 40 countries and regions. The length of business relationship with our five largest distributors for the years ended 31 December 2015, 2016 and the six months ended 30 June 2017 range from less than one year to six years. For further details regarding our distributors, please see "Business — Sales, marketing and distribution — Distribution — Our distributors" in this prospectus.

OUR SUPPLIERS

Our major suppliers for the Track Record Period were all engaged in manufacturing or trading of electronic components. Please see "Business — Sourcing and procurement — Supply agreements" in this prospectus for information relating to arrangement between our Group and our suppliers. For the years ended 31 December 2015, 2016 and the six months ended 30 June 2017, our business relationship with our five largest suppliers ranged from less than one year to approximately nine years and we had established approximately eight years of business relationship with our largest supplier.

For the years ended 31 December 2015, 2016 and the six months ended 30 June 2017, purchases from our five largest suppliers amounted to approximately HK\$133.4 million, HK\$142.6 million and HK\$68.2 million, respectively, representing approximately 34.1%, 39.1% and 40.2% of our total purchases, respectively. For the same periods, purchases from our largest supplier amounted to approximately HK\$69.5 million, HK\$78.5 million and HK\$31.4 million, respectively, representing approximately 17.7%, 21.5% and 18.5% of our total purchases, respectively.

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SHAREHOLDERS INFORMATION

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account of the options which may be granted under the Share Option Scheme), our Company will be owned as to 70.0% by Lincats, which is owned as to 81.8% by Mr. BK Kim, 9.1% by Mr. JY Kim, and 9.1% by Mr. Koo.

Lincats and Mr. BK Kim are our Controlling Shareholders for the purpose of the GEM Listing Rules. Please see “Relationship with our Controlling Shareholders” in this prospectus for details. Mr. BK Kim is our founder, our chairman and an executive Director. For the background of Mr. BK Kim, please see “Directors, Senior Management and Employees — Executive Directors” in this prospectus.

KEY OPERATIONAL AND FINANCIAL DATA

The following tables set forth our key operational and financial data during the Track Record Period:

	For the year ended 31 December		For the six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Results of operations				
Revenue	537,703	512,192	231,121	246,422
Gross profit	68,164	79,942	35,102	38,520
Profit before taxation	17,141	16,793	4,692	3,643
Profit for the year/period	10,446	13,868	3,308	1,699
Non-HKFRS financial information				
Profit for the year/period excluding Listing expenses	14,170	19,287	6,017	6,873
Cash flows				
Operating cash flows before movements in working capital	20,656	29,049	9,999	9,778
Net cash generated from / (used in) operating activities	20,054	21,203	(17,603)	7,330
Net cash (used in) / generated from investing activities	(34,634)	2,825	26,170	(10,016)
Net cash generated from / (used in) financing activities	2,255	(33,230)	(13,595)	(2,971)
Net decrease in cash and cash equivalents	(12,325)	(9,202)	(5,028)	(5,657)
			As at 31 December	As at 30 June
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Key financial position				
Non-current assets	107,177	128,652	145,592	145,592
Current assets	252,032	237,775	243,081	243,081
Current liabilities	243,681	229,690	241,727	241,727
Net current assets	8,351	8,085	1,354	1,354
Total assets less current liabilities	115,528	136,737	146,946	146,946
Non-current liabilities	5,728	4,326	8,252	8,252
Net assets/Total equity attributable to owners of the Company	109,800	132,411	138,694	138,694

SUMMARY

	As at 31 December		As at 30 June
	2015	2016	2017
Key financial ratios			
Current ratio ⁽¹⁾	1.0	1.0	1.0
Quick ratio ⁽²⁾	0.7	0.6	0.6
Net debt-to-equity ratio ⁽³⁾	N/A	N/A	4.0%
Gearing ratio ⁽⁴⁾	68.8%	20.7%	22.7%
			For the six months ended 30 June
	For the year ended 31 December		2017
	2015	2016	2017
Return on equity ⁽⁵⁾	9.5%	10.5%	N/A
Return on asset ⁽⁶⁾	2.9%	3.8%	N/A
Net profit margin ⁽⁷⁾	1.9%	2.7%	0.7%
Net profit margin before interest and tax ⁽⁸⁾	3.5%	3.6%	1.7%
Interest coverage ⁽⁹⁾	11.2	11.8	6.5

Notes:

- (1) Current ratio is calculated based on the total current assets for the respective year/period divided by total current liabilities as of the end of the respective year/period.
- (2) Quick ratio is calculated based on the current assets less inventories for the respective year/period divided by current liabilities as of the end of the respective year/period.
- (3) Net debt-to-equity ratio is calculated based on net debt (including bank overdrafts, bank borrowings, obligations under finance leases and amount due to a shareholder less pledged bank deposits and cash and bank balances) for the respective year/period divided by total equity as of the end of the respective year/period.
- (4) Gearing ratio is calculated based on total debt for the respective year/period divided by total equity as of the end of the respective year/period.
- (5) Return on equity is calculated by dividing net profit attributable to equity shareholders for the respective year by total equity attributable to equity shareholders as of the end of the respective year.
- (6) Return on assets is calculated by dividing net profit for the year attributable to equity shareholders for the respective year by total assets as of the end of the respective year.
- (7) Net profit margin is calculated as net profit for the year/period divided by revenue for the year/period multiplied by 100%.
- (8) Net profit margin before interest and tax is calculated as net profit before interest and tax divided by revenue for the year/period multiplied by 100%.
- (9) Interest coverage ratio is calculated by dividing profit before interest and tax by interest expenses for the year/period.

Please see “Financial Information — Key financial ratios” in this prospectus for further details.

Revenue

During the Track Record Period, we generated revenue mainly from (i) the sale of networking and non-networking products; and (ii) the provision of processing services. Our revenue slightly decreased by approximately HK\$25.5 million, representing a decrease of approximately 4.7%, from approximately HK\$537.7 million for the year ended 31 December 2015 to approximately HK\$512.2 million for the year ended 31 December 2016. Our revenue increased by approximately HK\$15.3 million, representing an

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increase of approximately 6.6%, from approximately HK\$231.1 million for the six months ended 30 June 2016 to approximately HK\$246.4 million for the six months ended 30 June 2017.

The following table sets forth the breakdown of our revenue by business models (with major product types) during the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June			
	2015		2016		2016		2017	
	Percentage of total		Percentage of total		Percentage of total		Percentage of total	
	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue
HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
	<i>(Unaudited)</i>							
Sale of products								
EMS products								
Jointly Developed								
Products	317,602	59.1	322,891	63.0	145,718	63.0	139,763	56.7
<i>Routers</i>	234,898	43.7	229,692	44.8	104,077	45.0	97,343	39.5
<i>Ethernet</i>								
<i>switches</i>	33,108	6.2	37,203	7.3	16,477	7.1	15,956	6.5
<i>Other networking products</i>	27,436	5.1	33,072	6.5	14,715	6.4	15,274	6.2
<i>Non-networking products</i>	22,160	4.1	22,924	4.4	10,449	4.5	11,190	4.5
Other EMS products	101,016	18.8	67,373	13.2	35,278	15.3	35,881	14.6
<i>Routers</i>	78,537	14.6	53,576	10.5	28,760	12.5	34,788	14.2
<i>Ethernet</i>								
<i>switches</i>	3,955	0.8	1,198	0.2	1,098	0.5	39	-
<i>Other networking products</i>	17,871	3.3	12,538	2.5	5,418	2.3	1,001	0.4
<i>Non-networking products</i>	653	0.1	61	-	2	-	53	-
Branded Products	77,941	14.5	86,214	16.8	36,920	16.0	51,742	21.0
<i>Routers</i>	62,575	11.7	58,980	11.5	27,725	12.0	31,384	12.7
<i>Ethernet</i>								
<i>switches</i>	3,377	0.6	8,257	1.6	3,175	1.4	3,632	1.5
<i>Other networking products</i>	10,783	2.0	16,011	3.1	5,661	2.4	12,612	5.1
<i>Non-networking products</i>	1,206	0.2	2,966	0.6	359	0.2	4,114	1.7
OEM products	22,851	4.2	11,878	2.3	5,894	2.5	15,223	6.2
<i>Routers</i>	-	-	-	-	-	-	14,531	5.9
<i>Non-networking products</i>	22,851	4.2	11,878	2.3	5,894	2.5	692	0.3
Sub-total	519,410	96.6	488,356	95.3	223,810	96.8	242,609	98.5
Processing services	18,293	3.4	23,836	4.7	7,311	3.2	3,813	1.5
Total	537,703	100.0	512,192	100.0	231,121	100.0	246,422	100.0

For the years ended 31 December 2015 and 2016, and for the six months ended 30 June 2016 and 2017, our revenue generated from Jointly Developed Products remained relatively stable at approximately HK\$317.6 million, HK\$322.9 million, HK\$145.7 million and HK\$139.8 million, representing approximately 59.1%, 63.0%, 63.0% and 56.7% of our total revenue for respective periods.

Our revenue generated from other EMS products decreased by approximately HK\$33.6 million, representing a decrease of approximately 33.3%, from approximately HK\$101.0 million for the year

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ended 31 December 2015 to approximately HK\$67.4 million for the year ended 31 December 2016, which was mainly attributable to (i) the decrease in sales to a customer in the PRC by approximately HK\$13.1 million as a result of the fact that we sold majority of the products to this customer in 2015 pursuant to a framework agreement with it entered into in the same year, and (ii) the decrease in sales to certain EMS customers in Brazil by approximately HK\$12.0 million which we believe was a result of the depreciation of Brazilian Real in the year ended 31 December 2016. Our revenue generated from other EMS products remained relatively stable at approximately HK\$35.3 million and HK\$35.9 million for the six months ended 30 June 2016 and 2017, respectively.

The revenue generated from sales of Branded Products increased by approximately HK\$8.3 million, representing an increase of approximately 10.6%, from approximately HK\$77.9 million for the year ended 31 December 2015 to approximately HK\$86.2 million for the year ended 31 December 2016, which was mainly attributable to expansion of our business in Taiwan. Our revenue from Branded Products increased by approximately HK\$14.8 million, representing an increase of approximately 40.1%, from approximately HK\$36.9 million for the six months ended 30 June 2016 to approximately HK\$51.7 million for the six months ended 30 June 2017, which was primarily due to the increase in the sales of our branded Access Points, power banks and 4 ports routers by approximately HK\$6.9 million, HK\$3.4 million and HK\$2.9 million, respectively.

The revenue from sale of OEM products decreased by approximately HK\$11.0 million, representing a decrease by approximately 48.0%, from approximately HK\$22.9 million for the year ended 31 December 2015 to approximately HK\$11.9 million for the year ended 31 December 2016, which was mainly attributable to the decrease in both the volume and price of the products ordered by one of our OEM customers. Our revenue from OEM products increased by approximately HK\$9.3 million, representing an increase of approximately 158.3%, from approximately HK\$5.9 million for the six months ended 30 June 2016 to approximately HK\$15.2 million for the six months ended 30 June 2017, which was primarily due to the increase in the sales of one of the new products, 4G LTE routers to a new customer, Customer G.

Cost of sales

Our cost of sales during the Track Record Period comprised mainly of cost of materials, direct labour costs, and manufacturing overhead. Our most significant cost of sales was cost of materials. For the years ended 31 December 2015 and 2016, and for the six months ended 30 June 2016 and 2017, our cost of materials accounted for approximately 80.0%, 80.4%, 80.4% and 82.1% of our total cost of sales, respectively.

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Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin by business models during the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)							
Sale of products								
<i>EMS products</i>								
Jointly Developed								
Products	39,083	12.3	45,297	14.0	18,703	12.8	20,045	14.3
Other EMS products	11,461	11.3	10,803	16.0	5,706	16.2	4,509	12.6
Branded Products	14,943	19.2	21,371	24.8	9,300	25.2	12,734	24.6
OEM products	1,328	5.8	865	7.3	877	14.9	1,032	6.8
Sub-total	66,815	12.9	78,336	16.0	34,586	15.5	38,320	15.8
Processing services ⁽¹⁾	1,349	7.4	1,606	6.7	516	7.1	200	5.2
Total	<u>68,164</u>	<u>12.7</u>	<u>79,942</u>	<u>15.6</u>	<u>35,102</u>	<u>15.2</u>	<u>38,520</u>	<u>15.6</u>

Note:

(1) Our revenue generated from processing services included processing service fee and sale of materials.

Our gross profit increased by approximately HK\$11.7 million, representing an increase by approximately 17.3%, from approximately HK\$68.2 million for the year ended 31 December 2015 to approximately HK\$79.9 million for the year ended 31 December 2016, which was primarily due to (i) the increase in gross profit from Jointly Developed Products by approximately HK\$6.2 million resulting from the decreased sales of 4 ports 802.11 b/g/n protocols routers and increased sales of 4 ports 802.11 ac protocol routers with comparatively higher gross profit margin; and (ii) increase in gross profit margin from Branded Products by approximately HK\$6.4 million as a result of increase in both revenue and gross profit margin of branded 4 ports 802.11 ac protocol routers, other networking products and Ethernet switches. The gross profit from our other EMS products remained relatively stable while the gross profit margin increased from approximately 11.3% for the year ended 31 December 2015 to approximately 16.0% for the year ended 31 December 2016, which was mainly attributable to the decrease in sales to Customer B to whom the products sold generally had a lower gross profit margin than average. As a result of the above, our gross profit margin increased from approximately 12.7% for the year ended 31 December 2015 to approximately 15.6% for the year ended 31 December 2016.

Our gross profit and gross profit margin remained relatively stable at approximately HK\$35.1 million and 15.2% for the six months ended 30 June 2016 and approximately HK\$38.5 million and 15.6% for the six months ended 30 June 2017.

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The following table sets forth a breakdown of our gross profit and gross profit margin by types of our products and services during the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(Unaudited)</i>							
Routers								
- 4 ports 802.11 ac protocol ...	12,350	10.3	21,864	15.7	8,723	14.4	10,536	14.1
- 4 ports 802.11 b/g/n protocols	31,816	13.2	24,486	13.4	12,300	13.5	9,111	12.9
	44,166	12.3	46,350	14.4	21,023	13.9	19,647	13.5
- Other routers ⁽¹⁾	2,626	16.5	4,599	23.3	1,906	21.7	3,679	11.4
	46,792	12.4	50,949	14.9	22,929	14.3	23,326	13.1
Ethernet switches	5,282	13.1	7,823	16.8	3,482	16.8	3,575	18.2
Other networking products ⁽²⁾	9,235	16.5	13,363	21.7	5,341	20.7	7,610	26.3
Non-networking products ⁽³⁾	5,506	11.7	6,201	16.4	2,834	17.0	3,809	23.7
Subtotal	66,815	12.9	78,336	16.0	34,586	15.5	38,320	15.8
Processing services	1,349	7.4	1,606	6.7	516	7.1	200	5.2
Total	68,164	12.7	79,942	15.6	35,102	15.2	38,520	15.6

Notes:

- (1) Other routers included 2, 8, 16 and 24 ports routers VPN routers and 4G LTE routers.
- (2) Other networking products mainly included LAN cards, Wi-Fi modules and Access Points.
- (3) Non-networking products mainly included action cameras, hard disk cases, power banks and USB hubs.

The increase in our gross profit of approximately HK\$11.8 million during the years ended 31 December 2015 and 2016 was mainly attributable to (i) an increase in the gross profit from routers by approximately HK\$4.1 million, which was mainly driven by the increase in gross profit margin of 4 ports 802.11 ac protocol routers and decrease in sales of routers with lower gross profit margin to a customer in the PRC; (ii) an increase in the gross profit from Ethernet switches by approximately HK\$2.5 million as a result of increased sales of certain types of more advanced branded Ethernet switches with higher gross profit margin; and (iii) an increase in the gross profit from other networking products by approximately HK\$4.2 million mainly due to the increase in the sales of Access Points, which had a higher gross profit margin in the year ended 31 December 2016 as a result of decrease in cost of sales.

Our gross profit remained relatively stable at approximately HK\$35.1 million for the six months ended 30 June 2016 and at approximately HK\$38.5 million the six months ended 30 June 2017, which was primarily a combined result of (i) an increase in gross profit from 4 ports 802.11 ac protocol routers by approximately HK\$1.8 million in line with the increase in the revenue from this product; (ii) an increase in gross profit from other routers by approximately HK\$1.8 million mainly due to addition in gross profit brought by 4G LTE routers and 2 ports routers; (iii) an increase in gross profit from other networking products by approximately HK\$2.3 million primarily resulting from the increase in gross

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profit margin from Access Points and wired LAN cards, which was offset by the decrease in the sale of wireless LAN cards; and (iv) a decrease in gross profit from 4 ports 802.11 b/g/n protocols routers by approximately HK\$3.2 million, which is in line with the decrease in revenue of such product.

Other income

For the years ended 31 December 2015 and 2016 and for the six months ended 30 June 2016 and 2017, our other income amounted to approximately HK\$10.4 million, HK\$6.3 million, HK\$1.7 million and HK\$5.5 million, respectively. During the year ended 31 December 2015, we recorded forfeited deposits and write-back of trade payables of approximately HK\$5.9 million, which mainly represented the deposits and cost of raw materials received from a customer for an order that was subsequently cancelled and trade payables relating to two suppliers that were cancelled due to quality issues of the raw materials supplied by them. We also recorded product development income of approximately HK\$0.4 million, HK\$2.5 million and HK\$2.5 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, which represented standalone income that we charged for development of hardware, including mould charges, for our customers.

Profit for the year/period excluding Listing expenses

Our profit for the year excluding Listing expenses increased by approximately HK\$5.1 million from approximately HK\$14.2 million for the year ended 31 December 2015 to approximately HK\$19.3 million for the year ended 31 December 2016, representing an increase by approximately 36.1%. Our net profit margin excluding Listing expenses increased from approximately 2.6% for the year ended 31 December 2015 to approximately 3.8% for the year ended 31 December 2016.

Our profit for the period excluding Listing expenses increased by approximately HK\$0.9 million from approximately HK\$6.0 million for the six months ended 30 June 2016 to approximately HK\$6.9 million for the six months ended 30 June 2017, representing an increase by approximately 14.2%. Our net profit margin excluding Listing expenses increased from approximately 2.6% for the six months ended 30 June 2016 to approximately 2.8% for the six months ended 30 June 2017.

Cash and cash equivalents at the end of year/period

Our cash and cash equivalents decreased from approximately HK\$20.9 million as at 31 December 2015 to approximately HK\$11.9 million as at 31 December 2016, and further decreased to approximately HK\$6.6 million as at 30 June 2017. During the Track Record Period, our net cash (used in)/generated from investing activities mainly represented placement and withdrawal of pledged bank deposits, payment for acquisition of property, plant and equipment mainly for the factory in Vietnam. Our net cash generated from/(used in) financing activities mainly represented proceeds from and repayment of bank borrowings and proceeds from issuance of new shares of Zioncom HK. For details, please refer to “Financial Information — Liquidity and capital resources” in this prospectus.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

In July 2017, we leased a new office in Taiwan with larger gross floor area and expanded our sales team by engaging one sales director and two sales managers in Taiwan to cater for our expansion in Southeast Asian market. We started to supply to a new customer (“**Customer X**”) in May 2017 and have also secured an order from Customer X for purchase of our 4G LTE routers in the total amount of approximately HK\$8.5 million in August 2017.

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In late October 2017, we commenced our trial production in our Vietnam factory, which was initially equipped with two SMT production lines, two DIP production lines and two packaging lines. We expect that the actual production will commence around the end of 2017 or in the first quarter of 2018.

On 5 September 2017, one of our banks renewed a revolving loan of US\$2.8 million that expired in August 2017 for a term of one year. In October 2017, we obtained bank borrowings of US\$3.5 million for our operation in Vietnam for a term of one year.

For our financial performance after the Track Record Period, we recorded an increase in our unaudited revenue for the four months ended 31 October 2017 as compared to that for the four months ended 31 October 2016 primarily due to increased sales to Customer H and a number of distributors in Thailand, India and Russia. We recorded a slightly smaller increase in our unaudited cost of sales. As a result, we recorded an increase in our unaudited gross profit. We recorded a decrease in our unaudited net profit for the four months ended 31 October 2017 as compared with that for the four months ended 31 October 2016, which was largely affected by the increase in our Listing expenses. Our unaudited net profit excluding Listing expenses has increased for the four months ended 31 October 2017 as compared to that for the four months ended 31 October 2016.

Our Directors confirm that save for the above and expenses in connection with the Listing, which are non-recurring in nature, subsequent to the Track Record Period and up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group.

COMPETITIVE LANDSCAPE AND OUR COMPETITIVE STRENGTHS

We operate in the networking equipment manufacturing market with a focus in consumer router market. Based on the location of customers, our major markets are Korea and China, followed by other Asian countries and regions. Both of the Korean and Chinese markets are highly concentrated with a dominant top brand, followed by other brands with significantly less market shares. According to the Frost & Sullivan Report, the top five brands in the retail consumer router market in Korea accounted for more than 90% of the market share in 2016. EFM's brand *ipTIME* was the leading brand of consumer routers in Korea accounting for 73.2% of the market share in 2016. Based on revenue of retail consumer routers in Korea, the market share of each of the other top four brands is in single digit. This indicated the popularity and dominance of the Jointly Developed Products in the consumer router market in Korea. According to the Frost & Sullivan Report, the top 15 brands accounted for over 90% of the market share in China in 2016 and based on the retail revenue of consumer routers in China, the market share of the top brand was approximately 59.9%. According to the Frost & Sullivan Report, our Group's *TOTOLINK* brand was ranked 15th, accounting for 0.1% of the market share in 2016 based on revenue of consumer routers in China. The consumer router market in China is projected to be more competitive as many other vendors are also eager to enter into the telecommunications consumer router market with a view to establish their own hardware ecosystem. Vendors competing in the consumer router market comprise diversified vendors that have strong legacy in the telecommunications carrier sector as well as the enterprise sector, where they have been providing traditional routers and other network equipment. For further details regarding the competitive landscape of the industry in which we operate, please see "Industry Overview" in this prospectus.

We believe that our competitive strengths include: (i) our established brand and strong track record in networking products industry; (ii) our diversified portfolio of high-quality products; (iii) our established customer base in Asia and extensive sales and distribution network of our Branded Products

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around the world; (iv) our strong research and development capabilities; and (v) our experienced and dedicated management team.

BUSINESS STRATEGIES AND FUTURE PLANS

We intend to pursue the following business strategies and future plans: (i) increasing our market penetration for our Branded Products in emerging markets in Asia and other markets with good potential; (ii) increasing our production capacity and lowering our production costs by manufacturing in our new production facilities in Vietnam and introducing automation system to our Shajing Production Facilities; and (iii) broadening our product offerings by enlarging our research and development capacity.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

Our Directors consider that:

- (i) the proceeds from the Share Offer will provide us with necessary financial resources for us to carry out the implementation plans for realising our business strategies as disclosed in “Business — Business strategies and future plans” in this prospectus;
- (ii) we will be able to gain access to capital markets directly for future fund raising through the issuance of equity and debt securities, which could involve lower financing cost as opposed to obtaining interest-bearing bank loans as a private company;
- (iii) the listing status will strengthen our market position and competitiveness, enhance our reputation and corporate profile and raise our brand publicity;
- (iv) the listing status will enhance our corporate governance practices including internal control, risk management and audit practices;
- (v) the Share Offer will diversify the risk of ownership among a larger group of shareholders, which is important as we continue to expand our business; and
- (vi) the listing status will improve our ability to recruit, motivate and retain key management personnel as well as to expediently and effectually capitalise on any of our business opportunities that may arise.

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We estimate the net proceeds from the Share Offer which we will receive, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Share Offer, will be approximately HK\$38.2 million (based on the Offer Price of HK\$0.4 per Share, being the mid-point of the indicative Offer Price range). Our Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 30 June 2018	For the six months ending 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	For the six months ending 30 June 2020	Total
	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	0.9	0.9	0.9	0.8	-	3.5
2. To introduce automation system to our Shajing Production Facilities in order to lower our production costs	16.8	8.5	-	-	-	25.3
3. To enlarge our research and development capacity	1.0	1.0	1.0	1.0	-	4.0
4. To reduce our gearing ratio by repaying finance lease facilities	5.4	-	-	-	-	5.4
Total	24.1	10.4	1.9	1.8	-	38.2

If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.52 per Share, the net proceeds we receive from the Share Offer is expected to increase by approximately HK\$21.6 million. We intend to apply the additional net proceeds for the above purposes on a pro rata basis. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.28 per Share, the net proceeds from the Share Offer is expected to decrease by approximately HK\$21.6 million. We intend to reduce the net proceeds for the above purposes on a pro rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

For further information, please see “Future Plan and Use of Proceeds — Use of proceeds” in this prospectus.

DIVIDENDS

During the Track Record Period, we have not declared any dividends. The Company currently does not have a dividend policy. Our Board has the absolute discretion to decide whether to declare or

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distribute dividends in any year. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China or elsewhere. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year. Please see “Financial Information – Dividends” in this prospectus.

SHARE OFFER STATISTICS

Number of Offer Shares	:	198,000,000 Offer Shares
Number of Placing Shares	:	178,200,000 Shares (subject to re-allocation)
Number of Public Offer Shares	:	19,800,000 Shares (subject to re-allocation)
Offer Price	:	Expected to be not more than HK\$0.52 per Offer Share and expected to be not less than HK\$0.28 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full upon application in Hong Kong dollars, subject to refund)
Market capitalisation of the total issued Shares immediately after completion of the Share Offer and the Capitalisation Issue	:	HK\$343,200,000 (based on HK\$0.52 per Offer Share) to HK\$184,800,000 (based on HK\$0.28 per Offer Share)
Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share	:	HK cents 30.08 (based on HK\$0.52 per Offer Share) to HK cents 23.53 (based on HK\$0.28 per Offer Share). Please refer to Appendix II to this prospectus for the bases and assumptions in calculating this figure.

LISTING EXPENSES

During the Track Record Period, we had incurred and recognised approximately HK\$3.7 million, HK\$5.4 million and HK\$5.2 million Listing-related expenses in the profit and loss account for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. The total estimated expenses in relation to placing and offering cost and professional parties fees are approximately HK\$41.0 million, which will be borne by our Group. For further details, please see “Financial Information — Listing expenses” in this prospectus. In addition, it is estimated that approximately HK\$17.2 million is directly attributable to the issue of New Shares to the public and is to be accounted for as an equity deduction upon Listing. The remaining amount of approximately HK\$9.5 million is expected to be charged to the profit and loss of our Group for the financial years ending 31 December 2017 and 2018 and would have a material adverse impact on our Group’s financial results for the years ending 31 December 2017 and 2018. This calculation is based on the mid-point of our indicative Offer Price of HK\$0.4 per Share. The estimated listing-related expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Company upon the completion of the Listing.

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RISK FACTORS

Potential investors are advised to carefully read “Risk Factors” in this prospectus entirely before making any investment decisions on the Offer Shares. Some of the more particular risks relating to our business include:

- (i) we generate substantial amount of our revenue from EFM and we rely substantially on EFM in respect of our contractual right to use the software developed by it in connection with the Jointly Developed Products. Any adverse changes in the business or financial condition of EFM or in our relationship with EFM could materially and adversely affect our business;
- (ii) our business and financial position may be adversely affected if we are not able to continue servicing the Korean market effectively or if there is an economic downturn in Korea;
- (iii) a significant portion of our Group’s revenue is generated from the sales of routers with 4 ports 802.11 ac protocol routers. Any significant change in the market demand for 4 ports 802.11 ac protocol routers may adversely affect our profitability, business and financial position;
- (iv) we rely on our distributors for the sale of our Branded Products, and therefore if we fail to attract quality distributors or if our distributors fail to successfully sell and distribute our products, our business, results of operations, financial condition and prospects may be materially and adversely affected;
- (v) we have limited control over the operations of our distributors;
- (vi) our leased properties in the PRC are subject to title encumbrances, and we may be required to vacate the properties; and
- (vii) our production facilities may be unable to maintain efficiency or otherwise meet our production requirements.

Please see “Risk Factors” in this prospectus for further details.

HISTORICAL NON-COMPLIANCE INCIDENTS

During the Track Record Period, we had not fully complied with certain laws and regulations in Hong Kong, Vietnam, PRC and Taiwan. All such non-compliance incidents have not resulted, and are not expected to result, in any material impact on our financial and operational aspects. For details of these non-compliance incidents, please see “Business — Licences, regulatory approvals and compliance” in this prospectus.

DEFINITION

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Accountants’ Report”	the accountants’ report of our Group for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 prepared by HLB Hodgson Impey Cheng Limited as set out in Appendix I to this prospectus
“Application Form(s)”	WHITE application form(s) and YELLOW application form(s), or where the context so requires, any one or both of them, relating to the Public Offer
“Application Lists”	the application lists used in the Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company conditionally adopted on 18 December 2017 which will take effect from the Listing Date, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Audit Committee”	the audit committee of our Board
“Board”, “our Board” or “Board of Directors”	the board of Directors
“Branded Products”	our branded networking products bearing <i>TOTOLINK</i> brand
“Brazilian Real”	Brazilian real, the lawful currency of Brazil
“Business Day(s)”	any day(s) (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 461,142,000 Shares to be made upon capitalisation of the share premium account of our Company as further described in “Statutory and general information — A. Further information about our Group — 3. Resolutions in writing of our Sole Shareholder passed on 18 December 2017” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITION

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CECIC”	China Export and Credit Insurance Corporation (中國出口信用保險公司)
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended, supplemented and/or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”, “the Company” or “our Company”	Zioncom Holdings Limited, an exempted company incorporated under the laws of Cayman Islands with limited liability on 29 January 2016
“Compliance Committee”	the compliance committee of our Board
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Contingent Relocation Facility”	a backup facility to which we may relocate our staff, machinery and assets in the Shajing Production Facilities should the need arise, particulars of which are set out in “Business — Properties — Contingent relocation arrangement in respect of the Shajing Production Facilities” in this prospectus
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules, and in the context of our Company, means Mr. BK Kim and Lincats
“Deed of Indemnity”	the deed of indemnity dated 18 December 2017 and executed by our Controlling Shareholders, as indemnifiers in favour of our

DEFINITION

	Company (for itself and as trustee for our present subsidiaries) in respect of, among others, certain indemnities regarding taxation and non-compliance matters, particulars of which are set out in “Statutory and general information — E. Other information — 1. Estate duty, tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 18 December 2017 and executed by our Controlling Shareholders as covenantors in favour of our Company (for itself and as trustee for our subsidiaries from time to time), particulars of which are set out in “Relationship with Controlling Shareholders — Non-competition undertaking” in this prospectus
“Director(s)” or “our Director(s)”	the director(s) of our Company
“EFM”	EFM Networks Co., Ltd., our largest customer during the Track Record Period with whom we jointly developed the Jointly Developed Products and an Independent Third Party
“E.U.”	the European Union
“Frost & Sullivan”	Frost & Sullivan International Limited, our industry consultant and an Independent Third Party
“Frost & Sullivan Report”	the market research report prepared by Frost & Sullivan and commissioned by our Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended, supplemented, or otherwise modified from time to time
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context so requires in respect of period before our Company becomes the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time and the businesses carried on by such subsidiaries or their predecessors (as the case may be)
“HK\$” or “Hong Kong dollar(s)” or “cents”	Hong Kong dollar(s) and cents respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards promulgated by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants

DEFINITION

“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Legal Counsel”	Mr. Matthew Ho, barrister-at-law, Hong Kong
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“IFRS”	International Financial Reporting Standards issued by the International Financial Reporting Standards Foundation and the International Accounting Standards Board
“Import and Export Ordinance”	the Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any of the directors, chief executives or substantial shareholders of our Company or subsidiaries of our Company or any of their respective associates
“Joint Bookrunners” or “Joint Lead Managers”	collectively Lego Securities, Ping An Securities and Ruibang Securities, being the joint bookrunners and joint lead managers of the Share Offer, and each a Joint Lead Manager and a Joint Bookrunner
“Joint Development Agreement”	the joint development agreement dated 3 March 2017 entered into between Zioncom Shenzhen and EFM for the joint development of the Jointly Developed Products, details of which are set out in “Business — Our business model” in this prospectus
“Jointly Developed Products”	our networking products that we have jointly developed with EFM and that are sold under the brand <i>ipTIME</i>
“Korea”	the Republic of Korea
“Korea Legal Advisers”	Bae, Kim & Lee LLC, our legal advisers as to the laws of Korea
“Latest Practicable Date”	19 December 2017, being the latest practicable date prior to the date of this prospectus for ascertaining certain information in this prospectus
“Lego Securities”	Lego Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO, being one of our Joint Lead Managers
“Lincats”	Lincats (BVI) Limited, one of our Controlling Shareholders, a company incorporated under the laws of BVI with limited liability on 27 January 2016 which is owned as to 81.8% by Mr. BK Kim, 9.1% by Mr. JY Kim and 9.1% by Mr. Koo

DEFINITION

“Listing”	the listing and commencement of dealings in the Shares on GEM
“Listing Date”	the date expected to be on or about Thursday, 18 January 2018, on which dealings in our Shares commence on GEM
“Listing Division”	the Listing Division of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on 18 December 2017 which will take effect from the Listing Date, as amended, supplemented or otherwise modified from time to time
“MOFCOM”	Ministry of Commerce of the PRC
“Mr. BK Kim”	Mr. Kim Byung Kwon (金炳權先生), the chairman of our Board, an executive Director and a Controlling Shareholder
“Mr. JY Kim”	Mr. Kim Jun Yeob (金俊燁先生), an executive Director, our chief financial officer and compliance officer
“Mr. Koo”	Mr. Koo Ja Chun (具滋千先生), an executive Director and our chief executive officer
“Mr. Lee”	Mr. Lee Man Kyu, a former director of our Company up to 14 March 2016
“Mr. Xiao”	Mr. Xiao Jingen (肖金根先生), an executive Director
“New Shares”	198,000,000 new Shares to be offered by our Company for subscription at the Offer Price under the Share Offer
“Nomination Committee”	the nomination committee of our Board
“NT\$” or “New Taiwan dollar(s)”	New Taiwan dollar, the lawful currency of Taiwan
“OFAC”	U.S. Department of Treasury’s Office of Foreign Asset Control
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage fee, SFC transaction levy and Stock Exchange trading fee) at which the Offer Shares are to be subscribed for pursuant to the Share Offer, details of which are set out in “Structure and Conditions of the Share Offer” in this prospectus
“Offer Share(s)”	the Public Offer Shares and the Placing Shares
“Ping An Securities”	Ping An Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being one of our Joint Lead Managers

DEFINITION

“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price, details of which are set out in “Structure and Conditions of the Share Offer” in this prospectus
“Placing Shares”	178,200,000 new Shares being offered by our Company, for subscription under the Placing subject to re-allocation, details of which are set out in “Structure and Conditions of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters for the Placing who are expected to enter into the Placing Underwriting Agreement
“Placing Underwriting Agreement”	the underwriting agreement expected to be entered into on or around the Price Determination Date by our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters relating to the Placing
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“PRC Legal Advisers”	Beijing Dentons Law Offices, LLP (Shenzhen), our legal advisers as to the laws of PRC
“Predecessor Companies Ordinance”	The Companies Ordinance (Chapter 32 of the laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement to be entered into between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on the Price Determination Date to fix and record the Offer Price
“Price Determination Date”	the date, expected to be on or around Thursday, 11 January 2018 or such later date as the Joint Lead Managers and our Company may agree, on which the Offer Price is expected to be fixed for the purpose of the Share Offer
“Public Offer”	the offer of Public Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms relating thereto, details of which are set out in “Structure and Conditions of the Share Offer — The Public Offer” in this prospectus
“Public Offer Share(s)”	the 19,800,000 new Shares initially being offered by our Company for subscription pursuant to Public Offer at the Offer Price, subject

DEFINITION

	to re-allocation as set out in “Structure and Conditions of the Share Offer”
“Public Offer Underwriters”	the underwriters for the Public Offer as listed out in “Underwriting — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated 27 December 2017 relating to the Public Offer entered into among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, details of which are set out in “Underwriting — Underwriting arrangements, commissions and expenses — Public Offer — Public Offer Underwriting Agreement” in this prospectus
“Regulation S”	Regulation S under U.S. Securities Act
“Relevant Customer”	深圳市盛世眾唐科技有限公司 (Shenzhen City Shengshi Zhongtang Technology Company Limited*), one of our customers to which we provided processing services for the manufacturing of Branded Products for its sale in the PRC, an Independent Third Party
“Remuneration Committee”	the remuneration committee of our Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of PRC
“Reorganisation”	the corporate reorganisation arrangements we have undergone in preparation for the Listing and prior to the issue of this prospectus which are more particularly described in “History, Development and Reorganisation — Reorganisation” in this prospectus
“Repurchase Mandate”	the general mandate granted to our Directors to repurchase Shares by our Shareholder, particulars of which are set out in “Statutory and general information — A. Further information about our Group — 3. Resolutions in writing of our Sole Shareholder passed on 18 December 2017” in Appendix IV to this prospectus
“Ruibang Securities”	Ruibang Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO, being one of our Joint Lead Managers
“SAFE”	State Administration of Foreign Exchange of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shajing Production Facilities”	our production facilities located in Shenzhen, the PRC and leased from an Independent Third Party, details of which are set out in “Business — Properties” in this prospectus
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company

DEFINITION

“Shareholder(s)”	the holder(s) of issued Share(s)
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 18 December 2017, the principal terms of which are summarised in “Statutory and general information — D. Share Option Scheme” in Appendix IV to this prospectus
“Sole Sponsor” or “Lego”	Lego Corporate Finance Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the sole sponsor of the Share Offer
“sq.m.”	square metres
“SRV” or “Vietnam”	The Socialist Republic of Vietnam
“Stock Exchange” or “HKEx”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the GEM Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Taiwan” or “ROC”	for the purpose of this prospectus only, the Republic of China
“Taiwan Legal Advisers”	Lee and Li, Attorneys-at-Law, our legal advisers as to the laws of Taiwan
“Telecommunications Ordinance”	the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the two financial years ended 31 December 2015 and 2016 and the six months ended 30 June 2017
“Underwriters”	Public Offer Underwriters and Placing Underwriters
“Underwriting Agreements”	Placing Underwriting Agreement and Public Offer Underwriting Agreement, particulars of which are summarised in “Underwriting” in this prospectus
“U.S.”	United States
“U.S. Securities Act”	U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time

DEFINITION

“US\$” or “US dollar(s)” or “USD”	United States dollar(s), the lawful currency of the United States of America
“Vietnam Legal Advisers”	VNA Legal, our legal advisers as to the laws of SRV
“VND” or “Vietnamese Dong”	Vietnamese dong, the lawful currency of SRV
“ WHITE Application Form(s)”	the application form(s) to be completed by the public who require the Public Offer Shares to be issued in the applicants’ own name
“ YELLOW Application Form(s)”	the application form(s) to be completed by the public who require the Public Offer Shares to be deposited directly into CCASS
“Zioncom BVI”	Zioncom (BVI) Limited, a company incorporated under the laws of BVI with limited liability on 1 February 2016 and a wholly-owned subsidiary of our Company after completion of the Reorganisation
“Zioncom HK”	Zioncom (Hong Kong) Technology Limited, a company incorporated under the laws of Hong Kong with limited liability on 17 September 1999 and an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“Zioncom Shenzhen”	吉翁電子（深圳）有限公司 (Zioncom Electronics (Shenzhen) Limited*), a wholly foreign-owned enterprise established in the PRC on 9 March 2004 and an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“Zioncom Taiwan”	台灣吉翁電子股份有限公司 (Taiwan Zioncom Technology Ltd.*), a company limited by shares incorporated in Taiwan on 30 September 2015 and an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“Zioncom Vietnam”	Công Ty TNHH Zioncom (Vietnam) (Zioncom (Vietnam) Co., Ltd.*), a limited liability company with one member incorporated under the laws of SRV on 10 March 2015 and an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
“%”	per cent

All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names or Vietnamese name of entities or enterprises established in the PRC or in the SRV and their English translations, the Chinese names or Vietnamese name shall prevail. The English translation of company names in Chinese or another language which are marked with “” is for identification purposes only.*

GLOSSARY

This glossary contains certain explanations and other terms used in this prospectus in connection with our Group and/or its business. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms.

“3G”	acronym for the third generation of mobile telecommunications technology which support services that provide an information transfer rate of at least 200 Kbps. Latest 3G releases also provide mobile broadband access
“4G”	acronym for the fourth generation of mobile telecommunications technology that succeed 3G. One 4G candidate system that is commercially deployed is Long Term Evolution Standard
“4K resolution”	a horizontal resolution in the order of 3840 (or 4096) pixels and vertical resolution in the order of 2160 pixels
“5G”	acronym for 5G, the proposed next telecommunications standards beyond 4G. It aims at higher capacity than 4G, allowing a higher density of mobile broadband users, and supporting device-to-device, ultra reliable, and massive machine communications
“802.11ac”	a fifth generation Wi-Fi standard released in 2013, which implements WLAN computer communication on 5GHz frequency band with a peak transmission rate at 1,300Mbps-per antenna
“802.11ax”	a six generation Wi-Fi standards released in 2015, which implements WLAN computer transmission on 5GHz frequency band with a peak transmission rate at 10 Gbps-per antenna
“802.11b”	a second generation Wi-Fi standards released in 1999, which implements WLAN computer communication on 2.4GHz frequency band with a peak transmission rate at 11Mbps-per antenna
“802.11g”	a third generation Wi-Fi standards released in 2003, which implements WLAN computer communication on 2.4GHz frequency band with a peak transmission rate at 108Mbps-per antenna
“802.11n”	a fourth generation Wi-Fi standards released in 2009, which implements WLAN computer communication on both 2.4GHz and 5GHz frequency bands with a peak transmission rate at 300Mbps and 600Mbps-per antenna respectively
“802.11 b/g/n”	802.11b, 802.11g or 802.11n Wi-Fi standards
“Access Point(s)”	a networking hardware device that connects a Wi-Fi compliant device to a router, either as a standalone device or an integral component of the router

GLOSSARY

“action camera”	high-definition camera with video recording capabilities, which is often used for action photography in sports and is usually durable, compact and easily worn or mounted
“AC adaptors”	a type of external power supply used to power small or portable electronic devices
“antenna”	the element from which a radio transmission is radiated and through which transmissions are received
“bandwidth”	the bandwidth of a device is usually a measure of the frequency range or frequency band over which it meets its operating characteristics
“Bluetooth”	a wireless technology standard for exchanging data over short distances from fixed and mobile devices, and building personal area networks
“broadband”	a generic term for a system which covers a wide frequency band, usually much greater than that of a voice channel. Also known as wideband
“BSMI”	acronym for Bureau of Standards, Metrology and Inspection under Ministry of Economic Affairs, ROC, which is the authority in charge of inspection of products
“CAGR”	compound annual growth rate
“CCC” or “3C”	acronym for China Compulsory Certification, the certification for commodity inspection and safety certification for electrical equipment
“CE”	a marking which indicates a product’s conformity with the mandatory requirements stipulated by the European Commission Directives relating to safety, health and environmental protection for products sold in European market
“CPE”	acronym for customer premise equipment, which are devices such as telephones, routers and switches that enable consumers to access communications service providers’ services and distribute them around their house via LAN
“CPU”	acronym for central processing unit, the electronic circuitry within a computer that carries out the instructions of a computer programme by performing the basic arithmetic, logical, control and input/output operations specified by the instructions
“DHCP”	acronym for Dynamic Host Configuration Protocol, a standardised network protocol used on IP networks

GLOSSARY

“DIP”	acronym for Dual Inline Packaging, an electronic component package with a rectangular housing and two parallel rows of electrical connecting pins
“EMS”	electronic manufacturing service, whereby products are produced by a manufacturer with inputs for the design of the products and eventually rebranded by another party for sale, which excludes OEM
“Ethernet”	one of the first protocols developed for data transmission over a local area network, and still widely used
“FAE”	short for field application engineer
“FCC”	acronym for Federal Communications Commission, an independent agency of the U.S. government, which regulates interstate and international communications by radio, television, wire, satellite and cable
“FOB”	free on board, a term in international commercial law specifying at what point the seller transfers ownership of the goods to the buyer
“gateway”	a node on a network that serves as an entrance to another network
“Gbps”	Gigabits per second
“GHz”	gigahertz, a frequency unit that measures the number of cycles per second
“GPON”	Gigabit-capable passive optical network, a telecommunications technology that implements a point-to-multipoint architecture
“IC”	integrated chip, a component which integrates several chips to support one or more functions
“IEEE”	Institute of Electrical and Electronics Engineers based in the U.S.
“Internet”	a large connection of interconnected networks and gateways throughout the world which operate as one large network and use internet protocol
“IP”	acronym for internet protocol, the principal communications protocol in the Internet protocol suite for relaying datagrams across network boundaries
“IPTV”	acronym for internet protocol television, the delivery of television content over computer networks based on the logical IP, rather than through traditional terrestrial, satellite, and cable television formats

GLOSSARY

“ISO”	the International Organisation for Standardisation, a non governmental organisation that sets the ISO standards
“Kbps”	kilobits per second
“L2TP”	acronym for Layer Two Tunneling Protocol, an extension of PPTP used by an internet service provider to enable the operation of VPN over the Internet
“LAN”	local area network, a network which covers a relatively small geographical area, such as a building, group of buildings or campus
“LAN card”	an electronic product designed to help isolated electronic devices connect to the network. It can be added to a computer, or be integrated into the main hardware of the computer
“LED”	acronym for light-emitting diode, a two-lead semiconductor light source
“LTE” or “Long Term Evolution”	a standard for wireless communication of high-speed data for mobile phones and data terminals
“mAh”	Milliamperere hour, a measure of a battery’s energy storage capacity
“MAN”	acronym for metropolitan area network, a network that interconnects users with computer resources in a geographic area or region larger than that covered by even a large LAN but smaller than the area covered by a wide area network
“Mbps”	megabits per second
“MHz”	Megahertz, a frequency unit that measures the number of cycles per second
“mobile hotspot”	an ad hoc wireless access point that is created by a dedicated hardware device or a smartphone feature that shares the phone’s cellular data
“NAS”	acronym for network-attached-storage, a file-level computer data storage server connected to a computer network providing data access to a heterogeneous group of clients
“NCC”	acronym for National Communications Commission of ROC, which is the regulatory authority of telecommunications and broadcasting services
“NTC”	acronym for National Telecommunications Commission of Republic of the Philippines, which is responsible for supervision, adjudication and control over all telecommunications services throughout the country

GLOSSARY

“OEM”	acronym for original equipment manufacturing, whereby products are manufactured in accordance with the customer’s design and specification and are marketed and sold under the customer’s brand name
“ONU” or “ONT”	acronym for Optical Network Unit, also known as Optical Network Terminal, the user side equipment in GPON which connects to GPON on one side, and interfaces with users on the other side
“PCB”	the printed circuit board made for connecting electronic components together
“penetration rates”	the number of users using a specified service out of the total population of the country
“power bank”	a portable device that can supply power from its built-in batteries through a USB port
“PPPoE”	acronym for Point-to-Point Protocol over Ethernet, a specification for connecting multiple computer users on an Ethernet local area network to a remote site through common customer premises equipment
“PPTP”	acronym for Point-to-Point Tunneling Protocol, a protocol used in the implementation of VPN
“protocol”	rules, usually defined by a standards marking body, for carrying out a specific function
“REACH”	the European regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals, which aims to ensure a high level of protection for human health and environment, including the promotion of alternative test methods as well as free circulation of substances on the internal market and enhancement of competitiveness and innovation
“RoHS”	acronym for Restriction of Hazardous Substances Directive, which restricts the use of six hazardous-materials in the manufacture of various types of electronic and electrical equipments
“router”	a network equipment device that forwards data packets between computer networks
“routing”	the technique used for sending a message from a source address to a destination address, including determination of the route to be taken and the transmission mode to be used
“SDRAM”	acronym for synchronous dynamic random-access memory, a type of random-access memory that uses synchronous interface
“SIM”	acronym for subscriber identity module, an integrated circuit chip that is used to identify and authenticate subscribers on mobile telephony devices

GLOSSARY

“SMT”	acronym for surface-mount technology, a method for constructing electronic circuits in which the components are mounted directly onto the surface of printed circuit boards
“switching”	the routing of signals between specific points in a network along a pre-determined route
“USB”	acronym for universal serial bus, an industry standard that defines cables, connectors and communications protocols for connection, communication, and power supply between computers and devices
“USB hub”	a device that expands a single USB port into several USB ports so that there are more ports available to connect device to a host system
“VLAN”	acronym for virtual LAN, a logical subnetwork that can group together a collection of devices from different physical LANs
“VOC”	acronym for Verification of Conformity, a program implemented by General Organisation for Export and Import Control of the Arab Republic of Egypt
“VoIP”	acronym for Voice over Internet Protocol, which is a methodology and a group of technologies for delivery of voice communications and multi media sessions over Internet Protocol networks, such as the Internet
“VPN”	acronym for Virtual Private Network, which extends a private network across a public network, enabling users to send and receive data cross shared or public networks as if their computing devices were directly connected to the private network
“Wi-Fi”	a local area wireless computer networking technology that allows electronic devices to connect to the network
“Wi-Fi Alliance”	a non-profit organisation that promotes Wi-Fi technology and certifies Wi-Fi products if they conform to certain standards of interoperability
“Wi-Fi module”	an electronic component designed to help isolated electronic devices connect to the network. As opposed to LAN cards which are finished products, Wi-Fi modules are semi-finished products used in wireless LAN cards or other networking products providing Wi-Fi connectivity
“WLAN”	wireless local area network, a wireless system used in the local area network to connect personal computer users

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risks described in “Risk Factors” in this prospectus. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- our future developments, trends and competition in industries and markets in which we operate;
- products under development or planning;
- our strategies, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend policy;
- the prospective financial information regarding our business;
- our future financial condition and results of operations;
- the amount and nature of, and potential for, future development of our business;
- the general economic conditions; and
- changes to regulatory and operating conditions in the markets in which we operate.

In some cases we use words such as “believe”, “could”, “continue”, “seek”, “intend”, “anticipate”, “estimate”, “project”, “plan”, “potential”, “will”, “may”, “should”, “expect” and other similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance or developments. Our financial condition may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, factors disclosed under “Risk Factors” and elsewhere in this prospectus.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that the legal and regulatory environment in which our Group operates may differ in some respects from that which prevails in other countries. The business, financial condition or results of operations of our Group could be materially adversely affected by any of these risks and uncertainties. The trading price of the Shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We generate substantial amount of our revenue from EFM and we rely substantially on EFM in respect of our contractual right to use the software developed by it in connection with the Jointly Developed Products. Any adverse changes in the business or financial condition of EFM or in our relationship with EFM could materially and adversely affect our business.

We depend on EFM as our largest customer for a majority of our revenue. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our revenue generated from the sales of Jointly Developed Products to EFM amounted to approximately HK\$317.6 million, HK\$322.9 million and HK\$139.8 million, respectively, representing approximately 59.1%, 63.0% and 56.7% of our total revenue respectively for the said periods.

We have entered into a supply agreement and Joint Development Agreement with EFM in April 2015 and March 2017, respectively, both of which are for a term of three years and renewable for another term of three years unless written notice of termination is given by either party no later than 60 days or two months, respectively prior to expiry of the agreement. Pursuant to the Joint Development Agreement, EFM is responsible for the research and development of the software to be installed in the Jointly Developed Products and the product care and package designs; and we are responsible for the research and development of the hardware as well as manufacturing of the Jointly Developed Products. For details of the Joint Development Agreement, please see “Business — Our business model — EMS business model — Jointly Developed Products” in this prospectus. The supply agreement further sets out details in relation to the sale of Jointly Developed Products to EFM, which is on an order-by-order basis. There is no guarantee that the purchase volume of EFM will be comparable to that during the Track Record Period, nor can we guarantee that we will continue to be able to manufacture and sell the Jointly Developed Products to EFM upon expiry of the above agreements. In the event that EFM reduces or no longer purchases the Jointly Developed Products from us in the future and we are unable to identify new customers, our business, results of operations and financial condition may be materially and adversely affected.

According to the Joint Development Agreement, the intellectual property rights attached to the outputs independently developed by each respective party shall be owned by such party. We can sell our Branded Products and other EMS products that are loaded with the outputs developed independently by EFM with written consent of and royalty payment to EFM. The royalty arrangement is determined through separate agreement between EFM and us. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, excluding the Jointly Developed Products, the revenue generated from our Branded Products and other EMS products sold which included software developed by EFM accounted for approximately 9.8%, 6.8% and 4.0% of our total revenue, respectively. If we are not able to use or modify these software and we are not able to use or develop other similar software, our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

Further, any adverse changes in the business or financial condition of EFM, including any liquidity problems, restructuring, bankruptcy or liquidation, may also result in a higher level of credit risk to us, which could have a material adverse effect on our financial condition and results of operations. For further details regarding our relationship with EFM, please see “Business — Customers — EFM” in this prospectus.

Our business and financial position may be adversely affected if we are not able to continue servicing the Korean market effectively or if there is an economic downturn in Korea.

We have historically been relying heavily on the Korean market. During the Track Record Period, Korea was our largest sales market. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, revenue arising from sales to customers located in Korea amounted to approximately HK\$359.9 million, HK\$363.4 million and HK\$165.6 million, representing approximately 66.9%, 70.9% and 67.2% of our total sales during the corresponding periods respectively. However, we cannot assure you that we will be able to continue to sustain this substantial sales to the Korean market in the future. Our geographical sales contribution is expected to remain skewed significantly towards the Korean market in the near term. If we are not able to respond effectively to the demand of the Korean market or offer competitive prices to our customers in Korea, our business and financial performance could be adversely affected.

Further, if there is an economic downturn in Korea, whether due to social or political instability, natural disaster or otherwise, demand for electronics products, wireless networking products and non-networking products from Korea may drastically decrease which may adversely affect our business, financial condition and results of operations.

A significant portion of our Group’s revenue is generated from the sales of 4 ports 802.11 ac protocols routers. Any significant change in the market demand for 4 ports 802.11 ac routers may adversely affect our profitability, business and financial position.

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our revenue generated from the sales of routers with 4 ports 802.11 ac protocols accounted for approximately 22.2%, 27.2% and 30.4% of our Group’s revenue, respectively. In addition, the average selling price of our 4 ports 802.11 ac protocol routers has been fluctuating during the Track Record Period, which decreased slightly from approximately HK\$170.7 for the year ended 31 December 2015 to HK\$167.4 for the year ended 31 December 2016 while increased from approximately HK\$163.3 for the six months ended 30 June 2016 to approximately HK\$172.7 for the six months ended 30 June 2017. We cannot guarantee that the market demand for routers with 4 ports 802.11 ac protocols will maintain the same, or the average selling price of 4 ports 802.11 ac protocols routers will not fluctuate in the future. In the event that there is any significant fluctuation in the market demand for the routers with 4 ports 802.11 ac protocols or the routers with 4 ports 802.11 ac protocols become outdated, or our Group is unable to generate sufficient sustainable revenue from the sales of routers with 4 ports 802.11 ac protocols and our Group is unable to develop new models to replace the loss of revenue covered by the 802.11 ac protocols, or the average selling price for 4 ports 802.11 ac protocols routers drops, this may have an adverse impact on our Group’s profitability, business and financial position.

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We rely on our distributors for the sale of our Branded Products, and therefore if we fail to attract quality distributors or if our distributors fail to successfully sell and distribute our products, our business, results of operations, financial condition and prospects may be materially and adversely affected.

We sell our Branded Products mainly on a wholesale basis to our distributors. We rely on our distributors to distribute our Branded Products to various countries in the world. As at 30 June 2017, we had over 65 distributors in 40 countries and regions. We rely on the distribution network of our distributors to secure our geographical coverage and achieve market penetration in their respective designated geographic regions. However, we cannot assure you that we will always be able to attract a sufficient number of quality distributors to maintain or extend the breadth of our distributors' geographic coverage. Furthermore, we cannot assure you that our distributors will continue to purchase our Branded Products at current demand levels or meet their sales target. We generally enter into distribution agreements with our major distributors. If any of these distributors terminates or does not continue its business relationship with us, or if any of our distributors fails to perform adequately, we may not be able to find a suitable replacement in time, or at all which may result in a loss of sales opportunities and may in turn have a material adverse effect on our business, results of operations, financial condition and prospects. For further details, please see "Business — Sales, Marketing and Distribution" in this prospectus.

We have limited control over the operations of our distributors.

We generally enter into distribution agreements with our major distributors on terms and conditions in line with our sales and distribution policy. We rely on these agreements to ensure that our distributors adhere to our policy. With respect to distributors of other markets, we will sell our Branded Products on an order-by-order basis and we do not enter into a distribution agreement with such distributors. There is no assurance, however, that our distributors will comply with our policy at all times. In the event that any non-compliance occurs, we may not be able to effectively manage our distribution network or maintain our brand image. Moreover, if any of our distributors fails to adhere to its contractual obligation to distribute our products within the designated territories or fails to comply with our policies or sell products that compete with our products, our brand image, business, financial condition, results of operations and prospects could be materially and adversely affected. Any deviation by our distributors to the distribution agreements could result in the erosion of goodwill, a decrease in the market value of our brand and an unfavourable public perception about the quality of our products, thus resulting in a material and adverse effect on our business, financial condition, results of operations and prospects.

Our leased properties in the PRC are subject to title encumbrances, and we may be required to vacate the properties.

Risks relating to the Shajing Production Facilities

We currently lease two properties for the Shajing Production Facilities which has a total gross floor area of approximately 14,920 sq.m. from Independent Third Parties. So far as we are aware, the landlords of the Shajing Production Facilities do not possess the property ownership certificates and construction works planning permits for such leased properties. The Shajing Production Facilities are crucial to our operations.

As advised by our PRC Legal Advisers, there is a potential risk that the relevant leased properties may be regarded as illegal buildings and therefore, may be ordered to be demolished or confiscated by the relevant authorities in the PRC. In such event, we will be required to vacate the premises. Further, it is beyond our control whether the landlord would be able to obtain the property ownership certificates.

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In the event that we are forced to relocate from the Shajing Production Facilities, we estimate that we will incur relocation costs of approximately RMB6.2 million to relocate our operations in the Shajing Production Facilities to the Contingent Relocation Facility, details of which are set out in “Business — Properties — Contingency arrangements for our production operations — (iii) Contingent relocation arrangement in respect of the Shajing Production Facilities”.

Risks relating to our contingency arrangements

We have adopted certain contingency arrangements including, with respect to the Shajing Production Facilities, obtaining an undertaking from Zhi En Electronic (Da Ya Wan) Co. Ltd.* (智恩電子(大亞灣)有限公司) (“**Relocation Facility Lessor**”) to lease the Contingent Relocation Facility to us, obtaining a confirmation from a subcontractor that it shall reserve part of its production facilities during our contingent relocation and the adoption of a contingent relocation plan of our production operations. The formal lease agreement for the Contingent Relocation Facility has not been entered into. If the landlord of Contingent Relocation Facility could not deliver vacant possession of the Contingent Relocation Facility, we cannot assure you that we will be able to identify other alternative suitable production facilities of size and rental comparable to those of the Shajing Production Facilities in a timely manner. There is no guarantee that the subcontractor will be able to fully accommodate our production requirements. We expect that large amounts of management time and human resources will be diverted from our existing business and operations to implement the contingent relocation. If any or all of the above occurs, we could experience longer than expected delays before resuming production at full capacity or at all, and incur higher than expected loss of revenue and profits as well as further claims due to delay and/or failure to deliver our products to our customers. For further details, please see “Business — Properties — Defects of our leased properties” in this prospectus.

Failure to renew our current leases or to locate desirable alternatives for our facilities could materially and adversely affect our business, financial condition and results of operations.

Most of our production facilities, offices, warehouses and research and development centre are currently located on leased premises. At the end of each lease term, we may not be able to negotiate an extension of the lease and may therefore be forced to move to a different location, or the rent we pay may increase significantly. This could disrupt our operations and adversely affect our profitability. In addition, we may not be able to obtain new leases at desirable locations on acceptable terms to accommodate our future growth, which could materially and adversely affect our business, financial condition and results of operations.

Part of the sales of our products is dependent on our customers’ business performance and we may not be successful in attracting new customers.

We currently sell some of our products to our OEM customers, EMS customers other than EFM and distributors. Accordingly, our sales are significantly affected by the business performance of these OEM customers, other EMS customers, EFM and distributors, as well as other factors affecting their purchases from us, many of which are beyond our control. Adverse changes in the economic conditions in the markets in which our customers operate, in particular, the PRC, Korea, Taiwan, and Vietnam, unfavourable changes in the exchange rate of foreign currencies, weak consumer demand for our customers’ products and unsuccessful sales and marketing efforts by our customers, among other factors, may negatively affect their purchasing practices and result in a reduction of purchase orders for our products. During the Track Record Period, our revenue from our sales to Brazil for the year ended 31 December 2016 had decreased by approximately HK\$14.4 million compared to that for the year ended 31 December 2015, due to weaker consumer spending power arising from the depreciation of Brazilian

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Real against US dollars. Please see “Financial Information — Description and management discussion and analysis of selected items of our combined statements of profit or loss and other comprehensive income — Revenue” in this prospectus. If our customers are unable to sell the products manufactured by us successfully to the market, our business, financial condition and results of operations could be materially and adversely affected.

In addition to growing or maintaining our business with existing customers, the success of our business also depends on our ability to attract and acquire new customers. The market for our products is evolving rapidly and we cannot assure you that we will be able to acquire new customers for our existing or new products.

Sales of our products are subject to seasonality fluctuations.

Sales of our products in our major markets such as the PRC and Hong Kong are subject to seasonality fluctuations. During the Track Record Period, we experienced seasonality fluctuations in the sales of our products due to our customers’ purchase patterns. We generally experience higher sales before the National Day, Chinese New Year and Christmas where our customers place purchase orders with us in anticipation of the temporary suspension of our operations due to the long public holidays. We expect to continue to achieve a higher proportion of sales around these periods. Accordingly, our sales and operating results for any particular period will not necessarily be indicative of our results for the full year or future periods, and our interim results may not proportionally reflect our annual results. In the event that there is any decrease in the net sales during such periods, it may adversely affect our operation results during such periods, as well as our interim results and our annual results.

We may not be able to price our products at our desired margins as a result of any decrease in our bargaining power or changes in market conditions.

We generally adopt a cost-plus policy for the pricing of our products. Any downward adjustment on the standard profit margin would require management’s approval. Our ability to set favourable prices at our desired margins and to accurately estimate costs, among other factors, therefore has a significant impact on our profitability. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our gross profit margin was 12.7%, 15.6% and 15.6%, respectively. We cannot assure you that we will be able to maintain our pricing or bargaining power or that our gross profit margin will not be driven down by market conditions or other factors. In addition, EFM was our largest customer during the Track Record Period and our revenue generated from the sale of Jointly Developed Products to EFM amounted to approximately HK\$317.6 million, HK\$322.9 million and HK\$139.8 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively, representing approximately 59.1%, 63.0% and 56.7% of our total revenue respectively for the said periods. As we generate substantial amount of our revenue from EFM, this would decrease the bargaining power of our Group to negotiate with EFM on the pricing of the products sold to EFM, and we may need to lower our margin of our products or sold to EFM with less favourable terms. In the event that we see higher pricing pressure due to intensified competition from other manufacturers, continued decrease in prices to our customers in the end market or any other reasons, or if we otherwise lose bargaining power due to weaker demand for our products, we may need to reduce the prices and lower the margins of our products. Moreover, we may not be able to accurately estimate our costs or pass on all or part of any increase in our costs of production, in particular the costs of materials, components and parts, to our customers. As a result, our financial condition and results of operations could be materially and adversely affected.

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Change in customer base and products mix could materially and adversely affect our financial performance.

Our revenue is affected by our customer base. Our revenue generated from our five largest customers amounted to approximately 77.8%, 76.6% and 74.7% of our total revenue for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. Our sales depend on the orders from our top five customers, which are mainly consumer electronics product sellers or distributors located in Korea, the U.S., Vietnam, the PRC, Taiwan and Thailand. If any of these top customers substantially reduce their orders with us, it would have a material adverse impact on our business, results of operation and financial condition.

Besides, the average selling prices and gross profit margins of our products may vary from type to type. If there is any change to our major customer base, the types of products ordered from us can be different and we cannot guarantee that we are able to maintain the same or achieve a higher average selling price or gross profit margin for those products. In such case or if our products mix are substantially changed otherwise, our business, results of operation and financial condition may be materially and adversely affected.

Our production facilities may be unable to maintain efficiency or otherwise meet our production requirements.

Our future growth will depend upon our ability to maintain efficient operations at our existing production facilities and our ability to expand our production capacity as needed. For the years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the utilisation rate for Shajing Production Facilities, at which we manufactured all our products was 68.9%, 75.8% and 57.5%, respectively. The utilisation rate of our production facilities depends primarily on the demand for our products and the availability and maintenance of our equipment, but may also be affected by other factors, such as the availability of employees, a stable supply of electricity, seasonal factors and changes in environmental laws and regulations. In order to meet our customers' demands and advancements in technology, we maintain and/or upgrade our equipment periodically. If our production facilities are unable to maintain efficiency, we may be unable to fulfil our purchase orders in a timely manner, or at all. This would negatively impact our reputation, business and results of operations.

We may not be successful in achieving our business expansion plans and such failure may affect our business and financial performance.

Our business plans set forth in “Business — Business strategies and future plans” and “Future Plan and Use of Proceeds” of this prospectus are based on assumptions of future events which may entail certain risks and are inherently subject to uncertainties, such as changes in the industry, availability of funds, prices of raw materials and components, sufficiency of manpower, competition, government policies and political and economic developments. These assumptions may not be correct, which could affect the commercial viability of our business plans. As such, there can be no assurance that our business plans will be implemented successfully as scheduled (in terms of, for instance, time and cost) or at all.

One of our business plans is to expand our production capacity by manufacturing in the new production facilities in Vietnam, in which we entered into land use right lease agreements for leasing the land use right of approximately 13,000 sq.m. in Vietnam for the new production facilities from 26 June 2015 to 19 March 2058 and approximately 12,000 sq.m. from 7 April 2016 to 19 March 2058. At the end of our lease term, if we are unable to negotiate an extension, we may be forced to relocate our operations at our new production facilities in Vietnam and our facilities and equipment would be costly to replace or relocate on a timely basis. Further, if we experience any disruption in our establishment of new

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production facilities including the transfer of our existing machineries and equipment at the Shajing Production Facilities to our new production facilities in Vietnam, our production will be severely disrupted, which may in turn materially and adversely affect our business and results in operations.

Even if we effectively and efficiently implement our business plans, there may be other unexpected events or factors that prevent us from achieving the desirable and profitable results from the implementation of our business plans. Our sales may not grow at the same rate as the increase in our production capacity, which may result in excess production capacity in our production facilities. Our financial condition, operating results and growth prospects may be materially and adversely affected if our future business plans fail to achieve positive results.

Our business expansion plan for acquiring additional machinery and equipment in the new production facilities in Vietnam may result in increase in depreciation expenses and may adversely affect our operating results and financial position.

In order to expand our production capacity by manufacturing in the new production facilities in Vietnam, we have acquired and will continue to acquire additional machinery and equipment in Vietnam. During the Track Record Period, our Group recorded additions in machinery and equipment of approximately HK\$11.8 million, HK\$4.2 million and HK\$13.8 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively, out of which HK\$5.3 million for the six months ended 30 June 2017 was related to the acquisition of machinery and equipment for the Vietnam factory.

The depreciation expenses related to our leased plant and equipment amounted to approximately HK\$4.8 million, HK\$5.3 million, and HK\$2.7 million, respectively for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017. In the event that our depreciation expenses increase substantially due to the proposed acquisition of additional machinery and equipment for Lot A Facilities, our financial position and operating results may be adversely affected.

If we fail to maintain an effective quality control system, our business and financial performance could be materially and adversely affected.

Failure to maintain an effective quality control system or to obtain or renew our quality standards certifications to meet our customers' requirements for the quality and safety of our products may result in a decrease in demand for our products or cancellation or loss of purchase orders from our customers. Moreover, our reputation could be impaired. As a result, our business and results of operations could be materially and adversely affected.

We may not be able to detect and prevent fraud or other misconduct committed by our employees, representatives, agents, customers or other third parties.

We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, customers or other third parties that could subject us to financial losses and sanctions imposed by governmental authorities, as well as adversely affect our reputation.

Our internal control procedures are designed to monitor our operations and ensure overall compliance. During the Track Record Period, we did not experience any unauthorised trades or serious trade errors committed by our employees or other misconduct committed by our representatives, agents and customers that had a material adverse effect on our business, financial condition and results of operations. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such

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activities may not be effective. We cannot assure you that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may cause negative publicity as a result. Our failure to detect and prevent fraud and other misconduct may have a material adverse effect on our business reputation, financial condition and results of operations.

Our and EFM's business both heavily depend on our respective reputations and customer perception of the respective brands TOTOLINK and ipTIME, and any negative publicity or other harm or failure to maintain and enhance our respective brand recognitions may materially and adversely affect the financial condition and results of operations of our respective business.

Our and EFM's reputation and customer perception of our brand *TOTOLINK* and EFM's brand *ipTIME* is critical to our and EFM's business. Maintaining and enhancing our and EFM's reputation and brand recognition depends primarily on the quality and consistency of our products and services, as well as the brand promotion efforts of our distributors in relation to our *TOTOLINK* brand and EFM's brand promotion efforts in relation to *ipTIME*. However, we cannot guarantee you the effectiveness of the promotion efforts of our distributors or EFM in relation to *ipTIME*. Our distributors may fail to effectively promote our brand or generate additional sales and EFM may fail to effectively promote its brand or generate additional sales.

In addition, our and EFM's reputation and customer perception of the *TOTOLINK* and *ipTIME* could be harmed if, for example:

- our or EFM's products contain defects or malfunctions;
- lawsuits or regulatory investigations are instituted against us or EFM or otherwise relate to our or EFM's products or industry;
- we or EFM provide poor or ineffective customer service;
- we or EFM are subject to product liability claims; or
- any of our distributors or brand licensee misuse our brand.

Since January 2013, we have been providing processing services to the Relevant Customer for the manufacturing of Branded Products for its sale in the PRC. We had assigned our *TOTOLINK* trademark (No. 9056962) in the PRC to the Relevant Customer on 27 September 2014, which was only transferred back to us on 13 December 2016 (the "Transfer"). On 31 March 2017, our Group has entered into a trademark licence agreement with the Relevant Customer, pursuant to which we agreed to grant a licence to the Relevant Customer for the use of *TOTOLINK* trademark (No. 9056962) in the PRC between 13 December 2016 and 12 December 2026. Had the Relevant Customer used the *TOTOLINK* trademark on products that contain defects or malfunctions prior to the Transfer, or should it do so in the future, or engaged/engage in any negative publicity associated with the *TOTOLINK* trademark or Branded Products sold by it, our reputation and customer perception of the *TOTOLINK* brand could also be materially and adversely affected.

If we are unable to maintain and further enhance our reputation and brand recognition, our ability to attract and retain customers may be impeded and our business prospects may be materially and adversely affected.

Fluctuations in the price of raw materials, parts and components may affect our profitability. There is no assurance that we may be able to source adequate raw materials, parts and components in the future.

Our ability to produce high quality products depends on reliable sources of large quantities of high quality raw materials, parts and components. The prices and availability of raw materials, parts and

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components may vary from period to period due to factors such as demand and market conditions. As such, we are exposed to market risk of price fluctuation, which may cause fluctuation in our cost of sales. The raw materials and components for our routers mainly include router CPUs, PCBs, ICs and AC adaptors. According to the Frost & Sullivan Report, the PCB price index is relatively more fluctuant than the IC and CPU indices as the cost of PCB is influenced by its raw materials such as copper. The PCB price index was 79.0 and 75.3 in 2015 and 2016, respectively. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the cost of material represented approximately 80.0%, 80.4% and 82.1% of our total cost of sales, respectively. If the price of our raw materials, parts and components increases in the future, or that we will not be able to pass on any increase in costs to our customers, our business, operations, financial condition and results of operations may be adversely affected. In addition, we rely heavily on our suppliers for the supply of the raw materials, parts and components. We generally enter into supply agreements with our suppliers for a fixed term of two years, or for an indefinite term unless terminated by the parties. There is no assurance that our Group can continue to maintain existing relationships with our suppliers. If our Group cannot maintain the relationships with our suppliers, we may not be able to source adequate raw materials, parts and components for our products, and our Group's business, operations and financial position may be adversely affected.

We are exposed to the credit risks of our customers and may face long turnover period in respect of trade receivables.

Credit periods granted to our customers vary. Our Group generally allows an average credit period of 30 to 180 days to our customers. As at 31 December 2015 and 2016 and 30 June 2017, our trade receivables which were past due but not impaired amounted to approximately HK\$22.3 million, HK\$16.4 million and HK\$29.1 million, representing approximately 34.9%, 27.3% and 45.3% of the total trade receivables as at the respective dates, out of which approximately HK\$2.9 million, HK\$0.8 million and HK\$3.7 million, representing approximately 12.9%, 4.7% and 12.8% of the trade receivables past due but not impaired were past due more than 180 days, respectively. Our trade receivables that were written-off amounted to approximately HK\$0.1 million, HK\$1.6 million and HK\$0.7 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

Our Group's profitability and cash flows are dependent to a large extent on the creditworthiness of our customers and their ability to settle the outstanding amount owed to our Group in accordance with the credit periods we have granted to them. There is no assurance that the creditworthiness and the financial position of our customers will remain healthy in the future. If any of our customers fails to settle the outstanding amount in full or in a timely manner and if our policy to mitigate the credit risks is not implemented properly or did not fully cover our credit risks or if we fail to assess the creditworthiness of our customers accurately, our financial condition and results of operations could be materially and adversely affected. For details of our policy regarding export credit insurance, please see "Business — Insurance" in this prospectus.

We recorded cash outflow for the six months ended 30 June 2016.

We recorded negative cash flow for the six months ended 30 June 2016. Although we seek to manage our working capital, we cannot assure that we will be able to match the timing and amounts of our cash inflows with our payment obligations and other cash outflows. As a result, there could be a period during which we record net cash outflow. During the Track Record Period, our sources of liquidity and capital resources mainly derived from cash from operating activities and other various forms of financing including bank borrowings. Negative operating cash flow requires our Group to obtain sufficient external financing to meet our financing needs and obligations. If we are unable to do so, we

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will be in default of our payment obligations and may not be able to expand our business. Thus, our business, financial position and results of operations may be materially adversely affected.

We are exposed to risk of inventories obsolescence.

We had inventories of approximately HK\$93.5 million, HK\$103.4 million and HK\$104.9 million as at 31 December 2015, 31 December 2016 and 30 June 2017 respectively, out of which approximately 16.4%, 6.2% and 18.7% aged over 90 days as at the respective dates. Our average inventory turnover days increased during the Track Record Period from approximately 67.3 days as at 31 December 2015 to approximately 83.4 days as at 31 December 2016 and further to approximately 90.7 days as at 30 June 2017. The demand for our products is highly dependent on our customers' preferences and the economic condition of the markets where they operate, which are beyond our control. During the Track Record Period, we have not identified material inventory items requiring impairment provisioning. Any increase in inventory may adversely affect our working capital. If we cannot manage our inventory level efficiently in the future, our liquidity and cash flow may be adversely affected. Further, if we fail to source appropriate products to suit consumer preferences in the future, the volume of obsolete inventory may increase and we may need to either sell off such inventory at a lower price or write off such inventory, in the event of which our financial position and results of operations may be materially and adversely affected.

Our sales for the year ended 31 December 2016 decreased compared with that for the year ended 31 December 2015.

Our revenue slightly decreased by approximately HK\$25.5 million, representing a decrease of approximately 4.7%, from approximately HK\$537.7 million for the year ended 31 December 2015 to approximately HK\$512.2 million for the year ended 31 December 2016. The decrease in our revenue was mainly because EFM decreased its purchase of 802.11 b/g/n protocols routers for the year ended 31 December 2016. However, there is no assurance that we may be able to sell more 802.11 ac protocol routers to EFM or our other products at higher or similar level or at all in the future. In such case, our revenue may decline and our performance may be materially and adversely affected.

We may experience fluctuations in other income.

For the years ended 31 December 2015, 2016 and for the six months ended 30 June 2017, our other income amounted to approximately HK\$10.4 million, HK\$6.3 million and HK\$5.5 million, respectively. The decrease in our other income from the year ended 31 December 2015 to year ended 31 December 2016 was primarily because we recorded forfeited deposits and write-back of trade payables of approximately HK\$5.9 million in the year ended 31 December 2015 while no such amount was recorded in the year ended 31 December 2016. Since other income is usually of a non-recurring nature, we may experience fluctuations in our other income in the future. If we record a material decrease in the amount of our other income or we cannot generate such at all, our results of operations and financial position might be materially and adversely affected.

The success of our business depends on the continuing efforts of our key management, engineers and technical personnel, and our business may be severely disrupted if we lose their services.

Our future growth and success depend to a significant extent on the continuing service and contribution of our engineers and senior management personnel. Many of these key personnel are highly skilled and experienced and are difficult to recruit and retain. In particular, we are highly dependent on our current executive directors, namely Mr. BK Kim, Mr. JY Kim, Mr. Koo and Mr. Xiao due to their experience, relationships and knowledge in our industry. Competition for recruiting qualified personnel is

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intense, and recruiting personnel with the combination of skills and attributes required to execute our business strategy may be difficult, time-consuming and expensive. As a result, the loss of any key personnel or failure to recruit, train or retain qualified personnel could have a significant negative impact on our operations.

Furthermore, we are placing higher emphasis on research and development in order to develop our existing technologies and continually bring to market innovative products in response to rapidly evolving customer preferences and technology developments. Accordingly, we must recruit top engineers and technical personnel. There is substantial competition for qualified personnel, and there can be no assurance that we will be able to attract or retain qualified personnel on commercially reasonable terms or at all. During the Track Record Period, there was a key officer in our research and development team who departed from our Group. If in the future, one or more of our key executive officers, directors or technicians are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all. As a result, our business may be severely disrupted and we may incur additional expenses to recruit and retain new personnel or find other suitable replacements.

Failures of our products or software due to quality issues, design flaws, bugs, errors or other defects may impair the market acceptance of our products and we may be subject to product liability claims.

There is no assurance that all the quality issues, design flaws, bugs, errors or other defects in our software and products have been detected and corrected. Any quality issues, design flaws, bugs, errors or other defects on our products and software may cause damage to our EMS and OEM customers', distributors' and end users' systems and networks, and adversely affect our EMS and OEM customers', distributors' and end users' operations. As a result, we may incur additional costs in rectifying the defects. It may also affect our relationship with such customers and our reputation. If our customers as well as end users lose confidence in our products, we may experience long term declines in our sales, which may have a material adverse effect on our business, financial conditions and results of operation.

In addition, we may be subject to product liability claims if our products and software are found to have quality issues, design flaws, bugs, errors or other defects. The occurrence of such problems may result in recalls of our products and software and significant damage to our brand. We cannot assure you that such incidents will not occur in the future. We may be subject to legal liabilities and have to compensate distributors and/or end users for any loss or damages they suffer in respect of valid product liability claims. Such claims, even if unsuccessful, would likely be time-consuming and costly to defend and could divert significant resources and management attention. Furthermore, we may be subject to administrative or other government sanctions or penalties. All of these may have a material adverse impact on our business, financial condition and results of operations.

We may encounter counterfeiting or other infringement of intellectual property rights by third parties or we may face other difficulties in protecting our intellectual property rights.

We rely on intellectual property laws in Hong Kong, the PRC, U.S., E.U., Vietnam, Japan, Lebanon, Thailand, India, Taiwan, Indonesia, Russia and Brazil to protect our intellectual property rights, including patents, copyrights and trademarks. However, we cannot assure you that counterfeiting or other infringement of our intellectual property rights by third parties will not occur in the future or that, if it does occur, we will be able to effectively detect and address the problem or enforce our rights in a timely manner, or at all. Any such event could have a material adverse impact on our relationships with our customers, our reputation and our business, financial condition and results of operations. Bringing legal actions to enforce or protect our intellectual property rights are time-consuming and costly and could divert significant resources and management attention. As we have registered or applied for registration

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of intellectual property rights only in Hong Kong, the PRC, U.S., E.U., Vietnam, Japan, Lebanon, Thailand, India, Taiwan, Indonesia, Russia and Brazil, we may be unable to effectively prevent third parties from using our technologies, designs and trademarks in other jurisdictions. In addition, we cannot assure you that our competitors will not be able to develop other competing technologies by designing around or reverse engineering our patents and designs.

Third parties may assert or claim that we have infringed their intellectual property rights and any failure to protect our intellectual property rights could have a material adverse impact on our business.

Our competitors or other third parties may allege to own intellectual property rights and interests that could potentially conflict with our intellectual property rights and interests. In addition, if our customers face any intellectual property infringement claims in the future, they may require us to indemnify them for products marketed under their brand names. We may incur substantial costs in defending or settling such disputes and such actions could divert significant resources and management attention. If any such claim against us is successful, we may not have a legal right to continue to manufacture and sell the relevant products that are found to have incorporated the disputed intellectual property. The success of such claims may also result in an increase in our costs, including additional royalties, licensing fees or further research and development costs to develop non-infringing alternatives, and negatively affect our profitability. Moreover, such claims, whether successful or not, may cause significant damage to our reputation and a loss of customers, as a result of which our business and results of operations could be materially and adversely affected.

Fluctuations in foreign currency exchange may result in foreign currency exchange losses and affect price competitiveness of our products may have a material adverse impact on our business.

Our Group mainly operates in Hong Kong and the PRC, and is exposed to risks arising from fluctuation of currencies, primarily relating to US dollars and RMB. Along with our expansion into Vietnam, we might also be exposed to currency risks relating to VND in the future. During the Track Record Period, we recorded the exchange loss on translating of foreign operation amounting to approximately HK\$3.0 million, and HK\$6.2 million for the years ended 31 December 2015 and 2016 respectively and exchange gain of approximately HK\$3.5 million for the six months ended 30 June 2017. Currently, we do not have a currency hedging policy to mitigate our exposure to foreign exchange risk. Any significant changes in the exchange rates between our functional currency and these various other currencies may result in losses for us and could have a material adverse effect on our business, results of operations and financial condition.

Moreover, our revenue generated from other EMS products decreased by approximately HK\$33.6 million from the year ended 31 December 2015 to the year ended 31 December 2016, representing a decrease of approximately 33.3%, which was mainly attributable to the decrease in sales to Customer B by approximately HK\$13.1 million and the decrease in sales to our other EMS customers in Brazil by approximately HK\$12.0 million which we believe was a result of the depreciation of Brazilian Real in the year ended 31 December 2016. As our products are mainly sold at United States dollars or RMB, if foreign currencies of our customers depreciate against such currencies in the future, the price of our products in terms of their local currencies would intrinsically increase. If our customers cannot transfer the price increase to their customers or that they do not have appropriate foreign exchange arrangements in place, they may request us to reduce the selling prices to ensure their profitability or even cease to order from us, which could in turn adversely affect our revenue and financial performance.

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We may be subject to liability in connection with industrial accidents at our production facilities.

Due to the nature of our operations, we are subject to the risks of potential liability associated with industrial accidents at our production facilities. We cannot assure you that industrial accidents, whether due to malfunctions of equipment or other reasons, will not occur in the future at our production facilities. Under such circumstances, we may be subject to employee's claims for compensation or penalties imposed by relevant government authorities and may suffer damage to our reputation. In addition, we may experience interruptions in our operations or may be required to change the manner in which we operate, as a result of governmental investigations or the implementation of safety measures due to accidents. Any of the foregoing events could materially and adversely affect our business, financial condition and results of operations.

Our insurance coverage may not completely cover the risks related to our business and operations.

We maintain insurance policies covering risks in respect of our losses against fire, damage to property, plants and equipment, inventory and motor vehicles in our production facilities and offices, and third party liability arising from traffic accidents, which our Directors consider are in line with industry practice. However, there is no assurance that our insurance coverage would be sufficient to cover all our potential losses. Please see "Business — Insurance" in this prospectus for more information on the insurance policies maintained by us. In the event that our insurance policies cannot sufficiently compensate for our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be negatively affected. Please see "— We are exposed to the credit risks of our customers and may face long turnover period in respect of trade receivables" in this section for more information relating to the risks associated with our export credit insurance coverage.

Work stoppages and other labour-related issues may adversely affect our operations.

There can be no assurance that a work slowdown, work stoppage or strike will not occur in the future, as the result of among others, our employees' desire for higher wages, increased benefits or improvements in working conditions. During the Track Record Period, there were no interruptions to our operations as a result of labour disputes or shortage of labour. However, we cannot assure you that our employees will always be satisfied with their working conditions, and we may be subject to operational disruptions in the future arising as a result of disputes with our employees.

Our production process is characterised by a highly labour-intensive nature, this necessitates that a certain number of employees are required for the purposes of fulfilling our customers' purchase orders and maintain our production levels. There is no guarantee that the available supply of labour and our labour costs will remain stable. In particular, we experience a high rate of employee turnover during Chinese New Year holidays, as is the case with other manufacturing companies in the PRC. If we are unable to retain our existing labour force and/or procure sufficient replacement labour in a timely manner, this may result in us not being able to accommodate sudden surges in demand for our products or successfully implement our expansion plans. Work slowdowns, stoppages, strikes or other labour-related issues or disputes affecting us could have a material adverse effect on our business, results of operations and financial condition.

We may require additional funding in the future and may not be able to secure such funding on terms acceptable to us.

Access to financing is required in order for us to execute our business strategies, including expanding or upgrading production facilities and equipment, developing new technologies and products

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and expanding our operations into new businesses. Our ability to continue to obtain debt financing at a reasonable cost will depend on several factors, some of which may be outside our control, including general economic conditions and the liquidity of the international capital markets. In the event of adverse financial market conditions, our external financing activities combined with our internal sources of liquidity may not be adequate to support our current and future business plans. If such were the case, we may not be able to implement our business strategies as scheduled, including capital investments relating to capacity expansion of our existing facilities or construction of new production facilities, all of which could have an adverse effect on our business, results of operations and financial condition.

Natural disasters, epidemics, acts of war, terrorist attacks and other events could materially and adversely affect our business.

Natural disasters (such as typhoons, flooding and earthquakes), epidemics, acts of war, terrorist attacks and other events, many of which are beyond our control, may lead to global or regional economic instability, which may in turn materially and adversely affect our business, financial condition and results of operations. An outbreak or epidemic, such as those of the Severe Acute Respiratory Syndrome, Middle East Respiratory Syndrome or the H1N1 and H5N1 viruses, could cause general consumption demand to decline. In addition, political tensions or conflicts and acts of war or the potential for war could also cause damage and disruption to our business, which could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO OUR INDUSTRY

We operate in highly competitive markets and our failure to compete successfully would adversely affect our businesses and market position.

The network equipment manufacturing industry is intensely competitive. We face significant competition in each of our product lines, as we believe there are certain products from other manufacturers that present competition with our products where quality and price are concerned. In terms of technical expertise and difficulties relating to building relationships and establishing market credibility, new entrants may seek to develop or acquire the required technical capability and customer base by way of significant investments in the requisite and marketing network so as to present competition to our existing business.

Factors that would affect our ability to compete in the network equipment manufacturing industry include:

- product performance, quality and reliability
- competitive pricing
- availability of adequate production capacity
- ability to accurately identify and respond to emerging technological trends and demand for product features and performance characteristics
- successful and timely development of new products
- ability to develop and maintain customer and supplier relationships
- brand recognition and financial strength

In light of the characteristics of the network equipment manufacturing industry and its pace of change, we cannot assure you that we will be able to fully and effectively adapt to changing market conditions so as to ensure that we compete successfully with existing or new competitors. If we are unable to do so, our business, results of operations and financial condition would be adversely affected.

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We may fail to anticipate or adapt to changing technologies and customers' preferences in a timely manner, or at all.

The market for our products is characterised by continuing technological development, evolving industry standards, increasing number of product certification, changing customers' needs, frequent new product introductions and enhancements and occasional changes in government policies and regulations. The introduction of products by our direct competitors or others embodying new technologies, the introduction and adoption of new product certification, the emergence of new industry standards, changes in customers' requirements or changes in government policies and regulations could render our existing products obsolete, unmarketable or less competitive. In particular, an industry-wide adoption of new standards could reduce the importance of the functionality of our products and materially adversely affect the competitiveness and market acceptance of our products.

To maintain the relevancy of our products, we have actively invested in product planning and research and development. The process of developing and marketing new products is inherently complex and involves significant uncertainties. There are a number of risks, including the following:

- we may not be able to respond to changing customers' requirements, technological developments and emerging industry standards in a timely manner;
- our product planning efforts may fail to result in the development or commercialisation of new technologies or ideas;
- our research and development efforts may fail to translate new product plans into commercially feasible products;
- our new technologies or new products may not be well received by consumers;
- we may not have adequate funding and resources necessary for continual investments in product planning and research and development;
- our products may become obsolete due to rapid advancements in technology and changes in consumer preferences; and
- our newly developed technologies may not be protected as proprietary intellectual property rights.

If we fail to anticipate or adapt to changing technologies and customers' requirements, we may be unable to compete effectively in the market and our business and results of operations could be materially and adversely affected.

The sales of our products are subject to certain laws, rules, regulatory requirements, government policies and uncertainties of economic, social and political conditions in jurisdictions where our products are sold.

Our products are sold to different areas all over the world, particularly, in Korea, the PRC and Hong Kong, and are subject to certain laws and extensive regulatory requirements of the relevant areas. For further details regarding certain aspects of the laws, rules, regulations, government policies and requirements, which are relevant to our Group's operations, please see "Regulatory Overview" in this prospectus.

The relevant laws, rules and regulations may change from time to time. New legislation, rules and regulations that come into effect and any changes in the interpretation or enforcement of the existing ones may impact our business operations and prospects. Competent authorities may from time to time change or implement policies and guidelines on the sales of our products. Any changes in policies, rules and

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regulations could result in limitations on the business lines that we may conduct or result in modifications to our business practices or incur additional costs, which may materially and adversely affect our business, financial condition and results of operations. Moreover, we cannot assure you that the economic, political or social systems in the markets that we sold our products will not develop in a way that is detrimental to our Group's business, financial conditions, and results of operations. Any slowdown or recession in these markets, or any political and social instability could adversely affect our business, financial condition and results of operations.

Our revenue growth depends on the continuous growth of Internet usage, particularly access to the Internet through 3G/4G/LTE. If the Internet usage does not continue to grow, or if the Internet infrastructure does not effectively support its growth, our revenue and growth could be adversely affected.

Our business and financial results depend heavily on the continuous growth in the use of Internet, particularly access to the Internet through 3G/4G/LTE. Internet usage may be inhibited for a number of reasons, many of which are beyond our control, including but not limited to regulatory restrictions, cyber security concerns and unavailability of Internet infrastructure. If the infrastructure is unable to support the growing use of the Internet or stringent regulatory restrictions are imposed or cyber security cannot be maintained, the growth of the Internet may be hindered and may decline. If the usage of the Internet does not continue to grow, or if the Internet infrastructure does not effectively support its growth, our revenue and growth could be materially and adversely affected.

Government regulations and legal uncertainties could adversely affect the conduct of business on the Internet.

The application of existing laws to the Internet and Internet-related applications is being clarified and refined in many jurisdictions, and a number of new legislative and regulatory proposals applicable to the Internet are under consideration, including in the areas of content liability, e-commerce, encryption, VPN and electronic signature technology, data protection and privacy. Depending on the scope and timing of these developments, it is possible that such developments may have a material adverse effect on our business, financial conditions, and results of operation.

Government regulations designed to protect consumer privacy may make it difficult for us to sell our products.

Our products may transmit and store personal data. This data is increasingly subject to legislation and regulations in numerous jurisdictions around the world. Privacy and personal data that is collected, stored and transmitted are intended to be protected. We are therefore exposed to potential liabilities in this area of concern. In addition, because various foreign jurisdictions have different laws and regulations concerning the storage and transmission of personal data, we may face requirements that pose compliance challenges in new geographic markets that we seek to enter. Such variation could subject us to costs, delayed product launches, liabilities or negative publicity that could impair our ability to market and sell to some jurisdictions and therefore limit our future growth.

Any breach of laws and regulations of privacy and data protection may have a material adverse effect on our business, financial conditions and results of operation. In addition, our attempts to protect the privacy and security of personal data may fail if our encryption is inadequate or fails to operate as expected.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Adverse changes in economic, political and social conditions and government policies in the PRC could have a material adverse effect on our business, financial condition, results of operations and prospects.

A majority of our business, operations and assets are located in the PRC. As a result, we are subject to political, economic, legal and regulatory risks specific to the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. A substantial portion of productive assets in the PRC remain state-owned and the PRC Government exercises a high degree of control over these assets. The PRC Government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC Government also exercises significant control over PRC economic growth through allocation of resources, restrictions on payment of foreign currency-denominated obligations, the setting of monetary policy and provision of preferential treatment to particular industries or companies.

The growth of the PRC economy has been uneven, both geographically and among various sectors of the economy. The PRC Government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC Government has in the past implemented certain measures, including interest rate increases, in an attempt to control the rate of economic growth. The PRC economy has begun to show signs of a potential slowdown in recent years, including decreased gross domestic product growth rates. In response, the PRC Government has announced stimulus measures, but the overall impact of such stimulus measures is uncertain, and they may not have the intended effects.

Furthermore, the PRC economy relies significantly on exports and is accordingly closely tied to, and is affected by developments in, the global economy. Liquidity and credit concerns and volatility in the global financial markets in recent years and persistent concerns regarding a potentially long-term and widespread recession have contributed to reduced consumer confidence and spending and diminished expectations for economic growth around the world. In particular, there has been increased uncertainty and volatility as a result of the continuing financial difficulties affecting European countries, as well as recent signs of economic slowdown in large developing economies such as India and Brazil, and any of these and other developments could potentially trigger another financial crisis or global economic downturn. Accordingly, the overall prospects for the PRC and global economies in 2017 and beyond remain uncertain.

Any future deterioration of the PRC and global economies or the adoption by the PRC Government of policies detrimental to the telecomm and networking equipment industry could materially and adversely affect our business, results of operations and financial condition.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

While we are incorporated in the Cayman Islands, a majority of our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. Since the late 1970s, the PRC Government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in the PRC. However, the PRC has not yet developed a fully integrated legal system and recently enacted laws and regulations may

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not sufficiently cover all aspects of economic activities in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published court decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions.

Furthermore, the legal protections available to us under PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of our resources and management attention. Moreover, there can be no assurance that the PRC Government will not amend or revise existing laws, rules or regulations, or promulgate new laws, rules or regulations, in a manner which materially and adversely affects our business, results of operations or financial condition. For example, the PRC Government may require additional approvals, licences or permits for our business and operations, or impose stricter requirements or conditions for the maintenance or renewal of approvals, licences or permits required for our business and operations. Any loss of or failure to obtain, maintain or renew our approvals, licences or permits could disrupt our operations or subject us to fines or penalties imposed by the PRC Government. Please see “Regulatory Overview” in this prospectus.

We may not be able to enjoy the various benefits including preferential income tax treatment associated with the accreditation as a High and New Technology Enterprise.

Zioncom Shenzhen was accredited as a High and New Technology Enterprise of the PRC and obtained the High and New Technology Enterprise Certificate in June 2015 for a period of three years from June 2015 to June 2018. Under the PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法) (the “**PRC EIT Law**”) and its relevant regulations, High and New Technology Enterprises are conferred with a preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the PRC EIT Law). Following the accreditation as a High and New Technology Enterprise, Zioncom Shenzhen and its branches in Xixiang and Xinqiao are conferred with a preferential income tax rate of 15%, and we are required to submit our financial statements together with details of our research and development activities and other technological innovation activities to the local tax authority and other relevant authorities for annual review to continue to enjoy the 15% preferential tax treatment. If we successfully pass the extension review, our accreditation will be renewed on a three year basis. As advised by our PRC Legal Adviser, if we fail the annual review or the extension review and cannot obtain approval from the local tax authority to renew our accreditation as a High and New Technology Enterprise, we will not be entitled to enjoy the preferential tax treatment, as well as other benefits conferred under the accreditation.

We may be deemed to be a PRC resident for PRC tax purposes.

Under the Enterprise Income Tax (“**EIT**”) regime in the PRC, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises and will generally be subject to a 25% EIT rate on their global income. “De facto management bodies” are defined under EIT laws as bodies that have material overall management control over the business, accounts, properties and personnel of an enterprise. As most of our management is based in the PRC and are likely to remain in the PRC, we may be treated as a PRC resident enterprise for PRC EIT purposes. If we are deemed as a PRC resident enterprise, we may be subject to PRC EIT at the rate of 25% on our worldwide income.

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PRC regulation of loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds we receive from the Share Offer to make loans or additional capital contributions to our PRC subsidiary.

In utilising the proceeds from the Share Offer, we (as an indirect offshore holding company of our PRC subsidiary) may make loans or additional capital contributions to our PRC subsidiary. Any such loans or additional capital contributions to our subsidiary in the PRC are subject to PRC regulations and approvals. For example, loans made by us to our PRC subsidiary cannot exceed statutory limits and must be registered with the SAFE or its local branch. We cannot assure you that we will be able to obtain the required registrations or approvals from the PRC Government with respect to such loans by us to our PRC subsidiary on a timely basis, or at all. If we fail to obtain such registrations or approvals, our ability to use the proceeds from the Share Offer to fund our operations in the PRC would be negatively affected, which would materially and adversely affect our liquidity in the PRC and ability to expand our business.

Government control over currency conversion may limit our ability to utilise our cash effectively.

Part of our operation costs, relating primarily to our raw materials, components and labour costs, is denominated in RMB. The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or make other payments to us or otherwise satisfy its foreign currency-denominated obligations. In addition, since a portion of our future cash flow from operations is likely to continue to be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies.

Foreign investors may find it difficult to enforce foreign judgments obtained against our properties or our Directors or members of our senior management in the PRC.

We are a holding company incorporated in the Cayman Islands with primary manufacturing and management operations conducted through our PRC subsidiary. The majority of our consolidated assets are located in the PRC. A judgment of a court of another jurisdiction may be reciprocally recognised or enforced in the PRC only if the jurisdiction has a treaty with the PRC or if the jurisdiction has been otherwise deemed by the PRC courts to satisfy the requirements for reciprocal recognition, subject to the satisfaction of other requirements. However, the PRC is not a party to treaties providing for the reciprocal enforcement of judgments of courts with foreign countries such as the U.S., the U.K., Japan and Korea, and enforcement in the PRC of judgments of a court in these jurisdictions may consequently be difficult or impossible.

Any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms.

Our operations are subject to the environmental protection laws and regulations promulgated by the PRC government. These laws and regulations require us to adopt effective measures to control and properly dispose of solid waste and other environmental pollutants. We could be exposed to penalties,

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finances, suspensions or actions in other forms if we fail to comply with these laws and regulations. The environmental laws and regulations in the PRC may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. In the event that changes to existing laws and regulations require us to incur additional compliance costs or require costly changes to our production process, our production costs could increase and we may lose business from certain customers, as a result of which our business, financial conditions and results of operations could be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN VIETNAM

Adverse changes in economic, political and legal environment of Vietnam could have a material adverse effect on our business, financial condition, results of operation and prospects.

We have established a subsidiary Zioncom Vietnam in March 2015 to expand our presence in the regional market. With an aim to expand our production capacity, we have constructed new production facilities in Vietnam in January 2017 and trial production has commenced in late October 2017. As a result, we are subject to political, economic, legal and regulatory risks specific to Vietnam.

Vietnam's economy differs from the economies of many countries in such respects as government involvement, level of development, growth rate, allocation of resources and inflation rate. Prior to the 1990s, Vietnam's economy was largely a planned economy. Since about 1987, increasing emphasis has been placed on the utilisation of market forces in the development of the economy. Annual and five-year state plans are adopted by the Vietnamese government in connection with the development of the economy. The Vietnamese government in general is reducing the level of direct control that it exercises over the economy through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as resource allocation, production and management and a gradual shift in emphasis to a market economy and enterprise reform.

As part of its transition from a planned economy to a more market-oriented one, the Vietnamese government has implemented a series of economic reforms, including lowering trade barriers and import quotas to encourage and promote foreign investment. In preparation for Vietnam's accession to the World Trade Organisation in 2007, the Vietnamese government has also promulgated a series of laws and regulations on local and foreign investment, including the Law on Investment, which regulates investments in Vietnam, and the Law on Enterprises, which sets out the types of corporate vehicle investors may establish to carry out their investment projects. However, conflicting interpretations between local regulators in different provinces and between different ministries, have created confusion over key issues. The Vietnam National Assembly issued new investment and enterprise laws in November 2014, which came into force on 1 July 2015, to improve the country's investment climate. In addition, in the context of pursuing and maintaining economic reforms, the Vietnamese government has promulgated other laws and regulations in recent years designed to attract foreign investment and business development in Vietnam, which may intensify the competition in our industry. The adoption of new or amended laws and regulations could have a negative impact on our operations. New or amended law and regulations in Vietnam, including those relating to the protection of foreign investors or domestically owned companies, could adversely affect our business and results of operations.

There remain inherent uncertainties and inconsistencies in the interpretation, implementation and enforcement of laws and government policies, including tax regulations. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition, depending upon the outcome of these experiments. Furthermore, there can be no assurance that the Vietnamese government will continue to pursue policies of economic reform or that any reforms will be successful or the impetus

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to reform will continue. If any of the changes adversely affect us or our business, or we are unable to capitalise on the economic reform measures of the Vietnamese government, our business, financial condition and results of operations could be adversely affected.

Uncertainties with respect to the Vietnamese legal system could have a material adverse effect on us.

We have business and operations conducted in Vietnam which are governed by Vietnamese laws, rules and regulations. The legal system of Vietnam differs from most common law jurisdictions, in that it is a system in which decided legal cases have little precedential value. The laws and regulations are subject to broad and varying interpretations by government officials, courts and lawyers. The courts of Vietnam have the power to read implied terms into contracts, adding a further layer of uncertainty. As a result, government officials, courts and lawyers often express different views on the legality, validity and effect of a particular legal document. In addition, the views of governmental authority received on a particular issue have no binding effect or finality, so there is no guarantee that similar issues will be dealt with in a similar way by other governmental authorities. Furthermore, recognition and enforcement of legal rights through Vietnam courts, arbitration centres and administrative agencies in the event of a dispute is uncertain.

The change of the foreign exchange regulations of Vietnam can materially affect our financial conditions and results of operations.

VND, the legal currency in Vietnam, is not freely convertible to other currencies, except under certain circumstances. Under the foreign currency exchange regulations of Vietnam, foreign-invested enterprises are permitted to repatriate profits from business operations in Vietnam through various means. The Vietnamese government has relaxed the regulations in respect of foreign exchange to allow foreign-invested enterprises to convert VND into foreign currencies through authorised foreign exchange bodies. There can be no assurance, however, that the Vietnamese government will continue to relax its foreign exchange regulations, that it will maintain the same foreign exchange policy or that there will be sufficient foreign currency, particularly U.S. dollars, available in the market for currency conversions. If, in the future, government regulations restrict our Group's ability to convert VND or there is insufficient foreign currency available in the market, our Group may be unable to meet its foreign currency payment obligations.

The foreign exchange management regime of Vietnam has transitioned from a system of fixed multiple exchange rates controlled by the State Bank of Vietnam to a system of managed flexible exchange rates regulated largely by market forces. The value of VND has fluctuated in the past and is subject to changes in the Vietnamese government's political and economic policies. The Vietnamese government has taken a liberal approach to foreign exchange management in that the State Bank of Vietnam influences the exchange rate primarily through the financial markets and monetary policies subject to parameters set by the State Bank of Vietnam. However, there can be no assurance that the government will continue to pursue a liberal management policy in respect of foreign exchange. If it does not do so, our financing costs may increase and our financial condition and results of operations may be adversely affected by changes in the value of the VND.

The economy in Vietnam may be subject to periods of high inflation which could materially and adversely affect our business, financial operation and results of operations and growth prospects.

The economy in Vietnam may be subject to periods of high inflation which could materially and adversely affect our business, financial operation and results of operations and growth prospects. Government anti-inflation policies and a decline in global commodity and petroleum prices have led to a decrease in Vietnam's inflation rate. There can be no assurance that the Vietnamese economy will not be

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subject to future periods of high inflation. Should inflation in Vietnam increase significantly, our costs, including labour costs and transportation are expected to increase. Furthermore, high inflation rates could have an adverse effect on Vietnam's economic growth, business climate and dampen consumer purchasing power. As a result, a high inflation rate in Vietnam could materially and adversely affect our business, financial condition and results of operations and growth prospects.

We require various approvals, licences and permits to operate our business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect our business and results of operations.

We are subject to various laws and regulations in jurisdictions in which we operate. In accordance with the laws and regulations of Vietnam, we are required to maintain various approvals, licences and permits in order to operate our production facilities in Vietnam. We are required to obtain certificates of incorporation (enterprise registration certificate, investment registration certificate, and/or investment certificate) and land and building titles and licences in relation to environmental issues. Most of these licences are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

Compliance with the relevant laws and regulations may require substantial expense, and any non-compliance may expose us to liabilities. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time to remedy any deficiencies. We may also experience adverse publicity arising from such non-compliance with any laws and regulations that may negatively impact our reputation.

We may experience difficulties or failures in obtaining the necessary approvals, licences and permits for our new production facilities. In addition, there can be no assurance that we will be able to obtain or renew all of the approvals, licences and permits required for our existing business operations upon expiration in a timely manner or at all. If we cannot obtain or maintain all licences required by us to operate our business, our expansion may be delayed and our ongoing business could be interrupted. We may also be subject to fines and penalties.

Foreign investors may find it difficult to enforce foreign judgments obtained against our properties or our Directors or members of our senior management in Vietnam.

We have an operating subsidiary incorporated under the laws of Vietnam. Pursuant to the Civil Proceedings Code, Vietnamese courts will consider the recognition of civil judgments issued by the courts of a country, subject to certain restrictions, with which it has signed a relevant bilateral treaty with or on the basis of reciprocity. Countries with which such bilateral treaties have been entered into include Algeria, Belarus, Bulgaria, China, Cuba, Czechoslovakia, France, Hungary, Kazakhstan, Laos, Mongolia, North Korea, Poland, Russia, Taiwan and Ukraine. Should the foreign judgment be with a country that has not entered into such agreements or reciprocity, enforcement will only be possible via a Vietnamese judgment.

RISKS RELATING TO THE SHARE OFFER AND THE SHARES

There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained.

Prior to the Listing, no public market for our Shares existed. Following the completion of the Share Offer, the Stock Exchange will be the only market on which our Shares are publicly traded. We cannot assure you that an active trading market for our Shares will develop or be sustained after the Share Offer. In addition, we cannot assure you that our Shares will trade in the public market subsequent to the Share Offer at or above the Offer Price. The Offer Price for our Shares is expected to be fixed by agreement

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among the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company, and is not indicative of the market price of our Shares following the completion of the Share Offer. If an active trading market for our Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of our Shares could be materially and adversely affected.

The trading price, volume and liquidity of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the U.S. and elsewhere in the world. In particular, the trading price performance of other companies in the telecomm and networking equipment industry may affect the trading price of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific commercial reasons. In particular, factors such as variations in our revenue, net income, cash flow, profits and dividends could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

Any future issuance of Shares by our Company may dilute your shareholding.

We have conditionally adopted the Share Option Scheme, details of which are set out in “Statutory and General Information — D. Share Option Scheme” in Appendix IV to this prospectus. Any exercise of the options which may be granted under the Share Option Scheme in future will result in a dilution in the shareholding percentage of our Shareholders in our Company and may result in a dilution in the earnings per Share and net asset value per Share.

Our Group may need to raise additional funds in future to finance expansion or new developments relating to our operations or new acquisitions. If additional funds are raised through the issue of new equity or equity-linked securities of our Company and if the then existing Shareholders are not being offered with an opportunity to participate, their shareholding interest in our Company will be diluted.

Sale or perceived sale of substantial amounts of the Shares in the public market after the Listing could materially and adversely affect the prevailing market price of the Shares.

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods under the GEM Listing Rules and additional lock-up period of 12 months undertaken by them voluntarily. There is no assurance that our Controlling Shareholders will not dispose of these Shares following the expiration of the lock-up periods. Sale of a substantial number of these Shares in the public market, or the perception that such sale may occur, could materially and adversely affect the prevailing market price of our Shares.

You may face difficulties in protecting your interests because we are incorporated under the Cayman Islands law, and the Cayman Islands law may provide remedies to minority shareholders different from those under the laws of Hong Kong and other jurisdictions.

The corporate affairs of our Company are governed by the Memorandum, the Articles, the Companies Law and the common law of the Cayman Islands. The laws of the Cayman Islands relating to protection of the interests of minority shareholders may differ in some respects from those established under statutes or judicial precedents in Hong Kong. Such differences may mean that the remedies

RISK FACTORS

available to our minority Shareholders may differ from those available to them under the laws of Hong Kong. For details, please see “Summary of the constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus.

Our dividend distribution will be made at the discretion of our Directors or by ordinary resolution.

Subject to the Companies Law and our Memorandum and Articles, we may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of our Board or by ordinary resolution (as the case may be). Our Board will review dividend policy from time to time in light of various factors such as our earnings, our financial conditions, our operating requirements, our capital requirements and other factors our Board may deem relevant in determining whether dividends are to be declared and paid. Please see “Financial Information — Dividends” in this prospectus for more information.

Substantial future sales or expectation of sales of Shares in the public market by our Controlling Shareholders could cause the price of our Shares to decline.

Our Controlling Shareholders have voluntarily undertaken to the Sole Sponsor and Joint Lead Managers (for themselves and on behalf of all the Public Offer Underwriters) that any Shares held by them will be subject to lock-up for a certain period after the Listing in addition to the requirement under the GEM Listing Rules (for details, please refer to “Underwriting — Underwriting arrangements, commissions and expenses — Undertakings pursuant to the Public Offer Underwriting Agreement” in this prospectus). However, in the event that such voluntary lock-up undertaking is waived by the Sole Sponsor and the Joint Lead Managers without recommendation of the independent committee of our Board which will comprise our independent non-executive Directors and the approval of the independent Shareholders in such regard, our Shares held by our Controlling Shareholders will become tradeable in the market. Sale of substantial amount of Shares in the public market by our Controlling Shareholders or the perception that such sale could occur, could adversely affect the market price of our Shares.

Statistics and facts from official sources in this prospectus have not been independently verified and may not be reliable.

This prospectus includes certain statistics and facts relating to the economy and the telecommunication and networking equipment industry that have been extracted from official government sources and publications or other unofficial sources. We cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisers, nor the Sole Sponsor, the Underwriters or any of their affiliates or advisers, have independently verified the accuracy or completeness of such information directly or indirectly derived from these sources. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics may be inaccurate. Statistics, industrial data and other information relating to the economy and the industry derived from sources used in this prospectus may not be consistent with statistics, industrial data and other information available from other sources and therefore, investors should not unduly rely upon such facts and statistics while making investment decisions.

Forward-looking statements included in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “estimate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, “might”, “could” and “will”. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

RISK FACTORS

Investors of our Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the GEM Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information. Please see “Forward-looking Statements” in this prospectus.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.

There may be press articles, media coverage and/or research analyst reports regarding us, our industry or the Share Offer, which may include certain financial information, financial projections and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any such information in the press, media or research analyst report. We do not accept any responsibility for any such press articles, media coverage or research analyst report or the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, (i) the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive and; (ii) there are no other matters the omission of which would make any statement in this prospectus misleading; and (iii) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus sets out the terms and conditions of the Share Offer. This prospectus is published solely in connection with the Share Offer, which is sponsored by the Sole Sponsor, bookrun by the Joint Bookrunners, managed by the Joint Lead Managers and is fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreement). Further information about the Underwriters and the underwriting arrangements is contained in "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between the Joint Lead Managers (for itself and on behalf of the other Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Thursday, 11 January 2018, or such later date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date or such later date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), the Share Offer (including the Public Offer) will not become unconditional and will lapse immediately.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required to confirm that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

As at the Latest Practicable Date, no action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus and/or Application Forms. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws or any applicable rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom.

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Share Offer to

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or employees or any other persons involved in the Share Offer.

APPLICATION FOR LISTING ON GEM

Our Company has applied to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer, the Capitalisation Issue and upon exercise of any option which may be granted under the Share Option Scheme.

No part of the share or loan capital of our Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the Share Offer or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the issued share capital of our Company in the hands of the public. A total of 198,000,000 Shares, representing 30.0% of the enlarged issued share capital of our Company immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme) will be made available under the Share Offer.

Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, affiliates, officers, employees, agents or any other person involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares or the exercise of their rights thereunder.

SHARE REGISTERS AND STAMP DUTY

All the Offer Shares will be registered in the branch register of members of our Company to be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited, our Hong Kong Share Registrar. Our principal register of members will be maintained in the Cayman Islands by the principal share registrar of our Company, Estera Trust (Cayman) Limited.

Dealings in the Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

register of members of our Company maintained in the Cayman Islands will not be subject to the Cayman Islands stamp duty except where our Company holds interests in land in the Cayman Islands.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Thursday, 18 January 2018. The Shares will be traded in board lots of 10,000 Shares each. The stock code for our Shares is 8287.

Our Company will not issue any temporary document of title.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of PRC, Vietnam, Taiwan and Korea laws and regulations, government authorities, institutions, natural persons or other entities included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi, U.S. dollar, New Taiwan dollar and VND amounts into Hong Kong dollar and/or U.S. dollar amounts or vice versa at specified rates. You should not construe these translations as representations that Renminbi and/or U.S. dollar amounts could actually be converted into Hong Kong dollar amounts or vice versa at the rates indicated or at all. For the purpose of this prospectus, unless we indicate otherwise, the translation of Renminbi amounts into Hong Kong dollar amounts have been made at the rate of RMB 1 to HK\$0.8955, the translation of US dollar amounts into Hong Kong dollar amounts have been made at the rate of US\$1 to HK\$7.75, the translation of New Taiwan dollar amounts into Hong Kong dollars amounts have been made at a rate of NT\$0.2392 to HK\$1, the translation of VND amounts into Hong Kong dollar amounts have been made at the rate of VND2,896.74 to HK\$1 and the translation of VND amounts into U.S. dollar amounts have been made at the rate of VND22,449.74 to US\$1.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Kim Byung Kwon (金炳權先生)	28F Building No.1 Hai-Yun-Jia-Yuan Shekou Shenzhen, PRC	Korean
Mr. Kim Jun Yeob (金俊燁先生)	28C, F Dong, Bei Qu Baoneng Taigucheng Nanshan District Shenzhen, PRC	Korean
Mr. Koo Ja Chun (具滋千先生)	Room A-3201, Building No.2 Bi-Hai-Fu-Tong-Cheng Bao'an District Shenzhen, PRC	Korean
Mr. Xiao Jingen (肖金根先生)	Room 4A602, Phase III Fu-Tong-Cheng, Xixiang Sub-district Bao'an District Shenzhen, PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Kim Kwang Hyun (金廣鉉先生)	Haeundaegu Geonyeong 2 Cha Apt. 111-1603 126 Sesil-ro Haeundae-gu Busan Metropolitan Republic of Korea	Korean
Mr. Oh Sung Jin (吳成鎮先生)	44 Yeonsu-ro 370 beon-gil Suyeong-gu Busan Metropolitan Republic of Korea	Korean
Mr. Yiu Kwing Sum (姚炯深先生)	Flat G, 4/F Hung Yip Building 234-236 Wan Chai Road Hong Kong	Chinese
Mr. Ko Ming Tung, Edward (高明東先生)	Flat C, 5/F Paxton 313 Prince Edward Road West Kowloon City, Kowloon Hong Kong	Chinese

For further information of our Directors, please see to “Directors, Senior Management and Employees” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sole Sponsor

Lego Corporate Finance Limited

(a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO)

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

Joint Bookrunners and Joint Lead Managers

Lego Securities Limited

(A corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO)

Room 804, 8/F
Jubilee Centre
46 Gloucester Road
Wanchai
Hong Kong

Ping An Securities Limited

(A corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO)

Unit 02, 2/F, China Merchants Building
152-155 Connaught Road Central
Hong Kong

Ruibang Securities Limited

(A corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO)

9/F Sang Woo Building
227-228 Gloucester Road
Wanchai
Hong Kong

Legal advisers to our Company

As to Hong Kong laws

Stephenson Harwood

18/F, United Centre
95 Queensway
Admiralty
Hong Kong

As to Hong Kong laws

Mr. Matthew Ho

Barrister-at-law

Sir Oswald Cheung's Chambers
10/F, New Henry House
10 Ice House Street
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to PRC laws

Beijing Dentons Law Offices, LLP (Shenzhen)

3F & 4F, Block A, Shenzhen
International Innovation Center
No. 1006 Shennan Boulevard
Futian District, Shenzhen, PRC

As to Cayman Islands laws

Appleby

2206-19, Jardine House
1 Connaught Place
Central
Hong Kong

As to Korea laws

Bae, Kim & Lee LLC

133 Teheran-ro, Gangnam-gu
Seoul 06133
Republic of Korea

As to Taiwan laws

Lee and Li, Attorneys-at-Law

7/F, 201 Tun Hua N. Road
Taipei, Taiwan 10508
Republic of China

As to Vietnam laws

VNA Legal

L16-07, Vincom Office Building
72 Le Thanh Ton Street
District 1, Ho Chi Minh City
Vietnam

**Legal advisers to the Sole Sponsor and the
Underwriters**

As to Hong Kong laws

K&L Gates

44/F, Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

As to PRC laws

Guangdong Dena Law Firm

42nd Floor, Jinzhonghuan Business Building
No. 3037 Jintian Road
Futian District
Shenzhen, PRC

Auditors and reporting accountants

HLB Hodgson Impey Cheng Limited

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Receiving bank

**Industrial and Commercial Bank of China
(Asia) Limited**

33/F, ICBC Tower
3 Garden Road, Central
Hong Kong

Compliance adviser

Lego Corporate Finance Limited

*(a corporation licensed to carry on Type 6
(advising on corporate finance) regulated activity
under the SFO)*

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

CORPORATE INFORMATION

Registered office in the Cayman Islands	P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Head office and principal place of business in Hong Kong	Room 1, 6/F, Fortune Commercial Building 362 Sha Tsui Road Tsuen Wan Hong Kong
Company's website	www.zioncom.net <i>(Note: the information contained in this website does not form part of this prospectus)</i>
Company secretary	Mr. Lee Pui Chung (李沛聰先生) (HKICPA) Room 5, 9/F Hong Chi Court Healthy Village 8 Healthy Street Central North Point Hong Kong
Authorised representatives	Mr. Kim Jun Yeob (金俊燁先生) 28C, F Dong, Bei Qu Baoneng Taigucheng Nanshan District Shenzhen, PRC Mr. Lee Pui Chung (李沛聰先生) Room 5, 9/F Hong Chi Court Healthy Village 8 Healthy Street Central North Point Hong Kong
Compliance officer	Mr. Kim Jun Yeob (金俊燁先生) 28C, F Dong, Bei Qu Baoneng Taigucheng Nanshan District Shenzhen, PRC
Audit Committee	Mr. Yiu Kwing Sum (姚炯深先生) (<i>Chairman</i>) Mr. Kim Kwang Hyun (金廣鉉先生) Mr. Oh Sung Jin (吳成鎮先生) Mr. Ko Ming Tung, Edward (高明東先生)
Remuneration Committee	Mr. Oh Sung Jin (吳成鎮先生) (<i>Chairman</i>) Mr. Kim Kwang Hyun (金廣鉉先生) Mr. Kim Jun Yeob (金俊燁先生)

CORPORATE INFORMATION

Nomination Committee	Mr. Kim Kwang Hyun (金廣鉉先生) (<i>Chairman</i>) Mr. Koo Ja Chun (具滋千先生) Mr. Oh Sung Jin (吳成鎮先生)
Compliance Committee	Mr. Ko Ming Tung, Edward (高明東先生) (<i>Chairman</i>) Mr. Kim Jun Yeob (金俊燁先生) Mr. Kim Kwang Hyun (金廣鉉先生) Mr. Oh Sung Jin (吳成鎮先生) Mr. Yiu Kwing Sum (姚炯深先生)
Principal share registrar and transfer office	Estera Trust (Cayman) Limited P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17 th Floor Hopewell Centre, 183 Queen's Road East Wanchai, Hong Kong
Principal banker	The Hongkong and Shanghai Banking Corporation Limited 10/F, HSBC Main Building 1 Queen's Road Central Hong Kong

INDUSTRY OVERVIEW

Unless otherwise indicated, the information and statistics presented in this section are derived from various publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us.

We believe that the sources of such information and statistics are appropriate and we have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. We have derived such information and statistics partly from publicly available government and other third-party sources and the Frost & Sullivan Report, which have not been independently verified by us, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, representatives or affiliates, or any other party involved in the Share Offer except Frost & Sullivan and no representation is given as to its accuracy and completeness. As such, investors are cautioned not to place any undue reliance on the information and statistics set out in this section of the prospectus. Such information and statistics may not be consistent with other information and statistics compiled.

SOURCE OF INFORMATION

Frost & Sullivan

We commissioned Frost & Sullivan to conduct analysis of Asian and key regional telecommunications and network equipment markets at a fixed fee of HK\$600,000, which will be paid prior to the Listing. Our Directors are of the view that the fee reflects market rates for similar services and the payment of the fee does not affect the fairness of conclusions drawn in the Frost & Sullivan Report. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training.

Frost & Sullivan Report

Frost & Sullivan has conducted primary research which involved interviews with industry participants. Frost & Sullivan has also conducted secondary research which involved reviewing company reports, industry reports, market database, trade journals, industry literature, annual reports and data based on its own research database. Frost & Sullivan has obtained the figures for the estimated total market size from historical data analysis plotted against macroeconomic data as well as other data with respect to related industry drivers. There were several assumptions adopted in compiling and preparing the Frost & Sullivan Report, namely that: (i) the social, economic and political environment is likely to remain stable; and (ii) key industry drivers are likely to continue to affect the market over the forecast period from 2017 to 2021.

Our Directors confirm that, after making reasonable and due inquiry, there has been no adverse change in the market information which may limit, contradict or affect the information contained in this section of the prospectus since receiving the data from the Frost & Sullivan Report.

OVERVIEW OF GLOBAL AND KEY REGIONAL DIGITAL MARKETS

Penetration of Broadband and rise in mobile phone subscribers

The digital environment in a specific region can be reflected by two main indexes, namely the number of broadband users and the number of mobile phone subscribers. We provide different kinds of networking products with reference to the infrastructure of that particular country/region. In addition, our revenue is affected by our customer base and our sales depend on the orders from our customers, which

INDUSTRY OVERVIEW

are mainly consumer electronics product sellers or distributors in Korea, Vietnam, the PRC, Taiwan and Hong Kong.

Penetration of broadband

According to the Frost & Sullivan Report, the number of broadband users globally has increased from 24.4 per hundred persons in 2012 to 29.5 per hundred persons in 2016, representing a CAGR of approximately 4.8%. As there is still plenty of growing potential in developing countries, the CAGR is estimated to increase slightly to approximately 6.3% during 2017 to 2021. The following table sets out the number of broadband users in 2012 and 2016 globally and in certain Asian countries:

Number of broadband users, 2012-2021E

Countries/regions	Number of broadband users (per hundred persons) in 2012	Number of broadband users (per hundred persons) in 2016	CAGR 2012-2016	CAGR 2017E-2021E
Global	24.4	29.5	4.8%	6.3%
PRC	12.7	18.9	10.5%	15.0%
Korea	37.2	41.1	2.5%	6.3%
Hong Kong	31.5	32.8	1.0%	2.2%
Taiwan	27.7	35.0	6.0%	4.6%
Vietnam	5.4	10.4	17.9%	14.3%
Thailand	3.3	7.4	22.4%	13.7%
Philippines	2.0	4.0	18.9%	17.6%

In China, driven by the Chinese government's use of national strategy to stipulate the application of internet in industrial upgrade, the number of broadband users in China has increased from 12.7 per hundred persons in 2012 to 18.9 per hundred persons in 2016, representing a CAGR of approximately 10.5%. With the robust development of China's internet industry, especially the growth of e-commerce industry, the CAGR is estimated to reach approximately 15.0% during 2017 to 2021.

In Korea, the number of broadband users has increased from 37.2 per hundred persons in 2012 to 41.1 per hundred persons in 2016, representing a CAGR of approximately 2.5%. As the development of internet has gradually become mature in Korea, there is only a slight increase in CAGR to approximately 2.6% during 2017 to 2021.

In Hong Kong, the number of broadband users has increased from 31.5 per hundred persons in 2012 to 32.8 per hundred persons in 2016, representing a CAGR of 1.0%. The CAGR is estimated to increase to approximately 2.2% during 2017 to 2021.

In Taiwan, the number of broadband users has increased from 27.7 per hundred persons in 2012 to 35.0 per hundred persons in 2016, representing a CAGR of approximately 6.0%. The number of broadband users in Taiwan is estimated to slow down due to an established developed network infrastructure, representing a CAGR of approximately 4.6% during 2017 to 2021.

In Vietnam, the number of broadband users has increased from 5.4 per hundred persons in 2012 to 10.4 per hundred persons in 2016, representing a CAGR of approximately 17.9%. The CAGR is estimated to be approximately 14.3% during 2017 to 2021. As the centre of global manufacturing industry is shifting to Southeast Asia, there is great growth potential in the penetration of broadband in Vietnam.

INDUSTRY OVERVIEW

In Thailand, the number of broadband users has increased from 3.3 per hundred persons in 2012 to 7.4 per hundred persons in 2016, representing a CAGR of approximately 22.4%. The CAGR is estimated to be approximately 13.7% during 2017 to 2021. In September 2016, the Thailand government established the Ministry of Digital Economy and Society (replacing the previous Ministry of Information Communication Technology), propelling the strategy of “Digital Economy”, pursuant to which it is expected that huge investment would be put in construction of network infrastructure in Thailand.

In Philippines, the number of broadband users has increased from 2.0 per hundred persons in 2012 to 4.0 per hundred persons in 2016, representing a CAGR of approximately 18.9%. The CAGR is estimated to be approximately 17.6% during 2017 to 2021. Like most of Asian countries, mobile application was more widely used compared with fixed broadband access in Philippines. Thus, mobile broadband access system was much more advanced, which also indicates a big potential for 4G LTE routers.

Mobile phone subscribers

In terms of mobile phone subscribers, the number of global mobile phone subscribers has registered a robust growth during the period from approximately 5,512.5 million in 2012 to 6,807.3 million in 2016, representing a CAGR of approximately 5.4%. During 2017 to 2021, the CAGR is estimated to experience a slight decline to 4.3%. The following table sets out the number of mobile phone subscribers in 2012 and 2016 globally and in certain Asian countries:

Number of mobile phone subscribers, 2012-2021E

Countries/regions	Number of mobile phone subscribers (million) in 2012	Number of mobile phone subscribers (million) in 2016	CAGR 2012-2016	CAGR 2017E-2021E
Global	5,512.5	6,807.3	5.4%	4.3%
PRC	1,112.2	1,416.1	6.2%	5.2%
Korea	53.6	61.6	3.5%	3.3%
Hong Kong	16.4	17.6	1.8%	0.7%
Taiwan	29.5	30.0	0.5%	1.4%
Vietnam	51.5	68.3	8.9%	4.4%

In China, due to the popularity of smart phones and rapid development of mobile internet services, the number of mobile phone subscribers increased significantly from 1,112.2 million in 2012 to 1,416.1 million in 2016, representing a CAGR of approximately 6.2. However, with China’s large population size, the number of mobile phone subscribers will not continue to increase at a high rate. It is estimated that the number of mobile phone subscribers will reach 1,822.6 million in 2021, with a CAGR of approximately 5.2% during 2017 to 2021.

In Korea, the number of mobile phone subscribers increased from 53.6 million in 2012 to 61.6 million in 2016, representing a CAGR of approximately 3.5%. Due to the popularity of smart phones and rapid development of internet services, the number of mobile phone subscribers is estimated to reach 72.8 million in 2021, representing a CAGR of approximately 3.3% during 2017 to 2021.

In Hong Kong, the number of mobile phone subscribers has increased from 16.4 million in 2012 to 17.6 million in 2016, representing a CAGR of approximately of 1.8%. The number of mobile phone subscribers has been saturated, and it is estimated to reach 18.2 million in 2021, representing a CAGR of approximately 0.7% during 2017 to 2021.

In Taiwan, the number of mobile phone subscribers has increased from 29.5 million in 2012 to 30.0 million in 2016, representing a CAGR of approximately 0.5%. The number of mobile phone subscribers is estimated to reach 32.1 million in 2021, with a CAGR of approximately 1.4% from 2017 to 2021.

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In Vietnam, due to a fast-growing income per capita and the availability of mobile phones at a low price, the mobile phone subscribers has increased from 51.5 million in 2012 to 68.3 million in 2016, representing a CAGR of approximately of 8.9%. The number of mobile phone subscribers is estimated to continue to grow in Vietnam with the improvement of quality of life of people in Vietnam. It is estimated to reach 92.4 million in 2021, representing a CAGR of approximately 4.4% during 2017 to 2021.

NETWORK EQUIPMENT AND WIRELESS NETWORK STANDARDS

Telecommunication comes into existence when the exchange of information between two or more entities takes place with the use of technology. Telecommunication can be divided into wired communication and wireless communication. Wired communication refers to the transmission of data over a wire-based communication technology, such as telephone networks, cable television or internet access, and fibre-optic communication. Wireless communication refers to the transference of information between two or more points that are not connected by an electrical conductor. LTE (Long-Term Evolution, commonly marketed as 4G), Wi-Fi and Bluetooth are typical modern wireless technologies.

Network equipment, also known as networking devices, refers to the devices facilitating the use of a computer network, and mainly consists of routers, networking switches or hubs and embedded equipment repeaters. Embedded equipment is an electronic component designed to help isolated electronic device connect to the network such as LAN card and Wi-Fi modules. As the subcategory of telecommunication equipment, network equipment plays an important role in the entire industry. In a complete telecommunication ecosystem, terminal equipment establishes numerous isolated nodes, and network equipment, as well as transmission equipment, builds the bridge to realise the linkage among these isolated nodes. Therefore, the demand for network equipment will surge correspondently with the rise in population and volume of terminal equipment.

Common Types of Network Equipment

A router is a type of network equipment used to forward data packets between computer networks. A network switch is another form of computer network equipment used to connect devices together on a computer network by using packet switching to receive, process and forward data to the destination device, while a network hub is a network hardware device used for connecting multiple Ethernet devices together and making them work as a single network segment.

A consumer router, also known as home networking router, is a type of router used to transmit data, such as web pages, email, instant messages and videos between the Internet and the computers set up in homes and small offices.

Wireless Network Standards

IEEE 802.11 is a set of media access control (MAC) and physical layer (PHY) specifications for implementing wireless local area network (WLAN) computer communication in the 900 MHz and 2.4, 3.6, 5, and 60 GHz frequency bands. They are created and maintained by the Institute of Electrical and Electronics Engineers (IEEE) LAN/MAN Standards Committee (IEEE 802).

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The following table sets out the respective wireless network standards and their respective date of release:

Standard	Release Year	Frequency (GHz)	Peak Transmission Rate per antenna (Mbit /s)
802.11	1997	2.4	2
802.11a	1999	5	54
802.11b	1999	2.4	11
802.11g	2003	2.4	108
802.11n	2009	2.4/5	300/600
802.11ac	2013	5	1,300
802.11ax	2015	2.4/5	10,000

Source: Frost & Sullivan

Historically, the wireless network standard is updated once every 1 to 6 years. For the compatibility between different standards, generally the more updated standard is able to match the compatibility of the relatively backward ones. For example, 802.11ac is able to match the compatibility of 802.11 b/g/n.

Our main products are routers, Ethernet switches and other networking products such as LAN cards and Wi-Fi modules. Our routers can be further categorised into consumer routers with 4 ports that are primarily targeted for home use and small scale commercial applications and others routers with more than 4 ports. Our 4 port wireless routers may be categorised into two groups. We use the international and industry standard 802.11ac protocol, a fifth generation wireless technology, as one category and 802.11 b/g/n protocols as another category.

According to the Frost & Sullivan Report, the 802.11ac is considered to gradually become the mainstream of the wireless network standard. For now, many different types of 802.11ac products have been launched in the market, but the current application status of 802.11ac is uneven among countries. 802.11ac products have a higher penetration in developed regions compared to developing regions where the rate registered is less than 20%. In general, 802.11ac and 802.11n are the more popular standards used globally. IEEE 802.11ax is an updated standard of 802.11ac, and is regarded as the sixth generation wireless network standard. The IEEE 802.11ax standard is still in the process of being drawn up and formulated, and it is expected that IEEE 802.11ax based routers for application in consumer electronics would be launched in early 2018. As 802.11ax adopts multi-user multiple-input multiple-output (MUMIMO) technology to realise multiple channels for signal transmission, the communication efficiency has improved significantly. Given the wide and mature application of IEEE 802.11ac, it is expected that IEEE 802.11ax would generally penetrate into the IEEE 802.11ac market for more effective and advanced performance in data transmission.

OVERVIEW OF THE NETWORK EQUIPMENT MANUFACTURING MARKET

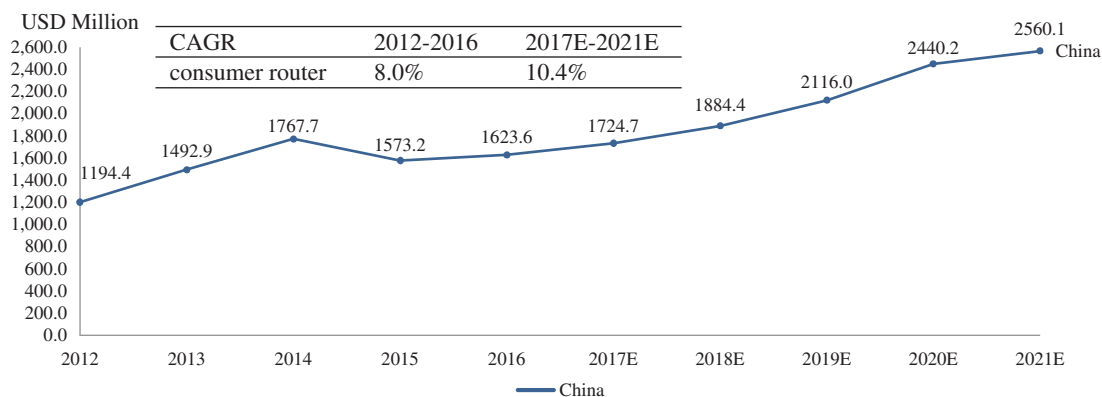
According to the Frost & Sullivan Report, the market of network equipment manufacturing can be segmented into consumer market, business market and government market. Consumer market refers to the use of network equipment in homes and small medium enterprises, while business market refers to the adoption of network equipment in large-scale enterprises, and governmental market denotes the use of network equipment in governmental departments. Our networking products are primarily targeted at consumer market.

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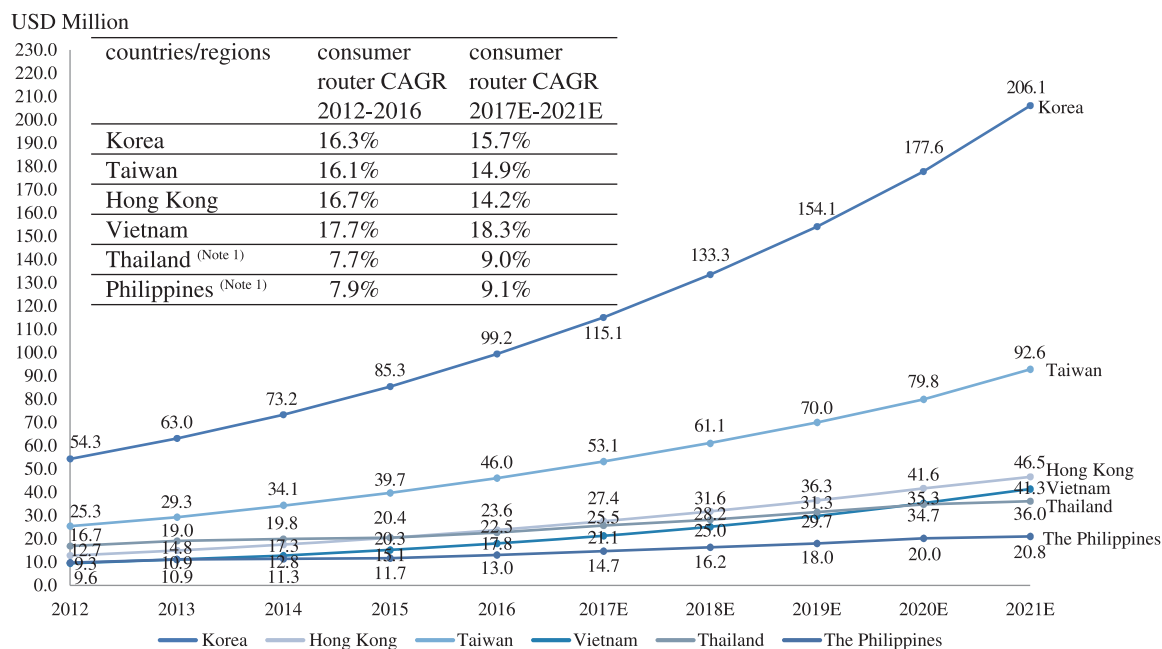
Market size of network equipment manufacturing in Asia and key regions

The following charts set out the market size of consumer router manufacturing in a number of markets in Asia:

Consumer router manufacturing market size and breakdown (China) 2012-2021E



Consumer router manufacturing market size and breakdown (Korea, Taiwan, Hong Kong, Vietnam, Thailand and Philippines) 2012-2021E



Note:

- (1) The manufacturing market size of only 802.11 b/g/n protocols routers is set out for Thailand and Philippines.

Mainland China

The consumer router accounts for approximately 20% market share in China's router manufacturing market. During the period between 2012 and 2016, the size of consumer router manufacturing market has increased from approximately US\$1,194.4 million to approximately US\$1,623.6 million, growing at a CAGR of approximately 8.0%. The market size is projected to grow quicker at a CAGR of approximately 10.4% during the period between 2017 and 2021 to reach approximately US\$2,560.1 million in the year of 2021.

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Korea

During the period between 2012 and 2016, the size of consumer router manufacturing market in Korea has increased from approximately US\$54.3 million to approximately US\$99.2 million, growing at a CAGR of approximately 16.3%. According to the Frost & Sullivan Report, the market size is projected to keep growing at a CAGR of approximately 15.7% during the period between 2017 and 2021, reaching approximately US\$206.1 million in 2021. Due to a rise in consumers' disposable income, it is also projected that retail consumer router will demonstrate a relatively higher growth rate.

Hong Kong

During the period between 2012 and 2016, the size of consumer router manufacturing market in Hong Kong has increased from approximately US\$12.7 million to approximately US\$23.6 million, at a CAGR of approximately 16.7%. According to the Frost & Sullivan Report, the market size is projected to grow quicker at a CAGR of approximately 14.2% during the period between 2017 and 2021, reaching approximately US\$46.5 million in the year of 2021.

Taiwan

Consumer router occupies approximately 15% of the market share in Taiwan's router manufacturing market. During the period between 2012 and 2016, the size of consumer router manufacturing market has increased from approximately US\$25.3 million to approximately US\$46.0 million, growing at a CAGR of approximately 16.1%. The size is forecast to grow at a CAGR of approximately 14.9% during the period between 2017 and 2021 and reach approximately US\$92.6 million in the year 2021.

Vietnam

Consumer router occupies approximately 30% market share in Vietnam's router manufacturing market. During the period between 2012 and 2016, the size of consumer router manufacturing market has increased from approximately US\$9.3 million to approximately US\$17.8 million, growing at a CAGR of approximately 17.7%. The size is forecast to grow at a CAGR of approximately 18.3% for the period between 2017 and 2021, and is estimated to reach approximately US\$41.3 million in the 2021.

Thailand

The market size of 802.11 b/g/n consumer routers in Thailand rose from approximately USD16.7 million in 2012 to approximately USD22.5 million in 2016, representing a CAGR of approximately 7.7% during 2012 to 2016. It is estimated that the market would reach approximately USD36.0 million in the year of 2021, representing a CAGR of approximately 9.0% during 2017 to 2021. The network equipment manufacturing market in Thailand is fiercely competitive and is mostly dominated by international companies, which indicates a strong potential for experienced international router manufacturers, like those from China and South Korea, who are able to distinguish themselves by providing routers at a good cost performance.

Philippines

The market size of 802.11 b/g/n consumer routers in Philippines rose from approximately USD9.6 million in 2012 to approximately USD13.0 million in 2016, representing a CAGR of approximately 7.9% during 2012 to 2016. It is estimated that the market would reach approximately USD20.8 million in the year of 2021, representing a CAGR of approximately 9.1% during 2017 to 2021. Similar to Thailand, the network equipment manufacturing market in Philippines sees a fierce competition and is mostly dominated by international companies.

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Key drivers for telecommunications and network equipment market and network equipment manufacturing market

According to the Frost & Sullivan Report, the following key market drivers and factors affect the telecommunications and network equipment market and the network equipment manufacturing market:

Increase in population and penetration rate to internet access

The demand for network equipment is dependent on the demand for telecommunications equipment. The surge in population and internet access penetration rate in developing countries, such as Vietnam, is a strong driving force for the telecommunication equipment market as well as the network equipment market. It is predicted that the urban population of Vietnam will rise to a great extent by early 2040s and with the low penetration rate of Vietnam internet access at present, the market potential for telecom equipment market is enormous. In the established markets such as Korea and Hong Kong, there is still room for increase in the internet and mobile internet penetration rate as well as enhancement of the connectivity and speed of the internet access which are also pushing the telecom market forward. Therefore, the demand for network equipment is estimated to grow correspondingly.

Active development of the telecommunications industry

Due to the rapid growth and improvement in the development of technology for mobile smart phones and consumer gadgets such as tablets, there is an increasing stimulation of consumption demand and product upgrading. According to the Frost & Sullivan Report, the emergence of new products, such as tablets, is a key driver to the telecommunications and network equipment market. There is a significant increase in investments in fixed and wireless telecommunications and network equipment in emerging markets such as Vietnam and Taiwan. The mobile operators in Taiwan are constantly upgrading their infrastructure and networks. The active development is part of the driving force behind the demand for telecommunications and network equipment in the overall market.

Strong support from the government

The increased expenditure on network infrastructure, such as the smart city and supportive financing policies by governments are likely to result in boosting the markets for information technology solutions and telecommunication equipment markets, which will have an impact on the demand for network equipment manufacturing markets. For instance, Taiwan's 'Development of Digital Convergence Program' was created to secure a comprehensive broadband network with a speed of up to 100 Mb/s so as to promote convergence of telecommunication services, which requires massive support from upgraded equipment and services. Also, the Chinese government's use of "broadband China" national strategy stimulates the network equipment manufacturing market in China and promotes the growth of China's network equipment manufacturing industry.

Boost from the development of smart city

The development of smart city, smart communication and smart home requires a close connection between network equipment, such as the router and the switch. The construction of the smart communication network is reliant on the router and the switch. The router is also the key component of the smart home system. Due to bridging and connecting requirements, network equipment plays a significant role in the construction and development of smart city.

Technological upgrade to 5G

Following the desire to accelerate the development of 5G mobile technology, major players in the network equipment manufacturing market compete to set up their strategies for 5G technology and

INDUSTRY OVERVIEW

enhance their research and development investment in corresponding products. The technological upgrade to 5G is driving force behind the demand for telecommunications and network equipment as the technological upgrade to 5G is widely admitted to innovate industry criteria for the network equipment manufacturing, the technological upgrade to 5G will stimulate a huge demand for new generation of products.

Strong demand for network

The demand for wireless network has been increasing in recent years. The demand is mainly attributable to the development of internet and the needs of end users. The demand for 4G LTE technology and GPON routers is anticipated to drive the network equipment manufacturing market continuously. In 2016, there were approximately 2 billion 4G LTE users globally and it is expected to increase due to the widespread adoption of 4G LTE technology in development areas including Southeast Asia. 4G LTE routers are mainly used for industrial application currently, and with the increase demand for mobile application for personal use and access to network in remote area, there will be a growing market for 4G LTE routers. 4G LTE routers are substantially developed to work with mobile information infrastructure. With the prevailing use of smart phone as the core device of communication, mobile information infrastructure is developing fast, which indicates a strong demand for 4G LTE routers. Globally, 4G LTE routers are penetrating despite the infrastructures of mobile communication in different countries vary. On one hand, this is beneficial for markets where fixed broadband infrastructures are not well-established as huge investment has to be incurred for establishing fixed broadband infrastructures. On the other hand, 4G LTE routers also apply to markets where mobile information infrastructures are well-established, and there is a growing demand for 4G LTE routers in markets, such as the PRC, South Korea and the United States. 4G LTE routers attributed to less than 5% of the whole routers market globally in 2016, but it is expected that it would be increased to nearly 10% by 2021. In 2016, 4G LTE routers achieved a market of USD1.6 billion in 2016 and it is estimated that 4G LTE routers will register a market of approximately USD6.5 billion in 2021, growing at a CAGR of over 30.0% during the period from 2017 to 2021. The increasing demand for network is therefore one of the drivers for the network equipment manufacturing market.

Trends and Development

Growing mobile bandwidth usage

Following the growth in the usage of mobile data bandwidth, there is a huge demand for the high-speed mobile network driven by the increased affordability of smart gadgets and more extensive network coverage, particularly in established markets such as Korea and Hong Kong. According to the Frost & Sullivan Report, as the mobile technology advances, mobile operators and vendors are keen to deploy 3G and 4G technologies as reflected by the huge investment volume in China's telecommunications sector reaching RMB361.4 billion as at the end of 2014. In Taiwan, the development of 5G technology commenced in 2013 with plans to build 5G lab network which aimed to be commercialised by 2025. It is thus projected that the deployment of LTE and other advanced technology such as 5G will continue to stimulate the growth in sales of telecommunications and network equipment.

Variation in consumer behaviour

Following the rapid development of the internet, the growth of internet traffic is expected to experience a mild slowdown in the next five years mainly due to the saturating penetration rates of internet access in the developed countries. Based on the changing of the consumer behaviour due to innovations of smart gadgets, it is expected that the traffic from wireless and mobile device will exceed

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the wired devices in the coming few years. As of 2014, the IP traffic of wired device accounted for 54% amongst all devices. It is also expected that number of devices connected to IP networks will increase from 2 networked devices per capita in 2014 to 3 devices per capita in 2019 driven by the enhancing performance capabilities.

Opportunities and Challenges to the telecommunications and network equipment market

The development of “internet of things” and “smart city” in countries such as China and Korea, where action plans have been proposed, set the stage for machine-to-machine growth in the telecommunication equipment markets. According to the Frost & Sullivan Report, it is anticipated that there will be higher reliance on computer devices, which will cause a greater demand for networking products.

The popularity of new smart gadgets increases the demand for networking devices. The manufacturing trend of new and fashionable products creates opportunities for the telecommunications and network equipment market as networking devices are required in the manufacturing of new smart gadgets.

The enthusiasm from major telecommunications companies in the investment of 5G network creates opportunities for the telecommunications and network equipment market as networking devices are required to support a super-fast, super-efficient and a more converged fibre-wireless network.

The unstable economic and political environment in emerging markets stagnate the development of Internet and mobile internet in the telecommunications market. The lack of regulatory framework and intellectually property protection in the emerging markets is a threat to the telecommunication sector as it may undermine the brand reputation of the network equipments, and lead to market competition where the selling price of the network equipments becomes sensitive.

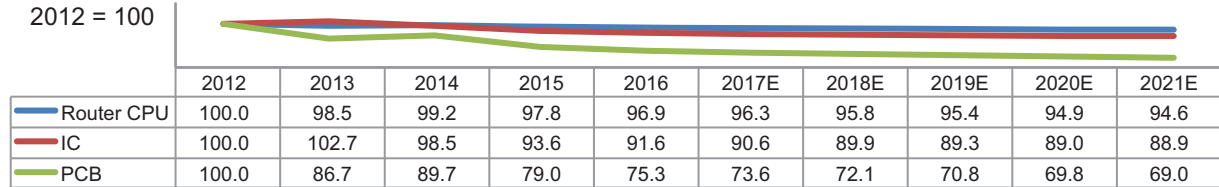
In countries such as Vietnam, tax incentives made available solely to domestically produced telecommunications equipment pose a threat to imported telecommunications equipment. However, for overseas enterprises that have set up local production capabilities, this would be an opportunity on the contrary.

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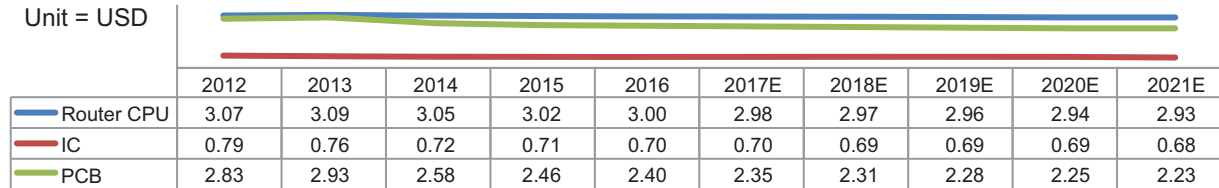
Overview of major production materials

The key raw materials and components of telecommunications and network equipment, such as switches and hubs, are mainly router CPU, PCB and IC. The update cycle of router CPU is relatively longer, correspondingly the price index of router CPU is much more stable. The rise of IC price index in 2012 is mainly driven by the encouraging government policies and enlarged demand from down stream. However, the cost of PCB is influenced by its raw material such as copper, the PCB price index is relatively more fluctuant. The average historical price of router CPU, IC and PCB is set out below:

Price Index



Reference Price

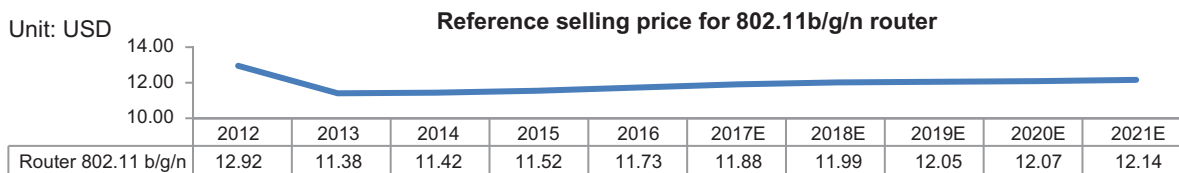


Note: CPU refers to general router (million instructions per second) CPU, IC refers to general router IC, PCB refers to general multilayer impedance router PCB

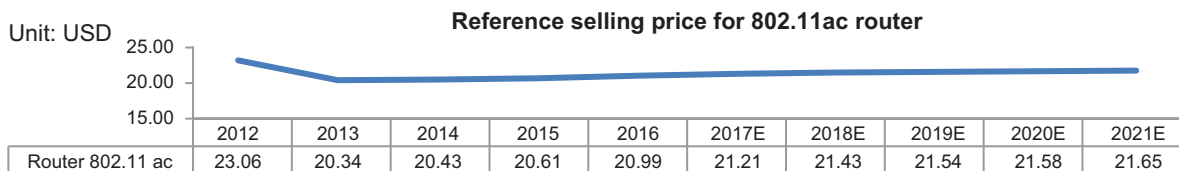
Source: Frost & Sullivan

Price Trend

We categorise our routers based on wireless network standards with 802.11ac as one category and 802.11 b/g/n protocols as another category. According to the Frost & Sullivan Report, the reference selling price of a router is generally on a downward trend due to the decreasing raw material cost and maturing technology. However, an updated version of a router, with enhanced function and performance, might show an increasing trend in terms of selling price. The following charts below sets out the reference selling price for routers with 802.11 b/g/n protocols and 802.11ac protocol:



Source: Frost & Sullivan



Source: Frost & Sullivan

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THE COMPETITIVE LANDSCAPE

Korea

The retail consumer router market in Korea is highly concentrated, as the top five brands in the retail consumer router market in Korea accounts for 90.5% of market share in 2016, and the leading brand “ipTime” accounts for 73.2% of market share, indicating the popularity of its brand and product dominance in Korea.

The table below sets out the top five retail consumer router brands in Korea based on revenue of retail consumer routers in Korea in 2016:

Ranking	Brand Name	2016 Revenue of Retail Consumer Router in Korea (USD Million)	Market Share
1	ipTime	46.5	73.2%
2	Netis	4.9	7.7%
3	TP-link	3.2	5.0%
4	Bless	1.7	2.7%
5	D-link	1.2	1.9%
	Sub-total	57.5	90.5%
	Total	63.5%	100%

China

According to the Frost & Sullivan Report, the consumer router market in China is projected to be more competitive as many other vendors are also eager to enter into the telecommunications market with a view to establish their own hardware ecosystem.

Vendors competing in the consumer router market comprise diversified vendors that have strong legacy in the telecommunications carrier sector as well as the enterprise sector, where they have been providing traditional routers and other network equipment. The top 15 brands account for 90.0% of market share, led by TP-link, which accounts for 59.9% of the market share. The rest of the market is quite fragmental with the second and the third brands accounting for only 7.6% and 6.8%, respectively. Based on revenue of consumer routers in China, our *TOTOLINK* brand ranked 15th in China and account for 0.1% of market share in 2016.

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The table below sets out the top 15 router brands in China based on revenue of consumer routers in China in 2016:

Consumer Router Market Breakdown by Market Share in China, 2016

Ranking	Brand Name	2016 Revenue of Consumer Routers in Mainland China (USD Million)	Market Share
1	TP-Link	972.8	59.9%
2	Tenda	122.9	7.6%
3	360	110.1	6.8%
4	Phicomm	79.4	4.9%
5	Net.Core	51.2	3.2%
6	Xiaomi	33.3	2.1%
7	Huawei	28.2	1.7%
8	D-Link	17.9	1.1%
9	Lenovo	10.2	0.6%
10	Volans (飛魚星)	9.5	0.6%
11	Mercury	8.7	0.5%
12	Fast (迅捷)	7.3	0.4%
13	gee (極路由)	5.5	0.3%
14	NETGEAR	4.0	0.2%
15	TOTOLINK	1.5	0.1%
	Top 15 Subtotal	1,462.5	90.0%
	Market Total	1,623.6	100%

Source: Frost & Sullivan

BARRIERS TO THE MARKET

According to the Frost & Sullivan Report, the following are the barriers to entering into the telecommunications and network equipment manufacturing markets:

- **Rapid shifts in technology requiring frequent upgrading of telecommunications and network equipment:** As a common feature of information technology industry, rapid technological shifts happen all the time in network equipment manufacturing industry. Profound technological accumulation and the ability to keep upgrading technology in the products become a key competitive edge. Therefore, small medium enterprises, which mainly provide low-end products, lack scalability and become easily eliminated by instantaneously changing external environment;
- **High market concentration ratio:** The leading players in this industry occupy most of the market share in each segmented market. Therefore, it's not easy for new entrants without brand reputation to reverse the winner-takes-all market environment;
- **Lack of professional industrial experience:** Most of the new market entrants start their business with OEM. As the profit generated by OEM is quite limited, many players finally quit the model due to the low margin. Industrial experience accumulation becomes an indispensable step for new entrants to expand new and more profitable business models from mere OEM and thus finally succeed in surviving the industrial competition; and
- **Lack of research and development capability and production capacity due to capital constraints:** High research and development capability and high production capacity are undoubtedly the most competitive strength among all the network equipment manufacturers. However, these two aspects require for huge amount of capital investment and considerable fixed assets, which consequently set a high wall for players from small and medium enterprises to enter the market.

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HONG KONG LAWS AND REGULATIONS

As at the Latest Practicable Date, our subsidiaries are required to comply with the laws of Hong Kong generally for the operation of the business of our Group in Hong Kong. The following are the principal laws and regulations that govern our business in Hong Kong.

Telecommunications Ordinance

The Telecommunications Ordinance controls the licensing and control of telecommunications, telecommunications services and telecommunications apparatus and equipment in Hong Kong.

Under section 9 of the Telecommunications Ordinance, save under and in accordance with a permit granted by the Communications Authority, no person shall import into Hong Kong or export from Hong Kong any radiocommunications transmitting apparatus unless he is the holder of a licence authorising him to deal in the course of trade or business in such apparatus. Under section 21 of the Telecommunications Ordinance, any person who contravenes section 9 of the Telecommunications Ordinance shall be guilty of an offence and be liable on summary conviction to a fine of \$20,000 and imprisonment for 12 months.

Further, under section 8(1)(c) of the Telecommunications Ordinance, no person shall in Hong Kong or on board any ship, aircraft or space object that is registered or licensed in Hong Kong deal in the course of trade or business in apparatus or material for radiocommunication or in any component part of any such apparatus or in apparatus of any kind that generate and emits radio waves whether or not the apparatus is intended, or capable of being used, for radiocommunications unless with the appropriate licence granted or created by the Communications Authority or a licence granted by the Governor in Council. Under section 20 of the Telecommunications Ordinance, any person who contravenes section 8(1) of the Telecommunication Ordinance shall be guilty of an offence and be liable: (a) on summary conviction, to a fine of \$50,000 and imprisonment for two years; and (b) on conviction on indictment, to a fine of \$100,000 and imprisonment for five years.

As our Group is engaged in the importing and exporting radiocommunications transmitting apparatus and dealing in apparatus or material for radiocommunication or in component part of any such apparatus, such as routers, Ethernet switches and Wi-Fi modules, our Group is required to obtain the licence set out under sections 9 and 8(1)(c) of the Telecommunications Ordinance. On 6 January 2016, Zioncom HK was granted such licence on the condition that Zioncom HK could only process or deal in the course of trade or business in apparatus or material for radio communications or in any component or parts at our premises in Hong Kong for a period of one year, which was renewed on 13 February 2017 by the Communications Authority.

Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong)

We import electronic components, such as ICs, for manufacturing our products, and export electronic products, such as routers, Ethernet switches, LAN cards, Wi-Fi modules, and Access Points, some of which are categorised as “strategic commodities” as specified in Schedule 1 of the Import and Export (Strategic Commodities) Regulations (Chapter 60G of the laws of Hong Kong) (the “**IE(SC)R**”) (“**Strategic Commodities**”). Regulation 2(1) of the IE(SC)R provides that a person shall not import or export Strategic Commodities except under and in accordance with an import or export licence.

Section 6A(2) of the Import and Export Ordinance provides that a person who imports or exports an article specified in Schedule 1 to the IE(SC)R except under and in accordance with an import or export licence commits an offence and is liable (a) on summary conviction to a fine of HK\$500,000 and to

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imprisonment for two years; and (b) on conviction on indictment to an unlimited fine and to imprisonment for seven years.

To ascertain whether items are “strategic commodities” as defined under the IE(SC)R, one may lodge an import or export licence or pre-classification application enclosing all technical information and specifications of the goods with the Trade and Industry Department to determine if a licence is necessary.

Based on the results of pre-classification applications that we have made for our products imported to and/or exported from Hong Kong during the Track Record Period, our Directors are of the view that none of such products are “strategic commodities” as defined under the IE(SC)R.

PRC LAWS AND REGULATIONS

Foreign Investment

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the “**PRC Company Law**”), which was promulgated by on 29 December 1993 and amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. Under the PRC Company Law, companies are generally classified into two categories: limited liability companies and companies limited by shares. The PRC Company Law also applies to foreign-invested limited liability companies but where other relevant laws regarding foreign investment have provided otherwise, such other laws shall prevail.

The latest amendment to the PRC Company Law took effect from 1 March 2014, pursuant to which there is no longer a prescribed timeframe for the shareholders to make full capital contribution to a company, except in situations where there are requirements otherwise in other relevant laws and administrative regulations. Instead, shareholders are required to state the capital amount that they commit to subscribe, the capital contribution method and timeframe of capital contribution with their autonomous decision in the articles of association of the company. Further, the initial payment of a company’s registered capital is no longer subject to a minimum amount requirement and the business licence of a company will not show its paid-up capital. In addition, shareholders’ contribution of the registered capital is no longer required to be verified by capital verification agencies.

The law of the PRC on Foreign-funded Enterprises (中華人民共和國外資企業法) (the “**Law on Foreign-funded Enterprises**”) promulgated on 12 April 1986 and amended on 31 October 2000 and 3 September 2016 respectively forms the fundamental legal basis for the PRC Government to regulate a wholly foreign-owned enterprise. According to the latest version of the Law on Foreign-funded Enterprises, a wholly foreign-owned enterprise whose formation does not involve the implementation of special access management measures as prescribed by the state, its establishment, operation duration and extension, separation, merger or other major changes shall be subject to record-filing. On 8 October 2016, the MOFCOM issued the Interim Measures for Record-Filing Administration of the Establishment and Change of Foreign-Invested Enterprises (外商投資企業設立及變更備案管理暫行辦法), which was amended and became effective on 30 July 2017, pursuant to which, the establishment and changes of foreign-invested enterprises which are not subject to the approval under the special entry management measures shall be filed with the delegated commercial authorities.

National Development and Reform Commission and Ministry of Commerce of the PRC jointly published the Catalogue for the latest Guidance of Foreign Investment Industries (外商投資產業指導目錄) (the “**FIE Catalogue 2015**”) on 10 March 2015, which came into effect on 10 April 2015 and amended on 28 June 2017 and became effective on 28 July 2017. The FIE Catalogue 2015 sets out the industries encouraged, restricted and prohibited for foreign investment. All industries not on the list are allowed for foreign investment, except provided otherwise in other laws and regulations.

REGULATORY OVERVIEW

Import or Export of Goods

Foreign Trade Registration

The Foreign Trade Law of the PRC (中華人民共和國對外貿易法) (the “**Foreign Trade Law**”) was promulgated on 12 May 1994 and amended on 6 April 2004 and 7 November 2016 respectively to develop foreign trade such as the import and export of goods, technology and international service, and to maintain order in foreign trade and promote the advancement of China’s economy. The Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators (對外貿易經營者備案登記辦法) promulgated by the MOFCOM on 25 June 2004 and amended on 18 August 2016 require enterprise engaged in import or export of goods or technology to register with the relevant authorities in charge of foreign trade under the State Council unless otherwise provided by other laws, administrative regulations or by the relevant authorities in charge of foreign trade under the State Council. The MOFCOM issued the Circular on Relevant Issues Concerning the Filing and Registration of the Right to Foreign Trade by Foreign-invested Enterprises (關於外商投資企業外貿權備案登記有關問題的通知) on 17 August 2004, which provides that the following two types of foreign-invested enterprises do not need to go through the formalities of filing and registration of foreign trade operators: (i) foreign-invested enterprises lawfully established before 1 July 2004 that have not applied for changing their scope of business to add other import/export businesses, and (ii) foreign-invested enterprises lawfully established after 1 July 2004 that undertake import/export of self-use or self-produced goods and their own technologies.

Customs

The Customs Law of the PRC (中華人民共和國海關法) was promulgated on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017 respectively by the Standing Committee of the National People's Congress of the PRC to maintain state sovereignty and interests, strengthen supervision and control by Customs, to promote exchanges with foreign countries in economic affairs, trade, science, technology and culture, and to safeguard socialist modernisation. This law governs the goods importation and exportation in the aspects of customs duty, customs clearance, customs inspection, anti-smuggling, etc., and also specifies the liabilities for violations.

The Provisions of the Customs of the PRC on the Administration of Registration of Declaration Entities (中華人民共和國海關報關單位註冊登記管理規定) was promulgated by the General Administration of Customs of the PRC and became effective from 13 March 2014, according to which the consignee or consignor of imported or exported goods shall register at the local customs office, and obtain the Registration Certificate of Customs Declaration issued by the Customs of the PRC (中華人民共和國海關報關單位註冊登記證書). After registering with relevant PRC customs office, the consignee or consignor of imported or exported goods may handle its declaration at any appropriate customs port within the customs territory of the PRC. The Registration Certificate of Customs Declaration issued by the Customs of the PRC shall be valid for an unlimited period.

Pursuant to the Regulations of the PRC on Import and Export Duties (中華人民共和國進出口關稅條例) promulgated by the State Council on 23 November 2003 and came into effect on 1 January 2004, and further amended on 8 January 2011, 7 December 2013, 6 February 2016 and 1 March 2017 respectively, the Customs of the PRC may levy import and export duties in accordance with the provisions of this set of regulations on goods that are allowed otherwise specified by laws and administrative regulations. In addition, the consignee of imported goods, consignor of export goods, and owner of articles entering PRC are parties liable for paying customs duties.

REGULATORY OVERVIEW

Product Quality

The General Principles of the Civil Law of the PRC (中華人民共和國民法通則) which was promulgated on 12 April 1986 and amended on 27 August 2009, states that the manufacturers and sellers of defective products causing property damage and personal injury shall bear civil liabilities for such damage or injuries.

The Product Quality Law of the PRC (中華人民共和國產品質量法) was promulgated on 22 February 1993 and amended on 8 July 2000 and 27 August 2009 to strengthen the quality control of products and protect consumers' rights and interests. Under this law, manufactures and retailers who produce or sell defective products shall be liable for any personal or property damage resulting from the defective products; may be subject to administrative penalties such as the confiscation of earnings from such sales, revocation of business licences and imposition of fines, and in severe circumstances, may be subject to criminal liabilities. A quality accreditation system for enterprises has been adopted in the PRC according to generally adopted international quality management standards. Enterprises can apply voluntarily to the accreditation agency recognised by the competent PRC authorities for enterprise quality system accreditation. An accreditation certificate for enterprise quality system shall be issued by the accreditation agency if the application has been approved.

The Law of the PRC on Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法) was promulgated on 31 October 1993 and amended on 27 August 2009 and, 25 October 2013 to protect consumers' rights when they purchase or use goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to consumers.

The Tort Liability Law of the PRC (中華人民共和國侵權責任法), which became effective on 1 July 2010, provides that where a product endangers personal life or property due to its defect, the manufacture and the distributors shall bear liability in tort.

Production Safety

The Production Safety Law of the PRC (中華人民共和國安全生產法), which was promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014 (with the latest amendment to come into effect on 1 December 2014), requires production entities to provide safe working conditions in compliance with relevant laws, rules, and regulations. Any entity that is not equipped with measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions must offer education and training programs to their employees regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment must be in conformity with the national standards or industrial standards. In addition, enterprises and institutions must provide personal protective equipment that meet the national standards or industrial standards to the employees, and supervise and educate them to use such equipment according to the prescribed rules.

Fire Prevention

According to the PRC Fire Prevention Law (中華人民共和國消防法) adopted on 29 April 1998 and amended on 28 October 2008, for a construction project that is required to include fire control designs according to State standards, the design and drawings are required to be submitted to the relevant fire control bureau for approval or archival filing before the commencement of construction. Further, upon completion of such a construction project, it must either pass a fire control check to be made by, or as the case maybe, make an archival filing with, the relevant fire control bureau.

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Intellectual Property

Patents

According to the Patent Law of the PRC (中華人民共和國專利法) promulgated on 12 March 1984 and amended on 4 September 1992, 25 August 2000 and 27 December 2008, there are three types of patents, including invention patents, design patents, and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. After the grant of the patent right for an invention or utility model, except where otherwise provided for such law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use, the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. In addition, after a patent right is granted for a design, no entity or individual may, without the permission of the patent owner, exploit the patent, that is for production or business purposes, manufacture, offer to sell, sell or import any product containing the patent design. Where the infringement of patent is established, the infringer must, in accordance with the applicable regulations, undertake to cease the infringement, take remedial action, and/or pay damages.

Trademarks

The Trademark Law of the PRC (中華人民共和國商標法) was promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001 and 30 August 2013. This law requires natural persons, legal persons, or other organisations that wish to obtain the exclusive right to use trademarks for the goods they produce, manufacture, process, select or distribute to apply to the Trademark Office of the PRC for trademark registration. A trademark registrant shall be entitled to the exclusive right to use a registered trademark. A registered trademark is valid for ten years, commencing from the date when the registration is approved. If a trademark registrant wishes to use a trademark after the expiration of the ten-year period, a registration renewal application should be filed within twelve months prior to the expiration of the trademark's term. Each registration renewal is valid for a period of ten years. A trademark registrant may license its registered trademark to another party by entering into a trademark licence contract. Persons or entities who use trademarks without the consent of the trademark registrants, make imitated trademarks, or engage in activities that infringe upon trademarks shall be held liable to the trademark registrants for compensation and may be subject to fines or even criminal punishment.

Domain

According to the Measures for the Administration of Internet Domain Names (互聯網域名管理辦法), which came into force as of 1 November 2017, a domain name registration service agency that offers domain name registration services shall request the applicant for registering a domain name to provide real, accurate and complete domain name registration information, such as the information about the domain name holder's identity. In principle, domain name registration services are subject to the rule of "first application, first registration", unless otherwise stipulated in corresponding detailed implementing rules for the domain name registration. The provision of domain name services shall comply with applicable laws and regulations of the State of the PRC, and conform to relevant technical specifications and standards.

Copyright

Pursuant to the Copyright Law of the PRC (中華人民共和國著作權法) (the "Copyright Law"), which was promulgated on 7 September 1990 and latest amended on 26 February 2010, copyrights include

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personal rights such as the right of publication and right of authorship as well as property rights such as the right of production and right of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology or pay damages.

The Regulations on the Protection of Computer Software (計算機軟件保護條例) which were promulgated on 20 December 2001 and latest amended on 30 January 2013, are intended to regulate the relationships of interests arising from the development, dissemination and use of computer software. According to the Regulations on the Protection of Computer Software, a Chinese citizen, legal person or other organisation is entitled to the copyright of the software such person has developed, whether the software is published or not. The protection period for software copyright of a legal person or other organisation shall be 50 years, concluding on 31 December of the 50th year after the first publication of the software.

PRC Taxation

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**EIT Law**”), which became effective on 1 January 2008 and amended on 24 February 2017 and the Regulation on Implementing the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (the “**EIT Rules**”), which became effective as of 1 January 2008, domestic-funded enterprises and foreign invested enterprises are subject to enterprise income tax at a uniform rate of 25%. The high-tech enterprises needed to be supported by the nation shall be subject to enterprise income tax at a reduced rate of 15%. Taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in the PRC in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but (i) have entities or premises in the PRC, or (ii) have no entities or premises but have income generated from the PRC. According to the EIT law, a non-resident enterprise that has an establishment or premises within the PRC is required to pay enterprise income tax on its income that is derived from such establishment or premises inside the PRC and that is sourced outside the PRC but is actually connected with the said establishment or premises. A non-resident enterprise that has an establishment or premises in the PRC but its income has no actual connection to such establishment or premises in the PRC, is required to pay enterprise income tax on its income that is derived from PRC.

According to the EIT Law and the EIT Rules, foreign-invested enterprises shall withhold 10% income tax in respect of profit distributed to an overseas investor subject to special tax arrangement between PRC and the country of the overseas investor. According to the arrangement between mainland China and Hong Kong, the maximum withholding enterprise income tax rate is 5% in respect of dividends remitted to overseas investor provided that the investor is interested in no less than 25% of capital for more than 12 months. According to the Notice of the State Administration of Taxation on the Issues concerning the Distribution of Dividend under Tax Agreement (國家稅務總局關於執行稅收協定股息條款有關問題的通知), PRC resident enterprises may enjoy a favourable tax rate of 5% in respect of dividends remitted to shareholder enterprises in Hong Kong pursuant to the arrangement between mainland China and Hong Kong provided that such enterprises in Hong Kong are recognised by the tax

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authority of China as qualified for the relevant tax treaty. According to the Notice of the State Administration of Taxation on Circulation of the Administrative Measures for Non-resident Taxpayers to Enjoy the Treatment Under Taxation Treaties (關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公告), non-resident taxpayers who are qualified to enjoy the treatment under taxation treaties may enjoy such treatment on its own when filing tax returns or making withholding declaration through withholding agents, subject to the subsequent management of the taxation authorities.

Value Added Tax

According to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) which were promulgated on 13 December 1993 and came into effect on 1 January 1994 and amended on 10 November 2008, 6 February 2016 and 19 November 2017, respectively and the Detailed Rules for the Provisions Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例實施細則) which came into effect on 1 November 2011, all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. Unless otherwise provided, the rate of value-added tax for general value-added tax payer is 17% and the rate of value-added tax for the small-scale tax payer is 3%.

Foreign Exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Regulations of the PRC (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996 and amended on 14 January 1997 and 5 August 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, according to which the RMB is freely convertible only for current account items, including the distribution of dividends, interest payments, and trade and service-related foreign exchange transactions. However, the RMB is not freely convertible for capital account items, such as direct investments, loans, capital transfer and investments in securities outside of the PRC, unless prior approval of the SAFE is obtained. Enterprises may only buy, sell or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial documents and relevant supporting documents and, in the case of capital account item transactions, obtaining approval from the SAFE or its competent local branches.

Pursuant to Circular of the SAFE on Issues Concerning the Administration of Foreign Exchange in Offshore Investments and Financing and Return Investments by Domestic Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**Circular 37**”), which was promulgated by SAFE and became effective on 4 July 2014, where the PRC residents (including institution and individual) conduct investment to the offshore special purpose vehicles (the “**SPV**”) with their legitimate onshore and offshore assets or equities, they must register with local SAFE branches with respect to their investments. The Circular 37 also requires the PRC domestic residents to file changes to their registration where their offshore SPVs undergo material events such as the change of basic information including PRC individual residence shareholder, name and operation period, as well as capital increase or decrease, share transfer or exchange, merger or division.

Since all shareholders of Zioncom HK are Koreans other than PRC domestic residents as defined under the Circular 37, none of the shareholders is subject to the registration requirements thereunder for the Reorganisation.

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Environment Protection

According to the Environment Protection Law of the PRC (中華人民共和國環境保護法) which was amended on 24 April 2014 and came into force on 1 January 2015, where the construction of a project may cause any pollution to the environment, an environment impact assessment must be performed to determine the preventive and remedial measures to be adopted, and the relevant environmental protection administration approval shall be obtained. Further, entities that cause environmental pollution and other public hazards must adopt effective measures to prevent and control pollution and other environmental harms caused by waste gases, waste water, and waste residues, medical waste, dust, malodorous gases, radioactive substances, noise vibration, optical and electromagnetic radiation generated in the course of production, construction or other activities. In addition, entities that discharge pollutants must register with the relevant environmental protection authorities.

Labour

According to the Labour Law of the PRC (中華人民共和國勞動法) promulgated on 5 July 1994 and amended on 27 August 2009 and the Labour Contract Law of the PRC (中華人民共和國勞動合同法) promulgated on 29 June 2007 and amended on 28 December 2012, labour contracts must be concluded in writing if labour relationships are to be or have been established between enterprises or entities on one hand and labourers on the other hand. According to the Regulation on Work-Related Injury Insurance (工傷保險條例) (2010 Revision), promulgated on 27 April 2003, amended on 20 December 2010), employers should purchase work-related injury insurance for their employees.

Labour Dispatch

Labour dispatch is mainly subject to the Labour Contract Law of the PRC, Interim Provisions on Labour Dispatch (勞務派遣暫行規定) promulgated on 24 January 2014 and effective on 1 March 2014 and Implementing Measures for Administrative Licensing for Labour Dispatch (勞務派遣行政許可實施辦法) promulgated on 20 June 2013 and effective on 1 July 2013. According to the above regulations, labour dispatch employment is a supplemental form which can only be adopted for temporary, auxiliary or alternative job positions. Temporary positions are positions subsisting for no more than six months; auxiliary positions are positions of non-major business that provides services for major businesses; and alternative positions are positions that can be held by substitute labourers for a certain period of time during which the labourers of the employers who originally hold such positions are unable to work as a result of full-time study, being on leave or other reasons. An employer is required to strictly control the number of dispatched labourers which may not exceed 10% of the total number of its workers. Where a labour-dispatching unit violates the provisions of this Law, the administrative department of labour and other competent departments concerned shall order it to rectify. If the circumstances are serious, a fine shall be imposed on it, with not less than RMB5,000 but not more than RMB10,000 for each person.

Where a labour dispatch enterprise dispatches labourers, it must conclude a labour dispatch agreement with the enterprise that accepts labour services in the form of labour dispatch. The labour dispatch agreement must stipulate the dispatch positions and the number of personnel, the term of dispatch, the labour remuneration, the amount and payment method of social insurance and the liability for breach of the agreement. The dispatched workers are entitled to receive equal pay for equal work as the employees of the employing enterprises. Pursuant to the Implementing Measures for Administrative Licensing for Labour Dispatch, an administrative licence must be obtained for the operation of a labour dispatch business from the competent authorities. No entity or individual is allowed to carry on a labour dispatch business without licence.

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Social Insurance and Housing Provident Funds

As required by the Social Insurance Law of the PRC (中華人民共和國社會保險法), effective as of 1 July 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance. Enterprise must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine. If the overdue amount is still not settled within stipulated time period, an additional fine with an amount of one to three times of the overdue amount will be imposed.

According to the Housing Provident Fund Management Regulations (住房公積金管理條例) promulgated on 3 April 1999 and amended on 24 March 2002, enterprises in the PRC shall complete the registration of a housing provident fund with the competent Housing Provident Fund Management Centre and open the housing provident fund accounts for the employees with designated banks and contribute to the housing provident fund for their employees at the rate of not less than 5% of the employees' average monthly wages for the preceding year.

House Leasing

According to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法) promulgated by the Ministry of Housing and Urban-rural Development of the PRC on 1 December 2010 and effective on 1 February 2011, any housing under the following situation shall not be leased: (i) housing belonging to an illegal construction; (ii) where there is a conformity with mandatory standards concerning the safety and/or disaster-prevention of construction project; (iii) where there is change to the usage of the housing in violation of regulations; (iv) other circumstances where the housing is prohibited to be rented under the laws and regulations. A lease agreement shall be made between the lessor and lessee. The lease agreement for the lease of the housing shall be registered within the relevant authority within 30 days after the lease agreement is entered into.

According to the Regulations of Shenzhen Special Economic Zone on Lease of Houses (深圳經濟特區房屋租賃條例), which were promulgated on 26 December 1992, house leasing shall be subject to lease contract registration. The Regulations of Shenzhen Special Economic Zone on Lease of Houses was abolished on 31 August 2015. Since then registration of the lease contracts for house leasing in Shenzhen is not mandatory.

Real Estate

According to the Urban Real Estate Administration Law of the PRC (中華人民共和國城市房地產管理法) which is amended on 27 August 2009, China implements the system of registration and certification of the land use right and the ownership of the housing. Housing mortgage may be established on the housing ownership obtained in accordance with the laws and the land use right within the scope of the house.

KOREA LAWS AND REGULATIONS

Importation

Pursuant to the Radio Waves Act, a manufacturer or importer of facilities and equipment which cause electromagnetic interference or are affected by electromagnetic waves, shall not exceed the standards for electromagnetic compatibility, and any person who intends to manufacture, sell, or import

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broadcasting communications equipment, and machinery which causes electromagnetic interference or is affected by electromagnetic waves (“**Broadcasting Communications Equipment**”) shall, with regard to the relevant equipment, obtain suitability certification, file for suitability registration, or obtain Provisional Certification (as defined below) (“**Suitability Evaluation**”) in accordance with certain technological standards, standards for electromagnetic compatibility and standards for the protection of the human body from electromagnetic waves. Any person who intends to manufacture, sell, or import equipment which is likely to cause harm to the radio wave environment, the Broadcasting Communications Equipment, which causes significant electromagnetic interference, or equipment affected by electromagnetic waves to the extent that it does not function normally, shall obtain suitability certification of the relevant equipment from the Minister of Science and ICT (the “**MSIT**”), after undergoing tests on standards for Suitability Evaluation conducted by a designated testing institution. For example, the importation of networking products, such as routers, would require the manufacturer or the importer to obtain a suitability certificate of broadcasting and communications equipment or a pre-clearance certificate from the National Radio Research Agency, or a certificate of exemption from Suitability Evaluation. Any person who intends to manufacture, sell, or import broadcasting communications equipment, which is not subject to suitability certification referred to in the previous sentence, shall verify whether the relevant equipment meets the standards for Suitability Evaluation, after undergoing tests on standards for Suitability Evaluation conducted by a designated testing institution, and register such fact with the MSIT, provided, however, that as for certain equipment in consideration of defect rates and other considerations, the person may conduct self-tests, or undergo tests conducted by a testing institution, other than those designated under the Radio Waves Act, to register with the MSIT.

In certain cases in which it is impracticable to conduct Suitability Evaluation due to lack of standards for the suitability evaluation of broadcasting communications equipment, or on any other grounds, the MSIT may allow the manufacture, import, and sale of the relevant equipment (“**Provisional Certification**”) by attaching conditions, such as a region or the effective term, after conducting Suitability Evaluation in accordance with the relevant domestic or international standards, specifications, and technology standards. When any person who has obtained provisional certification fails to undergo suitability evaluation within a prescribed period, the Provisional Certification shall become invalid.

Product Safety Requirements

Under the Electrical Appliances and Consumer Products Safety Control Act (the “**EASCA**”), any person who intends to manufacture or import electrical appliances subject to the safety certification or manufacture such electrical appliances in a foreign country to export to the Republic of Korea shall obtain safety certification for each model (referring to the types of appliances given the proper names provided for by the Ministry of Trade, Industry and Energy (the “**MOTIE**”) of electrical appliances subject to the safety certification from a safety certification body, as prescribed by the MOTIE.

Router equipment required the safety certification shall be under 1.5kW of normalised inputs. The Manufacturer who violates this duty of obtaining the safety certification shall be punished by imprisonment for up to three years or to a fine not exceeding Korean Won 30 million under the EASCA. However, if the manufacturer falls under any of the following, such manufacturer shall be exempted from safety certification or fully or partially exempted from the product testing or factory inspection:

- (i) where such manufacturer has obtained safety certification by a foreign safety certification body provided for by the MOTIE under a mutual recognition agreement or treaty between Korea and the relevant country;

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- (ii) where a manufacturer with capability to conduct product testing above the standards as provided for in the ordinance of MOTIE performs the product testing, and a safety certification body verifies the conformity of such electrical appliances; or
- (iii) where a domestic or foreign institute with which a safety certification body has signed a mutual recognition agreement under the EASCA conducts product testing and/or a factory inspection and confirms its/their conformity, etc.

Furthermore, pursuant to the Electrical Appliances Safety Control Act, manufacturers of electronic appliances in Korea or manufacturers of electronic appliances outside Korea that manufacture such electronic appliances to export into Korea must receive safety confirmation testing by a safety certification agency or by a safety confirmation testing institution designated under the Electronic Appliances Safety Control Act for each electric appliance model subject to the safety confirmation and report the results to MOTIE.

Product Liability Laws

The Product Liability Act of Korea (the “**PLA**”) applies to a manufacturer, a process manufacturer or an importer of a product, or to any entity that identifies or represents itself as any of the foregoing by putting its name, business name, trademark or any distinguishing mark on a product (the “**Manufacturer**”). Under the PLA, product defects are presumed to be attributable to the Manufacturer (or, alternatively, a supplier, in certain situations where the Manufacturer cannot be identified), which is then liable for any direct or indirect injury or damage to life, body or property caused by the defective product. Where there are two or more entities liable under the PLA, the liability of those entities is joint and not several. Liability on the part of any one Manufacturer may be exempted where it can demonstrate any of the following: (i) the defective product was not supplied by it; (ii) the existence of the defect could not be identified considering the level of science or technology developed at the time it supplied the defective product; (iii) the defect is attributable to the Manufacturer’s compliance with legally prescribed standards at the time of supply; or (iv) the defect is attributable to a design or manufacturing instruction from another Manufacturer that used the product as a raw material or component. The statute of limitations for damages under the PLA is three years from the day on which the damage came to the knowledge of the damaged/injured party, or ten years from the day on which the defective product was supplied to the injured/damaged party (or ten years from the date an individual develops an illness owing to accumulation of substances in the body). The PLA will supersede any contractual terms purporting to limit the scope of liability under the statute, except that liability for property damage may be excluded by agreement on the part of an entity that uses the product for its own business. The Supreme Court of Korea had ruled that in a product liability case, when damages have been incurred and it is acknowledged that it could reasonably be foreseen that a suit would be filed in the jurisdiction where the damages have been incurred, the court of such jurisdiction does have international jurisdiction over the case.

Consumer Protection Laws

The Korean Framework Act on Consumers (the “**Consumers Act**”) applies to the enterprisers that manufacture, import or sell goods or furnish services. Under the Consumers Act, enterprisers shall not, among others, manufacture, import, sell or provide any goods that contravene the criteria determined by the Korean government pursuant to the Consumers Act, violate relevant regulations under the Consumers Act relating to indication and advertisement, commit unreasonable acts which are deemed likely to prevent rational selection of consumers and to inflict damages on consumers as designated and publically notified by the Korean government.

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Under the Consumers Act, enterprisers must observe certain criteria relating to safety of goods to prevent any danger and injury to the safety and property of the consumers and the Korean government may periodically investigate whether the enterprisers comply with such criteria. The enterprisers must comply with certain criteria on indication as determined by the Korean government to prevent consumers from making wrong selection of goods or misusing goods due to any indication or package. In addition, enterprisers shall follow the criteria on contents and methods of advertisements to prevent any danger and injury to consumers which may arise due to any wrong or excessive consumption of goods. If the goods supplied by the enterpriser are anticipated to cause any danger or injury to consumers, the Korean government may take appropriate measures, such as recommendation or order of removal, destruction of the products and disposition of fine for negligence.

If an enterpriser directly infringes on the rights and interests of consumers related to their lives, safety or property in violation of the Consumers Act and the infringement continues, the consumers organisation may file an action with a court to prohibit and suspend the infringement of consumers' rights and interest.

Anti-Dumping

Importation of any product into Korea at a price under its normal price and thereby causing or threatening to cause material injury to domestically produced products or creating material hindrance to the establishment of the domestic industry concerned shall be subject to anti-dumping duties, in addition to customs duties, pursuant to the Customs Act, Act on Special Cases of the Customs Act for the Implementation of Free Trade Agreements, Act on the Investigation of Unfair International Trade Practices and Remedy against Injury to Industry, and the rules and regulations promulgated thereunder.

The term "normal price" referred to above means the ordinary transaction price of the goods of the same kind consumed in the exporting country of the relevant goods. In the absence of such an ordinary transaction price, (1) the typical and comparable price from among the price of the goods of the same kind exported by the relevant exporting country to a third country or (2) the price that is an aggregate amount of the manufacturing cost and management expenses, the sale cost and the profit thereof at a reasonable level in the country of origin shall be deemed to be the normal price. Determination of "material injury" will be assessed pursuant to the Customs Act.

An anti-dumping complaint shall be filed with the Minister of Strategy and Finance (the "MOSF"). The MOSF will take charge in making an investigation on the comparison between normal price and selling price, and the Trade Committee established pursuant to the Act on the Investigation of Unfair International Trade Practices and Remedy against Injury to Industry will be responsible in determining whether any injury has been sustained. The final determination on whether anti-dumping duties should be imposed is to be rendered by the MOSF. The MOSF shall determine whether to levy anti-dumping duties and the contents thereof within 12 months from the date on which such results are published in the official gazette. Provided, that where any special reason is deemed existing, he/she may take measures to levy anti-dumping duties within 18 months from the date of publication in the official gazette.

As the characteristic type and size of industries and companies in Korea, antidumping matters are focused on steel products, wood products, textiles, chemicals and other products. The imported products that are currently subject to antidumping duties, according to MOSF's announcements, include stainless steel, plywood, polyethylene terephthalate film, ethyl acetate and H shape steel.

Import Tariff

Importation of general network devices is subject to value-added tax at the rate of 10% of the sum of the dutiable value (being the price of the goods plus certain other costs, such as deliver costs,

REGULATORY OVERVIEW

insurance costs, royalty fees) and import tariffs. Import tariff on general network devices is currently at a rate of 0% of taxable value. However, depending on additional functions and characteristics of the network appliances, the goods in question may be categorised in a different customs category to that of general network devices and the import tariff may vary accordingly.

Import tariff, if any, and value-added tax are payable by the importer of network devices. The Company, as a manufacturer, shall however not be treated as an importer under Korea laws, and thus it is not under any obligations to pay such import tariffs and/or value-added tax.

VIETNAM LAWS AND REGULATIONS

Foreign Investment

Before 1 July 2015, the investment in and establishment of a company in Vietnam by foreign investors was governed by the Law on Investment 2005 and the Law on Enterprises 2005 which only required foreign investors to obtain an investment certificate. From 1 July 2015, pursuant to the new investment regime under the Law on Investment 2014 and the Law on Enterprises 2014, to invest in and establish a company in Vietnam, foreign investors are required to obtain an investment registration certificate and an enterprise registration certificate from licensing authorities. After establishment, any changes to the contents of the investment registration certificate or enterprise registration certificate of the company must be registered with the licensing authorities to obtain an amended certificate. After a foreign invested company has fully discharged its financial obligations to the Vietnamese Government, foreign investors are permitted to remit abroad the invested capital, proceeds from liquidation of their investment, the income derived from business investment activities and other monies and assets lawfully owned by the foreign investors.

Zioncom Vietnam was established before 1 July 2015 and obtained an investment certificate. After 1 July 2015, Zioncom Vietnam has also obtained an enterprise registration certificate and investment registration certificate pursuant to the new investment regime, which together have replaced its original investment certificate.

Land Law

The Land Law 2013 taking effect from 1 July 2014 sets out, among other matters, regulations on land management and usage and rights and obligations of land users. Land belongs to the people of Vietnam and is administered by the state. Private freehold ownership is not available in Vietnam but land users have legal rights to use land and are granted with certificates of land use right and ownership of residential houses and other assets on land. In industrial parks, land is allocated or leased by the state to an industrial park development company who then sub-leases the land use right to companies located in the industrial park.

Construction

Before commencing construction of any factory and/or building in Vietnam, a company must obtain a construction permit from the construction management authority, except for construction works subject to exemption of a construction permit. In order to obtain a construction permit, and subject to various requirements relating to specific business sectors and the production scale, the company must have an environmental impact assessment report approved by the environmental management authority and obtain a certificate of evaluation and approval for fire prevention and fighting from the relevant police authority. During construction, if there is any amendment to the design causing a change to the position or construction area, scale, height, number of stories and other elements affecting the main weight bearing structures or amendment to the design for the interior of the works causing a change of the use

REGULATORY OVERVIEW

function, the company must request amendment of the construction permit. Upon completion of construction, minutes on acceptance of completed construction work for commissioning must be made and executed by the investor and their contractor(s) and the construction work is thereafter handed over by the contractor to the investor.

Additionally, upon completion of construction and prior to putting the construction work into use, the company must obtain minutes of commissioning and acceptance of fire prevention and fighting and certification of commissioning and acceptance of fire prevention and fighting system from the relevant police authority.

Product Quality

Pursuant to the 2007 Law on Quality of Goods and Products and the 2006 Law on Standards and Technical Regulations, certain products must have technical regulation conformity certification and/or announcement before they can be circulated in Vietnam. Routers, switches and certain information technology or communication products are required to have technical regulation conformity announcement registered with agencies authorised by the Ministry of Information and Communications and/or the local Department of Information and Communications before they can be sold in Vietnam.

Employment

The employment relationship between employers and employees is governed by the Labour Code 2012.

Labour Contract

There are 3 types of labour contract: (i) an indefinite term labour contract; (ii) a definite term labour contract between 12 months and 36 months; and (iii) a seasonal or specific job labour contract with a term of less than 12 months. Termination of labour contracts is strictly governed by Vietnamese labour laws and can only be made under specific circumstances and following procedures provided by law.

Salary

The wage rate of an employee must not be lower than the regional minimum wage rate announced by the Vietnamese government from time to time. An employer is responsible to formulate wage scales, wage tables and labour rates based on the principles stipulated by the Vietnamese government in order to provide the basis for recruiting and employing employees and reaching agreements with them on the wage rate to be stipulated in labour contracts and on payment of such wages to employees.

Working Hours

Normal working hours must not exceed eight hours in one day and forty eight hours in one week under the normal working hour regime. Employers can only require employees to work overtime with their agreement and within the statutory limitations on the number of overtime hours that can be worked. Employees are entitled to overtime wages in accordance with law.

Labour Safety and Hygiene

Employers and employees are subject to various requirements on labour safety and hygiene at the work place including periodic testing of machinery, equipment and materials with strict requirements on labour safety, securing personal protective facilities for employees, training classes on labour safety and hygiene, and periodic health checks.

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Internal Labour Regulations (“ILRs”)

An employer employing 10 or more employees must have ILRs and must register the same with the relevant labour authority. Labour disciplinary action can only be effectively taken in accordance with the registered ILRs.

Statutory Insurance

Employers and employees must participate in statutory insurances including social insurance, health insurance and unemployment insurance and are entitled to benefits from such regimes in accordance with relevant laws governing such insurances.

Foreign Employees

Except in various limited circumstances, foreign employees working in Vietnam must obtain a work permit prior to commencing work in Vietnam. Work permits are valid for a maximum of two years.

Personal income tax (“PIT”)

Employees are subject to PIT at rates ranging from 5% to 35% of their income (including salary and allowances) subject to allowable deductions. It is the responsibility of the employer to withhold employee PIT on income paid to employees and to remit such PIT to the relevant tax authority.

Foreign Exchange Control

Generally, VND is not a freely convertible currency and the use of foreign currency and VND by a foreign invested company must be in accordance with regulations of the State Bank of Vietnam. Most foreign investment projects in Vietnam have to self-balance their foreign exchange requirements and the State Bank of Vietnam does not guarantee the exchange of VND to foreign currency. Currently, Vietnam maintains a managed floating exchange rate regime and the State Bank of Vietnam sets the central exchange rate between VND and USD which is the daily average trading exchange rate between VND and USD on the inter-bank foreign currency market. Based on the exchange rate announced daily by the State Bank of Vietnam, banks licensed to operate in Vietnam will set their USD/VND selling — buying exchange rate within the margin stipulated by the State Bank of Vietnam.

A foreign invested company must open a direct investment capital account at a bank licensed to operate in Vietnam. Contribution of investment capital, receiving and repayment of loans in foreign currency, remittance of principal investment capital, profits (which can be repatriated after the payment of relevant corporate income tax thereon) and other lawful revenue must be conducted via this account. Medium and long term foreign loans with a term of more than one year must be registered with the State Bank of Vietnam. In addition to the direct investment capital account which governs the investment capital in-and-out flow of a foreign invested company, a foreign invested company can open other foreign currency accounts and VND accounts with banks licensed to operate in Vietnam for its day to day business activities and is entitled to make remittances of foreign currency to pay salaries to expatriates or to pay overseas suppliers for imported goods and services as well as to receive foreign currency from overseas for exported goods and services.

Taxation

A foreign invested company in Vietnam is subject to the following main taxes:

Corporate Income Tax (“CIT”)

The normal CIT rate from 1 January 2016 is 20%. Companies located in an industrial park which is not in a geographical area with favourable socio-economic conditions, are entitled to CIT incentives of

REGULATORY OVERVIEW

two years exemption and four years of 50% reduction, calculated from the first year in which the company has a taxable income. If there is no taxable income in the first three years from the first year in which there is turnover from the project then the duration of tax exemption and reduction will be calculated as from the fourth year. Such incentives are applicable to income from production but may not apply to income from trading activities, dependent amongst other things on whether such trading activities were part of the original investment project licence, whether they were subsequently added without a corresponding increase of investment capital or assets and interpretation by the authorities as to where the trading activities are located/conducted. In addition, if the business lines/products of a company fall into certain industries entitled to CIT incentives as specified by Vietnamese corporate income tax laws (such as high technology products, production of software products, certain products of supporting industries, etc.), that company may, subject to various conditions, be entitled to a CIT rate of 10% for 15 years, four years tax exemption and nine years of 50% tax reduction.

Companies may carry forward tax losses fully and consecutively for a maximum of five years from the year following the year of loss.

Value Added Tax (“VAT”)

Goods sold in Vietnam will be subject to VAT at 10%. Goods exported will be subject to VAT at 0%.

Business Registration Tax

Companies must pay this tax on an annual basis based on the charter capital of the company, with companies with a charter capital in excess of VND10,000,000,000 being subject to the highest tax rate of VND3,000,000 per year.

Duties

Certain goods (such as equipment, machinery, specialised transport means, and construction materials which have not been domestically manufactured) which are imported in order to form fixed assets of a foreign invested company are exempted from duties.

TAIWAN LAWS AND REGULATIONS

Foreign Investment

Depending on the investment amount and whether the invested company is listed on stock exchange, the regulations applicable to investment by foreign investors (other than PRC persons) are different. Under current Taiwan law, a “PRC person” means an individual holding a passport issued by the PRC, a resident of any area of China under the effective control or jurisdiction of the PRC (excluding special administrative regions such as Hong Kong and Macau if so excluded by applicable laws of Taiwan), any juristic person, agency, organisation or instrumentality of the PRC, and any corporation, partnership or entity organised under the laws of any such area other than the PRC and Taiwan that the above PRC individual, resident, juristic person, agency, organisation or instrumentality has direct or indirect control over, or owns or beneficially owns, directly or indirectly, in aggregate, 30% or more of the total number of shares or total amount of capital contribution of, such corporation, partnership or entity.

Foreign Direct Investment

For (i) direct investment in the shares of Taiwanese private companies or (ii) investment in 10% or more of the equity interest of a Taiwanese company listed on Taiwan Stock Exchange (“**TWSE**”) or

REGULATORY OVERVIEW

Taipei Exchange (“**TPEX**”) in any single transaction, the main legislation is the Statute for Investment by Foreign Nationals (外國人投資條例) and the foreign investment needs to be approved by the Investment Commission of the Ministry of Economic Affairs (“**Foreign Investment Approval**”).

Under current law, any foreign person possessing a Foreign Investment Approval may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Dividends attributable to such investment may be repatriated upon submitting certain required documents to the remitting bank, and investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other authorities have been obtained.

Foreign investors (except in certain limited cases) are currently prohibited from investing in certain industries in Taiwan pursuant to a negative list, as promulgated and amended from time to time by the Executive Yuan of Taiwan (“**Negative List**”). Pursuant to the Negative List, certain other industries are restricted so that foreign investors (except in certain limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation to achieve the purpose of the Negative List. The business of Zioncom Taiwan does not fall in the Negative List.

Foreign Investment in Stock Market

Foreign investments in less than 10% of the equity interest in a Taiwanese company listed on TWSE or TPEX are governed by the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals (華僑及外國人投資證券管理辦法) and foreign investors wishing to make these investments are required to register with TWSE. Currently, foreign investors are not subject to any foreign investment ceiling on Taiwan securities investment; provided that a Foreign Investment Approval is required if the foreign investment reaches 10% or more of listed securities of a company listed TWSE or TPEX in a single transaction.

Telecommunication laws and regulations

If the networking products imported to and sold in Taiwan have radio frequency functions, the Telecommunications Act (電信法) and related regulations relating to controlled telecommunications radio-frequency devices (“**CTRFD**”) will apply. Under the Telecommunications Act, manufacture, importation, instalment or possession of controlled telecommunications radio frequency devices shall be permitted by the National Communications Commission (“**NCC**”), and the model numbers and quantities of such devices manufactured or imported shall be reported to the NCC for further reference. The NCC is authorised by the Telecommunications Act to promulgate regulations governing the operation permit of manufacture or import of controlled telecommunications radio frequency devices, the issuance, renewal, replacement and termination of operation licence, administration of manufacture, import, installation and possession of the said devices, and other related matters, as well as the items of controlled telecommunications radio frequency devices subject to the above restrictions. Based on the above authorisation, the NCC promulgated the Regulations Governing Administration of Controlled Telecommunications Radio-Frequency Devices (電信管制射頻器材管理辦法, “**CTRFD Regulations**”) and relevant administrative rules.

According to CTRFD Regulations, any person engaging in the manufacturing or importing of CTRFDs shall be approved by the NCC and obtain a CTRFD operation certificate issued by NCC.

REGULATORY OVERVIEW

Import and export regulations

Pursuant to the Commodity Inspection Act (商品檢驗法), the BSMI is the authority in Taiwan for commodity/product inspection operations, and may from time to time designate and announce the commodities/products subject to inspection. If a commodity/product is subject to mandatory inspection by the BSMI, unless it is classified as a low hazard product, it is prohibited from importing or exporting if the commodity/product is not in compliance with the inspection standards issued by the BSMI. Routers, Ethernet switches and LAN cards are products required to be inspected by the BSMI (or a recognised inspection laboratory) and pass the national inspection standards and procedure. Under certain circumstances stipulated by the rules promulgated by the BSMI (such as importing products of limited value or volume for own-use), the above mandatory inspection can be exempted. A fine of NT\$200,000 to NT\$2,000,000 will be imposed for importation or exportation of products which are not in compliance with the inspection standards.

Further, if the networking products imported to Taiwan have radio frequency functions, except for limited exemptions provided in the CTRFD Regulations, importation of such products must be approved by the NCC and obtain the import permit for CTRFDs from the NCC in accordance with the CTRFD Regulations. Among the limited exemptions from obtaining the import permits, importation of low-power radio-frequency devices which have obtained type approval inspection certificates from the laboratories recognised and entrusted by the NCC can be exempted from obtaining the import permit. The import permit is valid for one year and limited to import CTRFDs once, but the validity of the import permit may be extended once for another year upon application prior to the expiration of the previous validity period.

Mandatory product safety requirements

Based on the authorisation of the Commodity Inspection Act, the BSMI may designate and announce the product subject to inspection in accordance with the Commodity Inspection Act. Depending on the nature of a given product, different inspection methods will apply and different inspection standards issued by the BSMI under the Commodity Inspection Act shall be followed. The inspection method for routers, Ethernet switches and LAN cards is declaration of conformity (符合性聲明) and the inspection method for power adaptors used for routers and lithium accumulators is registration of product certification (商品驗證登錄). Items subject to inspection for routers, Ethernet switches and LAN cards include electromagnetic compatibility (EMC) (Inspection standard: CNS 13438 “Information technology equipment-Radio disturbance characteristics-Limits and methods of measurement” (資訊技術設備-射頻擾動特性-限制值與量測方法)), compliance with the requirements under the 5th Section (Making of presence) of CNS15663 “Guidance to reduction of the restricted chemical substances in electrical and electronic equipments” (電機電子類設備降低限用化學物質含量指引) (after 4 January 2017), and (if it is with AC power supply and power adaptor) electric specification safety standard (電氣安全規範) (Inspection standard: CNS 14336-1 “Information technology equipment-Safety-Part 1: General requirements”(資訊技術設備-安全性-第1部：一般要求)). Power adaptors and lithium accumulators are also subject to inspections on EMC (CNS 13438), electric specification safety standard (CNS 14336-1 or CNS 14408 for power adaptors and CNS 15364 or CNS 14366-1 for lithium accumulators), and (after 1 January 2018 for power adaptors only) compliance with the requirements under the 5th Section (Making of presence) of CNS15663. Routers, Ethernet switches and LAN cards, as well as power adaptors and lithium accumulators, have to be inspected by the BSMI or a recognised inspection laboratory and pass the national inspection standards and inspection procedure in order to be distributed and sold in Taiwan.

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In addition to the mandatory inspection by the BSMI, if a networking product has radio frequency functions, a type approval certificate (型式認證) must be obtained before importation, sale or public display of the networking product, except for networking products for academic studies, technological research and developments or experiments, or networking products exclusively for exportation, re-importation after exportation and other purposes permitted by the NCC. Furthermore, networking products with radio-frequency functions which do not require a radio station licence, unless specified by other regulations or satisfying exception requirements provided in the CTRFD Regulations, shall obtain type approval certificate or special program authorisation documents before installation or possession. Wireless telecommunications terminal equipment and low-power radio-frequency devices for self-use are exempted from above requirement.

To obtain the type approval for a given product, it shall pass the inspection standards issued by the NCC after an inspection conducted by the NCC or a recognised inspection laboratory.

Product liability and consumer protection

Under the Consumer Protection Act of Taiwan, business operators engaging in the design, production or manufacturing of goods or providing services shall ensure that goods and services provided by them meet and comply with the contemporary technical and professional standards of the reasonably expected safety level prior to product launch, or at the time of rendering services. Importers of goods or services should be deemed as the designers, producers or manufacturers of such goods or the providers of such services and therefore should bear the liability of producers. In litigation brought in accordance with the Consumer Protection Act, the consumer may claim for punitive damages up to one, three or five times of the amount of compensatory damages as a result of injuries caused by the negligence, gross negligence or wilful act of the business operator.

Taxation on the income of and dividends declared by a Taiwanese company

Business income and revenue of a Taiwanese company is subject to progressive corporate income tax (current rate is up to 17%) and business tax in the form of value added tax (current rate is 5%). Profits of the current year not distributed in the following year shall be subject to a 10% earnings tax. Foreign shareholders may credit half of the 10% earnings tax paid by the company against their income tax payable when the company distributes such taxed earnings afterwards to shareholders.

Furthermore, dividends declared by a Taiwanese company to foreign shareholders are subject to withholding income tax (income tax levied on the shareholder for dividend income of the shareholder). In case of a company wholly-owned by a Hong Kong company, the withholding tax rate is 20%.

HISTORY, DEVELOPMENT AND REORGANISATION

OVERVIEW

Our Company was incorporated in the Cayman Islands with limited liability on 29 January 2016 as the issuer in the Share Offer. Pursuant to the Reorganisation as more particularly described in “— Reorganisation” below, our Company has become the holding company of our Group for the purpose of the Listing and holds the entire interests in five subsidiaries, namely Zioncom BVI, Zioncom HK, Zioncom Vietnam, Zioncom Taiwan and Zioncom Shenzhen.

HISTORY AND DEVELOPMENT

The history of our Group dates back to 1999 when our founder, Mr. BK Kim, our chairman, executive Director and our Controlling Shareholder, set up Zioncom HK, a company incorporated in Hong Kong with limited liability in 1999 by using his own financial resources.

Mr. BK Kim became aware of an increasing demand of computer related products in the Korean market after Zioncom HK was incorporated and decided to take up the business of selling networking products through Zioncom HK. For further details relating to Mr. BK Kim’s experience and background, please see “Directors, Senior Management and Employees — Board of Directors” in this prospectus.

Throughout the years, Zioncom HK secured a number of customers in Korea and was referred to EFM, our largest customer during the Track Record Period, through one of Mr. Koo’s acquaintances who was then working with EFM as a software development director in 2003. Seeing a growing demand of networking products in Korea, both EFM and us sought to capture this opportunity and commenced our discussion on cooperation in late 2003. Initially, Mr. BK Kim considered acting as the distributor for EFM, but later he noticed, to the best of his knowledge, that EFM had been suffering from high production costs in Korea and was having difficulties communicating with and relying on PRC manufacturers. Therefore, Mr. BK Kim decided to establish our own production facilities in the PRC whereby we would be able to lower the production costs in the PRC as well as to have more control over the quality of the products to be offered to our customers. Leveraging the common cultural background with EFM and the market potentials in Korea, in January 2004, we commenced cooperation with EFM, pursuant to which EFM would be responsible for developing certain software to be installed in the networking products and we would be responsible for researching and developing the hardware and manufacturing of certain networking products, including routers, network switches and LAN cards.

In March 2004, we established Zioncom Shenzhen in the PRC and commenced manufacturing networking products including wired routers, network switches and LAN cards primarily for EFM and on OEM basis. Zioncom Shenzhen has been a wholly-owned subsidiary of Zioncom HK since its establishment.

In October 2005, we launched our first wireless networking product. To expand our production capacity, Zioncom Shenzhen opened a branch in Shajing Sub-district, Shenzhen, PRC in September 2007 where our Shajing Production Facilities now locates. In July 2008, we also began to develop our own software to be installed in products sold to customers.

With an ambition to develop our own brand and penetrate into the global market, we commenced selling our Branded Products overseas through distributors in 2011, and registered our own trademark *TOTOLINK* in the PRC in March 2012.

In January 2014, we managed to penetrate into the Taiwan market by entering into an agreement with an electronics distribution company in Taiwan, which, pursuant to the agreement, was engaged as our exclusive distributor in Taiwan for selling our Branded Products.

HISTORY, DEVELOPMENT AND REORGANISATION

To leverage our research and development ability, we opened a branch in Xixiang Sub-district, Shenzhen, the PRC in April 2014 and another branch in Xi'an, Shanxi Province, the PRC in March 2015, to strengthen our software development capability. We set up our branches in Xixiang and Xi'an after taking into account factors such as the availability and costs of hiring software development experts. Over the years, different types of networking products were developed and manufactured including wired and wireless routers, Ethernet switches, LAN cards, Wi-Fi modules and Access Points.

With an aim to expand our presence in the regional market, Zioncom Vietnam and Zioncom Taiwan were established in March 2015 and September 2015, respectively. Following the establishment of Zioncom Taiwan, we terminated the agreement with our exclusive distributor in Taiwan in December 2015 and commenced developing our own sales channels. Zioncom Taiwan commenced its operation in October 2015 and is principally engaged in the sale of networking products bearing our brand *TOTOLINK*. As at 30 June 2017, we sold our products under the brand of *TOTOLINK* to over 40 countries and regions. We entered into a land use right lease agreement in June 2015 to lease the land use right of approximately 13,000 sq.m. from 26 June 2015 to 19 March 2058 (“**Lot A**”) in Vietnam. Construction of a new factory in Vietnam on Lot A (“**Lot A Facilities**”) was completed in January 2017. We commenced trial production in late October 2017. We believe that the new factory in Vietnam will enhance our production capacity.

Our milestones

Set out below are the key milestones in our business development:

Year	Events/Milestones
1999	Zioncom HK (formerly known as Maxtop (Asia) Limited) was established by Mr. BK Kim
2004	We commenced cooperation relationship with EFM Zioncom Shenzhen was established in Shenzhen, the PRC as a wholly-owned subsidiary of Zioncom HK and started to manufacture networking products
2005	Launched our first wireless networking product
2007	Zioncom Shenzhen set up a factory, in Shajing Subdistrict, Shenzhen, the PRC to increase its production capacity with four production lines and a gross floor area of approximately 12,000 sq.m.
2008	Developed our own software to be installed in networking products to be sold to our customers Zioncom Shenzhen was approved as a High and New Technology Enterprise of Shenzhen City
2009	Received ISO 14001 and ISO 9001 certification for our management system for the design and production of our products
2011	Zioncom Shenzhen became a member of Wi-Fi Alliance and was approved as a High and New Technology Enterprise of the PRC and commenced selling our products under our own brand <i>TOTOLINK</i> overseas through distributors
2012	Registered our trademark <i>TOTOLINK</i> in the PRC
2014	Entered into Taiwan market by engaging an exclusive distributor for selling our Branded Products in Taiwan Zioncom Shenzhen set up a branch in Xixiang Sub-district, Shenzhen, the PRC to focus on software development for software used in our products

HISTORY, DEVELOPMENT AND REORGANISATION

Year	Events/Milestones
2015	<p>Zioncom Shenzhen set up a branch in Xi'an, Shanxi Province, the PRC to continue to expand its software development capacity for software used in our products</p> <p>Zioncom Vietnam was established to enhance our local presence in Vietnam and to enlarge our production capacity</p> <p>Zioncom Taiwan was established for taking up an active role in the sale and distribution of our Branded Products</p>
2016	Construction of our factory in Vietnam with a gross floor area of approximately 13,000 sq.m.
2017	<p>We entered into the Joint Development Agreement with EFM, salient terms of which are set out in “Business — Our Business Model — EMS Business Model” in this prospectus</p> <p>Completion of the construction of our factory in Vietnam and commencement of trial production at Lot A Facilities</p>

OUR CORPORATE DEVELOPMENT

As at the Latest Practicable Date, our Group has established a number of operating subsidiaries to carry out our businesses. The corporate development of our major subsidiaries that are material to the performance of our Group during the Track Record Period is set out below:

Name of our subsidiary	Place of incorporation or establishment	Date of incorporation or establishment	Principal businesses
Zioncom HK	Hong Kong	17 September 1999	Sale of networking products
Zioncom Shenzhen	PRC	9 March 2004	Research and development, manufacturing and sale of networking products
Zioncom Vietnam ^(Note 1)	Vietnam	10 March 2015	Manufacturing and sale of networking products ^(Note 1)
Zioncom Taiwan	Taiwan	30 September 2015	Sale of networking products

Note:

(1) The trial production at our new production facilities in Vietnam commenced in late October 2017.

Zioncom HK

Zioncom HK was incorporated in Hong Kong as a limited liability company on 17 September 1999 with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

Zioncom HK has increased its authorised share capital on four occasions from its date of incorporation and prior to the Reorganisation. On 9 November 2006, the authorised share capital of Zioncom HK was increased from HK\$10,000 to HK\$2,000,000 by the creation of an additional 1,990,000 ordinary shares of HK\$1.00 each. On 21 December 2006, the authorised share capital of Zioncom HK was increased from HK\$2,000,000 to HK\$6,000,000 by the creation of an additional 4,000,000 ordinary shares at HK\$1.00 each. On 20 December 2011, the authorised share capital of Zioncom HK was increased from HK\$6,000,000 to HK\$10,000,000 by the creation of an additional 4,000,000 ordinary

HISTORY, DEVELOPMENT AND REORGANISATION

shares of HK\$1.00 each. On 28 November 2014, the authorised share capital of Zioncom HK was further increased from HK\$10,000,000 to HK\$20,000,000 by the creation of an additional 10,000,000 ordinary shares of HK\$1.00 each.

The shareholding interests in Zioncom HK remained unchanged between 1 January 2015 to 15 January 2016, during which Zioncom HK was 60% held by Mr. BK Kim, 10% by Mr. JY Kim, 10% by Mr. Koo, 10% by Mr. Xiao and 10% by Mr. Lee.

On 16 January 2016, Mr. Xiao transferred his 10% interests in Zioncom HK to Mr. BK Kim at a consideration of HK\$4,000,000, which was fully settled on 6 May 2016 by cash. Such consideration was based on arm's length negotiation between the parties with reference to Mr. Xiao original investment amount. Mr. Xiao failed to fulfil the foreign exchange registration when he invested in Zioncom HK in 2011 as he was not aware of such requirements at that time. As advised by our PRC Legal Advisers, there is no mechanism in Shenzhen to rectify the foreign exchange registration and thus Mr. Xiao decided to sell his shares in Zioncom HK to Mr. BK Kim. As advised by our PRC Legal Advisers, none of the members of our Group is subject to any penalty arising from Mr. Xiao's previous shareholding in Zioncom HK after the transfer.

The above transfers were properly and legally completed and settled. Immediately after the aforementioned transfers and prior to the Reorganisation, Zioncom HK was held as to 70% by Mr. BK Kim, 10% by Mr. JY Kim, 10% by Mr. Lee and 10% by Mr. Koo.

Zioncom HK has been principally engaged in the sale of networking products outside PRC during the Track Record Period and up to the Latest Practicable Date.

Upon completion of the Reorganisation, Zioncom HK became our Company's indirect wholly-owned subsidiary. For details, please see "— Reorganisation" in this section.

Zioncom Shenzhen

Zioncom Shenzhen was established in the PRC as a wholly foreign-owned enterprise on 9 March 2004 by Zioncom HK with an initial registered capital of US\$125,000. The registered capital of Zioncom Shenzhen was increased up to US\$7,980,000 as at 1 August 2012 of which US\$7,979,959.7 has been paid up by Zioncom HK as at the Latest Practicable Date. The registered capital of Zioncom Shenzhen remained unchanged during the Track Record Period and up to the Latest Practicable Date. As at the date of establishment of Zioncom Shenzhen, its entire equity interest was held by Zioncom HK and has remained unchanged up to the Latest Practicable Date.

On 29 September 2007, Zioncom Shenzhen set up a branch, which was a factory, in Shajing, Shenzhen as its production facilities. On 1 April 2014 and 26 March 2015, a branch in Xixiang Sub-district, Shenzhen and a branch in Xi'an, Shanxi Province, the PRC, respectively, were set up for software development.

Zioncom Shenzhen has been principally engaged in research and development, the manufacturing and sale of networking products to our customers in the PRC during the Track Record Period and up to the Latest Practicable Date.

Upon completion of the Reorganisation, Zioncom Shenzhen became our Company's indirect wholly-owned subsidiary. For details, please refer to "— Reorganisation" in this section.

Zioncom Vietnam

Zioncom Vietnam was established in Vietnam as a limited liability company on 10 March 2015 with a total investment capital and charter capital of VND63,825,000,000 (equivalent to US\$3,000,000). On

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31 October 2016, the total investment capital and the charter capital were increased to VND97,230,000,000 (equivalent to US\$4,500,000). The charter capital and the total investment capital were increased to VND122,933,000,000 (equivalent to US\$5,500,000) on 29 March 2017 and 4 April 2017 and the total investment capital was further increased to VND342,000,000,000 (equivalent to US\$15,000,000) on 17 May 2017, respectively. The entire equity interest of Zioncom Vietnam has been held by Zioncom HK from its date of establishment and up to the Latest Practicable Date. Zioncom Vietnam has been primarily engaged in the sale of our Branded Products to our distributors in Vietnam and will in future operate our Vietnam factory. We commenced trial production at our new production facilities in Vietnam in late October 2017.

Upon completion of the Reorganisation, Zioncom Vietnam became our Company's indirect wholly-owned subsidiary. For details, please see "– Reorganisation" in this section.

Zioncom Taiwan

Zioncom Taiwan was established in Taiwan on 30 September 2015 as a company limited by shares with an initial share capital of NT\$10,000,000 divided into 1,000,000 shares of NT\$10.00 each. The entire equity interest of Zioncom Taiwan has been held by Zioncom HK from its date of establishment and has remained unchanged up to the Latest Practicable Date. Zioncom Taiwan commenced its operation from October 2015 and is principally engaged in the sale of our Branded Products in Taiwan on consignment basis.

Upon completion of the Reorganisation, Zioncom Taiwan became our Company's indirect wholly-owned subsidiary. For details, please see "– Reorganisation" in this section.

Transfer of Mr. Lee's shares in Zioncom HK and Lincats

After the commencement of the Reorganisation, on 25 February 2016, Mr. Lee entered into a sale and purchase agreement with Mr. BK Kim, pursuant to which Mr. Lee agreed to transfer his 10% interests in the issued share capital of Zioncom HK to Mr. BK Kim, for a consideration of HK\$4,000,000, which was determined with reference to subscription costs and an agreed return based on arm's length negotiation between Mr. Lee and Mr. BK Kim. The consideration was fully paid and settled on 29 February 2016.

On 25 February 2016, Mr. Lee transferred his interests of 10% in the issued share capital of Lincats to Mr. BK Kim at par value for a consideration of US\$10.00. The consideration was fully paid and settled on 25 February 2016.

The aforesaid transfer of shares in Zioncom HK and Lincats by Mr. Lee was due to his anticipated departure from our Group. As such, such transfers are not regarded as part of the Reorganisation in preparation for the Listing. Upon completion of the aforesaid transfers, Zioncom HK and Lincats were legally and beneficially held as to 80% by Mr. BK Kim, 10% by Mr. JY Kim and 10% by Mr. Koo, respectively. The above transaction was properly and legally completed and settled.

REORGANISATION

Our Group underwent the Reorganisation in preparation for the Listing which involved the following steps:

Incorporation of Lincats

Lincats was incorporated in the BVI as an investment holding company with limited liability on 27 January 2016. The initial authorised share capital of Lincats was US\$50,000 divided into

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50,000 ordinary shares of US\$1.00 each. On the date of incorporation of Lincats, 70 ordinary shares, 10 ordinary shares, 10 ordinary shares and 10 ordinary shares of Lincats were allotted and issued at par value to Mr. BK Kim, Mr. JY Kim, Mr. Koo and Mr. Lee, respectively credited as fully paid.

Incorporation of our Company

In preparation of the Listing, our Company was incorporated in the Cayman Islands as an exempted company on 29 January 2016 with limited liability as a holding company of our Group and the issuer in the Share Offer. The initial authorised share capital of our 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 our Company, one subscriber share in the Company was transferred from the initial subscriber (an independent third party) to Lincats at par value credited as fully paid and 99 Shares were allotted and issued to Lincats at par value credited as fully paid.

Incorporation of Zioncom BVI

Zioncom BVI was incorporated in the BVI as an investment holding with limited liability on 1 February 2016. The initial authorised share capital of Zioncom BVI was US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each. On the date of incorporation of Zioncom BVI, 100 ordinary shares of Zioncom BVI were allotted and issued to the Company at par value credited as fully paid.

Allotment and issue of new shares of Zioncom HK to Mr. BK Kim

On 19 May 2016, Zioncom HK allotted and issued an additional 2,000,000 ordinary shares to Mr. BK Kim at a consideration of HK\$12,000,000, which was based on the net asset value of Zioncom HK as at 31 December 2015, determined with reference to its unaudited management accounts for the 12 months ended 31 December 2015. The consideration was fully paid and settled on 13 June 2016. After the allotment and issue of shares, Zioncom HK was owned as to 81.8% by Mr. BK Kim, 9.1% by Mr. JY Kim and 9.1% by Mr. Koo, respectively.

Allotment of new shares of Lincats to Mr. BK Kim, Mr. JY Kim and Mr. Koo

On 27 February 2017, Lincats allotted and issued an additional 738 ordinary shares, 81 ordinary shares and 81 ordinary shares to Mr. BK Kim, Mr. JY Kim and Mr. Koo, respectively at par value credited as fully paid.

Upon completion of the aforesaid allotment, Lincats was held as to 81.8% by Mr. BK Kim, 9.1% by Mr. JY Kim and 9.1% by Mr. Koo.

The above transactions were properly and legally completed and settled.

Acquisition of Zioncom HK by Zioncom BVI

On 3 March 2017, a sale and purchase agreement was entered into between the Company (as the purchaser), Zioncom BVI (as the entity nominated by the Company to receive the sale shares of Zioncom HK), Mr. BK Kim, Mr. JY Kim, and Mr. Koo (together the “**Vendors**”), pursuant to which Mr. BK Kim, Mr. JY Kim and Mr. Koo agreed to transfer their respective interests of 81.8%, 9.1% and 9.1% in the issued share capital of Zioncom HK (representing 100% shareholding interests in Zioncom HK) to Zioncom BVI, with the aggregate consideration to be settled by the allotment and issue of 818 ordinary shares of US\$1.00 each of the Company (the “**Company Shares**”), 91 Company Shares and 91 Company Shares to Mr. BK Kim, Mr. JY Kim and Mr. Koo, respectively, credited as fully paid (the “**Zioncom HK Consideration**”).

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As a result of the transfer of the entire issued share capital of Zioncom HK from the Vendors to Zioncom BVI, Zioncom BVI owed the Company the Zioncom HK Consideration which was settled by the allotment and issue of 10 shares of US\$1.00 each of Zioncom BVI to the Company.

On 3 March 2017, a deed of assignment and capitalisation was entered into between Mr. BK Kim, Mr. JY Kim, Mr. Koo, Zioncom BVI, the Company and Lincats, pursuant to which each of Mr. BK Kim, Mr. JY Kim and Mr. Koo assigned their respective part of the Zioncom HK Consideration to Lincats. As a result of this assignment, Lincats (a) held 1,100 shares in the Company (representing 100% shareholding interests in the Company) and (b) owed each of Mr. BK Kim, Mr. JY Kim and Mr. Koo an aggregate amount equivalent to the Zioncom HK Consideration.

Lincats then capitalised the amount due to each of Mr. BK Kim, Mr. JY Kim and Mr. Koo (for the assignment of right to receive the Company Shares) by issuing 818 ordinary shares of US\$1.00 each (the “**Lincats Shares**”), 91 Lincats Shares and 91 Lincats Shares to Mr. BK Kim, Mr. JY Kim and Mr. Koo, respectively.

Upon completion of the aforesaid transfers, Zioncom HK was wholly-owned by Zioncom BVI and indirectly wholly-owned by the Company.

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.

As advised by our PRC Legal Advisers, Taiwan Legal advisers and Vietnam Legal Advisers, no approval, consent, reporting, disclosure or registration is required to be obtained from any governmental or regulatory authority in PRC, Taiwan or Vietnam in connection with the Reorganisation.

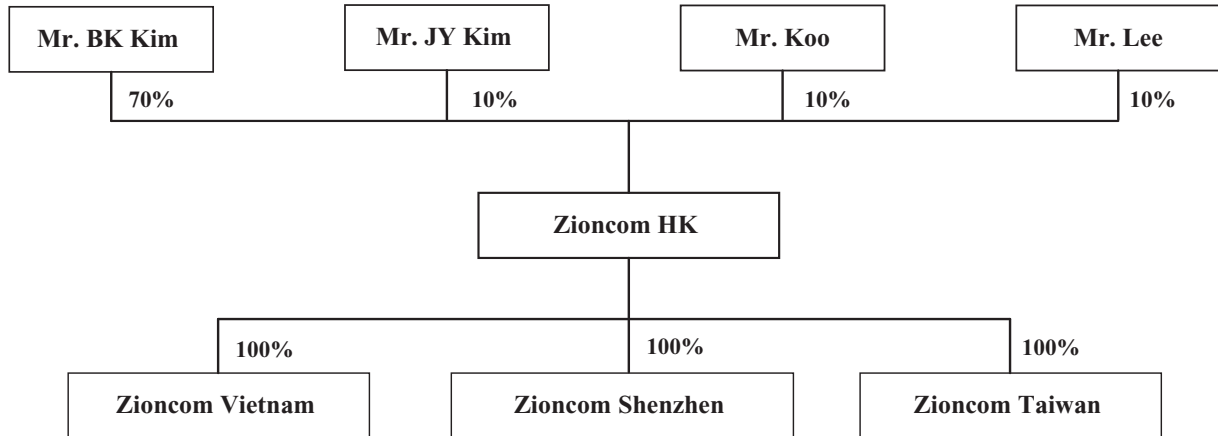
CAPITALISATION ISSUE

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 are authorised to capitalise an amount of HK\$4,611,420 from the share premium account of our 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, credit as fully paid and on a pro rata and *pari passu* basis.

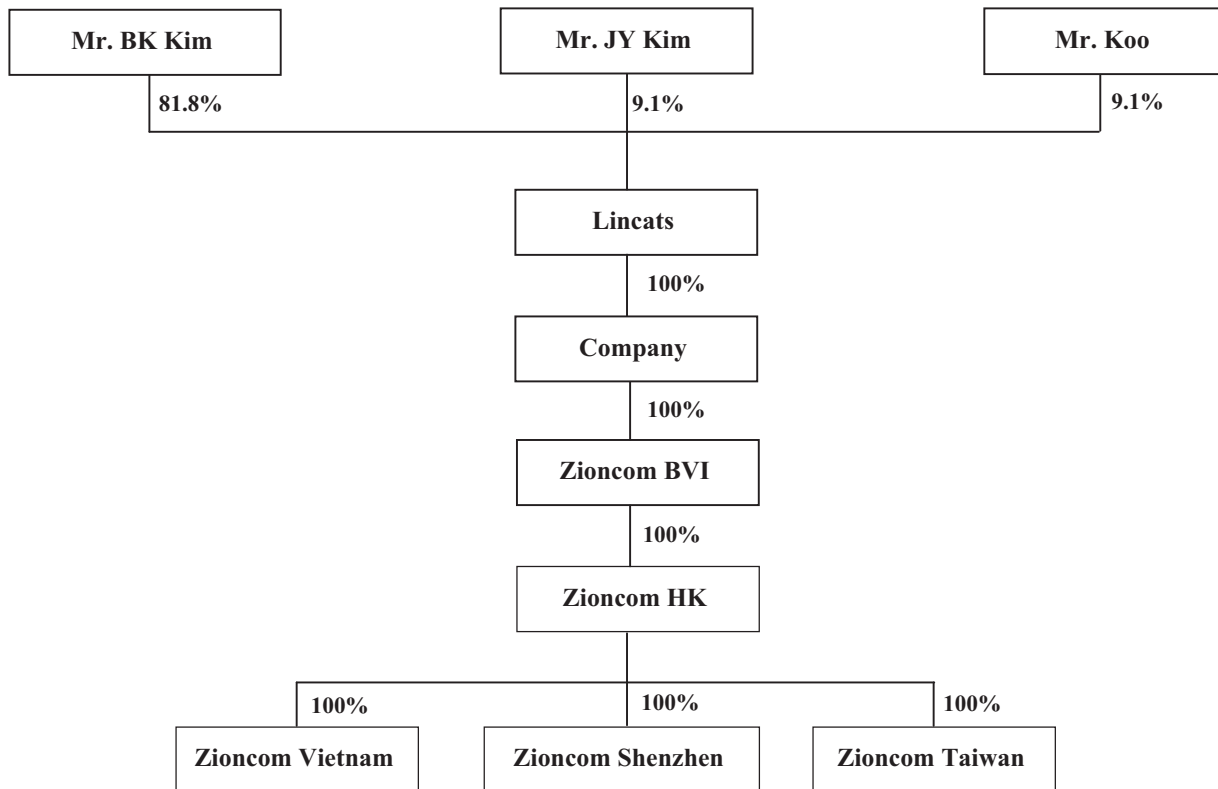
HISTORY, DEVELOPMENT AND REORGANISATION

CORPORATE STRUCTURE

The following chart sets forth the corporate structure of our Group immediately before the Reorganisation:

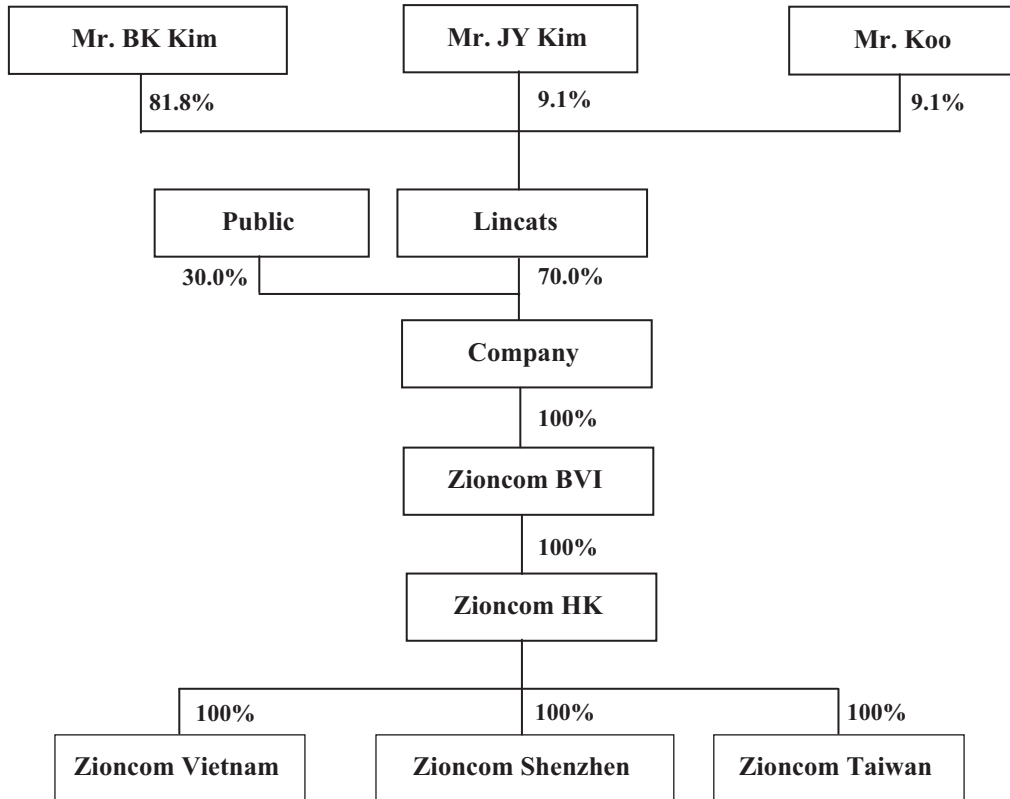


The following chart sets forth the corporate structure of our Group immediately after the Reorganisation and prior to the Share Offer:



HISTORY, DEVELOPMENT AND REORGANISATION

The following diagram illustrates the shareholding and corporate structure of our Group immediately following completion of the Share Offer and Capitalisation Issue (assuming that none of the options which may be granted under the Share Option Scheme is exercised):



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OVERVIEW

We are a manufacturer 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. Our operations are mainly based in the PRC. Our main products are routers, which provide for wired and wireless transmission of data to devices while maintaining wired connection with modems. We also manufacture and sell 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.

During the Track Record Period, we generated our revenue mainly from the sale of (i) EMS products, which includes our Jointly Developed Products and other EMS products; (ii) Branded Products; and (iii) OEM products; and providing processing services. Our revenue for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 was approximately HK\$537.7 million, HK\$512.2 million and HK\$246.4 million, respectively.

Our EMS products are products that are manufactured for our customers either with our inputs for design and specifications, or with our design inputs and with specifications provided by our customers. Our EMS products include (i) Jointly Developed Products; and (ii) other EMS products. During the Track Record Period, we generated approximately 59.1%, 63.0% and 56.7% of our revenue from Jointly Developed Products under EFM's brand *ipTIME* for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. The brand *ipTIME* is a well-known brand of networking products in Korea. According to the Frost & Sullivan Report, the retail revenue of consumer routers sold under the brand *ipTIME* accounted for approximately 73.2% of the total revenue of retail consumer routers in Korea in 2016.

Our Branded Products are networking products sold under the brand *TOTOLINK*. During the Track Record Period, we generated approximately 14.5%, 16.8% and 21.0% of our revenue from our Branded Products for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. We have market presence in different parts of Asia. According to the Frost & Sullivan Report, we had a market share of approximately 1.2%, 4.6% and 4.7% in the consumer router market in Vietnam, Hong Kong and Taiwan, respectively, in 2016. During the Track Record Period, we generated approximately 73.6%, 79.8% and 77.7%, respectively of our revenue from the sale of Jointly Developed Products and Branded Products for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. In addition to the manufacture and sale of Jointly Developed Products, other EMS products and Branded Products, we also supply non-networking products on an OEM basis.

We offer a wide range of high quality networking products to cater for the different Wi-Fi speeds and different wireless network standards. Our wireless routers can deliver Wi-Fi speeds of up to a data rate of 2.6 Gbps and 1.9 Gbps for Jointly Developed Products and Branded Products, respectively. Our suite of products include networking protocols currently developed from 802.11ac (being one of the fifth generation wireless network standards) and 802.11 b/g/n (being the older wireless network standards). For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, we sold over 60 different models of our Branded Products to our customers.

We strive to expand our business further by diversifying our product portfolios to include more non-networking products. Leveraging on our expertise in manufacturing wireless networking products, we supplied portable consumer action cameras with wireless capabilities during the Track Record Period. We began to supply other non-networking products, such as power banks in 2015.

We have adopted stringent quality control measures with a view to maintaining the high quality standard expected from our customers. We perform various tests at different stages of our production

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process from the time when the raw materials and components are delivered to our factory to the time before we deliver our finished products. As a testament to our quality control standard, we have been awarded the international ISO9001 certificate in relation to our quality management system since August 2009.

As such, we are confident about the reliability of our production process. We offer a long warranty period of up to three years for our Branded Products (other than power adaptors and related accessories which we offer up to 12 months of warranties), while the average warranty period in the network equipment manufacturing industry is only one year according to the Frost & Sullivan Report.

We have an extensive sales and distribution network for our Branded Products globally. We sell our Branded Products mainly through our distributors. As at 30 June 2017, we had over 65 distributors in 40 countries and regions. The number of our distributors has increased from over 40 as at 1 January 2015 to over 65 as at 30 June 2017. We generated approximately HK\$77.9 million, HK\$86.2 million and HK\$51.7 million of revenue from the sale of our Branded Products for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, representing approximately 14.5%, 16.8% and 21.0% of our total revenue, respectively. During the Track Record Period, we generated approximately 10.3%, 12.1% and 16.9% of our revenue from the sale of our Branded Products from sales to customers located in Asia for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

We are operating in an industry that requires technology and product innovation to maintain our competitiveness. As such, we place great emphasis on our research and development capabilities. We have a dedicated research and development team responsible for researching and developing our networking products. As a result of our research and development efforts, we own a number of patents and software copyrights. As at the Latest Practicable Date, we had seven registered utility model patents, four registered designs and eight software copyrights in the PRC.

We have over 14,000 sq.m. production facilities in Shenzhen, the PRC, with annual production capacity of approximately 8.5 million units of networking products during the Track Record Period, which include routers, Ethernet switches, LAN cards and Wi-Fi modules. We entered into a land use right lease agreement in June 2015 to lease the land use right of Lot A of approximately 13,000 sq.m. from 26 June 2015 to 19 March 2058 in Vietnam. Construction of Lot A Facilities in Vietnam was completed in January 2017 which has a planned annual production capacity of approximately 3.6 million units of routers based on the assumption of the operation of our production lines for 22 hours a day and 25 days a month each year. We commenced trial production in late October 2017. We believe that the new factory in Vietnam will enhance our production capacity. Our planned production for our Vietnam factory is to initially begin with two SMT production lines, two DIP production lines and two packaging lines to produce mainly networking products with 802.11 b/g/n protocols and mid-to-low-end 4G LTE routers. We also expect that the per unit production cost in Vietnam will be lower than that in the PRC for the same products.

In April 2016, we entered into another land use right lease agreement pursuant to which we leased the land use right of approximately 12,000 sq.m. from 7 April 2016 to 19 March 2058 (“**Lot B**”) in Vietnam for future development use. In January 2017, we obtained the certificate of land use right and ownership for Lot B. The land use right of Lot B was leased having considered that (i) the consideration was reasonable taking into account of the market rate at the relevant time, which accounted for only approximately 0.9% of our Group’s revenue for the year ended 31 December 2016; (ii) the asset base of our Group can be strengthened; and (iii) our Group can be afforded the flexibility to meet future business development needs with an additional land lot in adjacent area secured which is incidental to Lot A. Our

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Group does not have any concrete plan for Lot B yet and intends to develop it based on the market condition in the future.

We plan to increase our market penetration in a number of emerging Asian countries by engaging more distributors which we believe have market potential for our products. With our wide range of quality networking products, our extensive sales and distribution network, strong research and development capabilities and our planned increase in production capacity, we believe that we are well positioned to capture opportunities for our products.

OUR COMPETITIVE STRENGTHS

Our Directors believe that we possess the following competitive strengths:

Established brand and strong track record in networking products industry

We have a strong track record in the manufacture and sales of networking products. Our history can be traced back to 1999 when Zioncom HK was established. We have been manufacturing networking products since 2004. We have been operating our Shenzhen production facilities for over 10 years since 2004 and started manufacturing our Branded Products *TOTOLINK* since 2012.

Our Jointly Developed Products enjoy strong brand recognition in Korea and we have established our own brand recognition in the markets where we operated. During the Track Record Period, we generated approximately 73.6%, 79.8% and 77.7% of our revenue respectively from the sale of Jointly Developed Products in Korea that are sold under the brand *ipTIME* as well as our Branded Products under the brand *TOTOLINK*. The brand *ipTIME* is a well-known brand of networking products in Korea. According to the Frost & Sullivan Report, the revenue of retail consumer routers sold under the brand *ipTIME* accounted for approximately 73.2% of the total revenue of retail consumer routers in Korea in 2016. *TOTOLINK* is an international brand given our Branded Products under the brand *TOTOLINK* have been sold in over 40 countries and regions as at 31 December 2016. During the Track Record Period, we generated approximately 10.3%, 12.1% and 16.9% of our revenue from the sale of our Branded Products to customers located in Asia for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. Our brand *TOTOLINK* has a market share of approximately 1.2%, 4.6% and 4.7% in the consumer router market in Vietnam, Hong Kong and Taiwan, respectively, in 2016.

We believe that our strong track record, established brand recognition and dependability will facilitate the promotion and acceptance of our products as well as the expansion of our business. Leveraging on our expertise in manufacturing wireless networking products, we supplied portable consumer action cameras which are non-networking products with wireless capabilities during the Track Record Period. We began to supply other non-networking products, such as power banks in 2015.

Diversified portfolio of high-quality products

We offer a wide range of high quality networking products to cater for the different Wi-Fi speeds and different wireless network standards. Our suite of products include networking protocols currently developed from 802.11ac (being one of the fifth generation wireless technology) and 802.11 b/g/n (being the older generation products). Our wireless routers currently can deliver Wi-Fi speeds of up to a data rate of 2.6 Gbps and 1.9 Gbps for Jointly Developed Products and Branded Products, respectively. The Jointly Developed Products with the fifth generation (802.11ac) wireless technology could simultaneously use 1.8Gbps on the 5GHz band and 800Mbps on the 2.4GHz band. Our Branded Products with the fifth generation (802.11ac) wireless technology simultaneously use 1.3Gbps on the 5GHz band and 600Mbps on the 2.4GHz band. During the Track Record Period, we sold over 60 different models of

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our Branded Products to our customers. We believe that by offering a diversified portfolio of products, we are able to expand our reach to different markets. For details of our strong research and development capabilities, please see “Our competitive strengths — strong research and development capabilities” in this section.

We provide different kinds of networking products with reference to the infrastructure of that particular country/region. As an example, based on the Frost & Sullivan Report, the internet usage/penetration for Korea in 2016 is approximately 41.1%, which is much higher as compared to Vietnam with the internet usage/penetration of approximately 10.4%. This is a result of advanced technological infrastructure, governmental capital investment, policy support and spending for each respective country and also awareness of end users. The direct correlation allows us to sell our more advanced networking products to Korea as compared to Vietnam.

We take pride in the quality of our products. We have adopted stringent quality control measures with a view to maintaining high quality standards for our products. We perform various tests at different stages of our production process from the time when the raw materials and components are delivered to our factory to the time before we deliver our finished products. As a testament to our quality control standards, we have been awarded ISO9001 certificate in relation to our quality management system since August 2009. Because of the stringent quality control measures we have adopted in our production process, we are confident about the reliability of our production process. We offer a long warranty period of up to three years for our Branded Products (other than power adaptors and related accessories which we offer up to 12 months of warranties), while the average warranty period in the network equipment manufacturing industry is only one year according to the Frost & Sullivan Report.

Established customer base in Asia and extensive sales and distribution network of our Branded Products around the world

Our customers can be broadly divided into three categories: (i) our EMS customers, which mainly includes EFM, our customer of our Jointly Developed Products; (ii) our distributors and consignees, our customers of our Branded Products; and (iii) our OEM customers.

EFM is based in Korea. We have had business relationship with EFM since 2004, and we have entered into sales and purchase agreement with EFM for a term of three years commencing from April 2015 to March 2018. Our top five other EMS customers during the Track Record Period are mainly based in Korea, China, Hong Kong and Brazil, and the length of our business relationship with our top five other EMS customers ranges from two to eight years during the Track Record Period.

As at 30 June 2017, we had over 65 distributors in 40 countries and regions. The number of our distributors has increased from over 40 as at 1 January 2015 to over 65 as at 30 June 2017. The length of our business relationship with the five largest distributors during the Track Record Period ranges from less than one year to six years.

Our OEM customers during the Track Record Period were based in Korea and the United States, and the length of our business relationship with the OEM customers during the Track Record Period was up to three years. Since April 2017, we have not entered into new transactions with one of our OEM customers as it did not settle its purchase amount within the credit period we granted to it.

During the Track Record Period, we generated approximately HK\$528.4 million, HK\$483.7 million and HK\$225.3 million of our revenue from repeated customers, including EFM, our distributors and consignees, our customers of Branded Products and our other EMS customers and OEM customers, representing approximately 98.3%, 94.4% and 91.4% of our total revenue for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. During the Track

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Record Period, we generated our revenue mainly from our sales to customers located in Asia. Revenue generated from sales to customers located in Asia accounted for approximately HK\$491.0 million, HK\$477.4 million and HK\$216.6 million, representing approximately 91.3%, 93.2% and 87.9% of our total revenue for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

Strong research and development capabilities

We place great emphasis on our research and development capabilities. As at the Latest Practicable Date, we have a dedicated team of 59 engineers in our research and development department responsible for researching and developing our networking products. During the Track Record Period, we had obtained over 30 testing reports for the compliance of the required standards under the assessment authorities for new models of products to be launched in the market.

Our research and development department is headed by Mr. Xiao. For further details on Mr. Xiao's qualifications and experience, please see "Directors, Senior Management and Employees" in this prospectus. Mr. Xiao along with his team have designed and implemented the hardware componentry of the products at our dedicated hardware and testing research and development facility headquartered at our production facilities in Shenzhen, the PRC. Our software testing and research and development facilities are located in Xi'an and Shenzhen, PRC.

Our engineers are a mix of electronics, mechanical, software, hardware, structure, FAE, layout, product, pre-sales and after-sales, copywriter and testing engineers, more than one-third of whom hold a diploma in the relevant discipline. Our Directors believe our engineers have the required competencies to drive the business forward. As a result of our research and development efforts, we owned a number of patents and software copyrights. As at the Latest Practicable Date, we had (i) seven registered utility model patents; (ii) four registered designs; and (iii) eight software copyrights in the PRC.

As a networking product manufacturer, it is important that we are capable of developing new models of products on a timely basis to sustain our business and maintain our competitiveness in light of the frequent changes in wireless network standards and fast changing technologies in the industry. According to the Frost & Sullivan Report, 802.11ac protocol routers were launched in 2013. We started research and development of 802.11ac protocol routers in January 2013 and managed to launch our first 802.11ac protocol router shortly after in June 2013. According to the Frost & Sullivan Report, 802.11ac is considered to gradually become the mainstream of the wireless network standard. During the Track Record Period, we have launched over 20 new models of routers applying 802.11ac protocol and have recorded increase in the revenue from the sale of 802.11 ac protocol routers. We expect that the sales volume of 802.11ac protocol products will continue to increase, given the expected wider application of 802.11ac protocol. Further, we have developed new products such as GPON wireless routers and 4G LTE routers during the Track Record Period. The 4G LTE routers that were developed by us contributed to approximately HK\$1.2 million of our revenue for the six months ended 30 June 2017. In August 2017, we have secured an order from Customer X for purchase of 4G LTE routers that were developed by us in the total amount of approximately HK\$8.5 million. According to the Frost & Sullivan Report, the demand for mobile hotspots with 4G LTE technology and GPON routers is anticipated to drive the network equipment manufacturing market continuously. It is also estimated that the amount of 4G LTE users is expected to grow due to the widespread adoption of 4G LTE technology in developing areas including India, Southeast Asia, etc. In addition, in July 2017, we started the research and development of our branded AC2600 series dual band router that would enable a Wi-Fi speed of up to 2.6 Gbps, with 1.8 Gbps on 5GHz band and 800 Mbps on 2.4 GHz band, which we launched in December 2017.

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As a result of our research and development capabilities and initiatives, our Zioncom Shenzhen was first accredited as a High and New Technology Enterprise of Shenzhen City by Shenzhen Technology and Information Bureau* (深圳市科技和信息局) in the PRC in 2008 and is subsequently approved as a High and New Technology Enterprise of the PRC from 2011 to 2014 and from 2015 to 2018. As a High and New Technology Enterprise of the PRC, Zioncom Shenzhen enjoys preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法)). We intend to continually invest in our research and development facilities and people as we believe they are the key to our continued growth and success. During the Track Record Period, our research and development expenses amounted to approximately HK\$15.7 million, HK\$18.0 million and HK\$9.8 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

Experienced and dedicated management team

Our Directors and senior management comprise capable and experienced individuals with extensive knowledge of the networking products industry. A majority of our Directors and senior management have at least seven years of experience in the networking products industry. For further details, please see “Directors, Senior Management and Employees” in this prospectus.

Our Directors and senior management team’s vision and in-depth knowledge have enabled us to formulate and implement sound business strategies, evaluate and manage risks, anticipate changes in industry trend and capture significant market opportunities. We believe our experienced management team, with its leadership, vision and drive has been the key to our success in the past and will continue to contribute to our future growth.

BUSINESS STRATEGIES AND FUTURE PLANS

Increase our market penetration for our Branded Products in emerging markets in Asia and other markets with good potential

We recorded increase in both revenue and gross profit for our Branded Products during the Track Record Period. The gross profit margin for our Branded Products were approximately 19.2%, 24.8% and 24.6% for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively, which were significantly higher than the gross profit margin for our other products during the same periods. We believe that the increase of market penetration of our Branded Products would benefit us by enhancing brand recognition as well as stronger profitability.

With our subsidiaries located in China, Hong Kong, Vietnam and Taiwan, we trust we will be able to leverage on our strong regional presence to play an active role in emerging markets in Asia while looking for opportunities in other markets with good potential. We intend to develop emerging markets in Asia with a focus on Vietnam, Thailand and Philippines. We plan to recruit four more sales persons dedicated to these emerging markets and to launch more promotional campaigns and advertisements overseas.

We expect to apply approximately 9.2% of our net proceeds from the Share Offer to increase our market penetration for our Branded Products in emerging markets in Asia.

Increase our production capacity and lower our production costs

During the Track Record Period, we have experienced increased utilisation rate at our existing production facilities and we anticipate a further growth in our production needs. The utilisation rate of our Shajing Production Facilities was 68.9%, 75.8% and 57.5% for the years ended 31 December 2015

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and 2016 and the six months ended 30 June 2017, respectively. There was a decrease in the utilisation rate for the six months ended 30 June 2017 as our production demand is generally higher in the second half of the year due to our temporary suspension of production during the Chinese New Year. For the years ended 31 December 2015 and 2016, the annual utilisation rate was higher in the second half of the year with an utilisation rate of approximately 95.3% and 125.6% in December of the respective periods. Although the annual utilisation rate of our production facilities did not reach the maximum, we had to outsource part of our production process, namely, the surface mounting process to independent processing factories in certain months during the Track Record Period, generally near the end or in the beginning of the year as a contingent measure as the production demand exceeded or approached our maximum production capacity. The subcontracting service fees from these outsourcing work amounted to approximately HK\$2.3 million, nil and HK\$1.9 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, representing approximately 0.5%, nil and 0.9% of our total cost of sales for the same periods, respectively.

Besides, to maintain our competitiveness and level of profit, it is important that we are able to produce our products at a lower cost without compromising on quality. Having considered the increase in labour cost in the PRC as well as the growth in production needs, we plan to increase our production capacity and lower our production cost by (i) manufacturing in our new production facilities in Vietnam and (ii) introducing automation system to our Shajing Production Facilities.

Manufacturing in our new production facilities in Vietnam

In June 2015, we entered into a land use right lease agreement to lease the land use right of Lot A in Vietnam. Construction of a new factory in Vietnam on Lot A was completed in January 2017. We commenced trial production in late October 2017.

Our planned production for our Vietnam factory on Lot A is to first start with two SMT production lines, two DIP production lines and two packaging lines, with initial planned annual production capacity of 3.6 million units of routers based on the assumption of the operation of our production lines for 22 hours a day and 25 days a month each year. For details of the initial planned annual production capacity of our Vietnam factory on Lot A, please see “— Production — New production facilities in Vietnam — Estimated capacity and planned production” in this section. We plan to produce mainly networking products with 802.11 b/g/n protocols and mid-to-low-end 4G LTE routers at our Vietnam production facilities at the beginning as it is our plan that the Vietnam production facilities would focus on the production of products that require fewer intricate production processes and less advanced technology given the production cost for those is too high in the PRC, and the Shajing Production Facilities would be a more advanced production centre.

In April 2016, we entered into another land use right lease agreement pursuant to which we leased the land use right of Lot B in Vietnam for future development use. In January 2017, we obtained the certificate of land use right and ownership for Lot B. We plan to construct an additional factory on Lot B but we have yet to formulate a detailed development plan for Lot B.

As our Shajing Production Facilities have title defects and we are subject to the risk of being vacated, we believe that the establishment of our new production facilities in Vietnam can also mitigate the potential impact on our operations should we be required to vacate the Shajing Production Facilities. For details of the title defects of our Shajing Production Facilities, please see “— Properties — Defects of our leased properties” in this section.

For details of our expansion plan in Vietnam, please see “— Production — New production facilities in Vietnam” in this section.

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Introducing automation system to our Shajing Production Facilities

We believe that it is necessary to increase the level of automation at the Shajing Production Facilities due to the increase in the labour costs in China. According to the Frost & Sullivan Report, the average monthly wage in China has increased by approximately 8.5% from USD768.6 in 2015 to USD833.9 in 2016 and is expected to continue to increase at a CAGR of approximately 8.5% from 2017 to 2021.

We therefore plan to introduce automation system to the Shajing Production Facilities by replacing a number of our production staff with various automation machineries. By doing so, certain steps of our production process will be completed by those machineries, e.g. surface mounting.

We set out below types and numbers of machineries that we plan to purchase:

Type	Number
Solder paste inspection machine	6
Automatic insertion machine	12
Automatic testing machine	10
Manufacturing execution system	1

We plan to apply approximately 66.2% of our net proceeds from the Share Offer for introducing automation system to our Shajing Production Facilities. For details of our plan, please see “— Production — Introducing automation system to our Shajing Production Facilities” in this section.

Broaden our product offerings by enlarging our research and development capacity

We believe that it is important for us to keep up with changes in technology and expand our product offerings to maintain our competitiveness. For details of our diversified portfolio of products and strong research and development capabilities, please see “— Diversified portfolio of high-quality products”, “— Strong research and development capabilities” and “— Our Products” in this section. In addition, it is our current plan to commence development of 802.11ax protocol routers in early 2018 and launch such new product to markets with more advanced network infrastructure, including Korea, the U.S. and Hong Kong in the fourth quarter of 2018. According to the Frost & Sullivan Report, 802.11ax protocol is an updated standard of 802.11ac protocol and is regarded as the sixth generation of wireless network standard. Although there has not been any release of 802.11ax protocol routers yet, its market share is estimated to reach around 40% of the overall global router market by 2021.

To ensure that we are always able to offer products that fulfil diverse and constantly changing demand of our customers, we consider it important to continue our efforts on research and development of our products. We plan to enlarge our research and development capacity by hiring more software and hardware engineers. We plan to apply approximately 10.5% of our net proceeds from the Share Offer for such purpose.

OUR BUSINESS MODEL

Our business primarily consists of design, manufacture and sale of networking products, including routers, Ethernet switches, LAN cards, Wi-Fi modules and Access Points products. We also sell other non-networking products such as, power banks and USB hubs. During the Track Record Period, we generated our revenue from the sale of (i) EMS products, which includes our Jointly Developed Products and other EMS products; (ii) our Branded Products; and (iii) OEM products; and providing processing services.

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The following table sets forth the breakdown of our revenue by business models during the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June			
	2015		2016		2016		2017	
	Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue	
	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
<i>(Unaudited)</i>								
Sale of products								
EMS products								
Jointly Developed								
Products	317,602	59.1	322,891	63.0	145,718	63.0	139,763	56.7
Other EMS products	101,016	18.8	67,373	13.2	35,278	15.3	35,881	14.6
Branded Products	77,941	14.5	86,214	16.8	36,920	16.0	51,742	21.0
OEM products	22,851	4.2	11,878	2.3	5,894	2.5	15,223	6.2
Sub-total	519,410	96.6	488,356	95.3	223,810	96.8	242,609	98.5
Processing services	18,293	3.4	23,836	4.7	7,311	3.2	3,813	1.5
Total	<u>537,703</u>	<u>100.0</u>	<u>512,192</u>	<u>100.0</u>	<u>231,121</u>	<u>100.0</u>	<u>246,422</u>	<u>100.0</u>

EMS business model

Under our EMS business model, we manufacture products either with our inputs for the design and specifications, or with our design inputs with specifications provided by our customers. During the Track Record Period, our EMS products mainly included Jointly Developed Products and our major product types of the Jointly Developed Products are 4 ports 802.11 protocol routers.

Jointly Developed Products

Since 2004, we have been cooperating with EFM, a leading supplier of consumer routers in Korea in developing networking products, including routers, LAN cards and switch hubs. We were introduced to EFM through one of Mr. Koo's acquaintances who was then working with EFM as a software development director in 2003. Seeing a growing demand of networking products in Korea, both EFM and us sought to capture this opportunity and commenced our discussion on cooperation in 2003. Initially, Mr. BK Kim considered acting as the distributor for EFM, but later he noticed, to the best of his knowledge, that EFM had been suffering from high production costs in Korea and was having difficulties communicating with PRC manufacturers. Therefore, Mr. BK Kim decided to establish our own production facilities in the PRC whereby we would be able to take advantage of the lower production costs in the PRC as well as to have more control over the quality of products to be offered to the customers. Leveraging the common cultural background with EFM and the market potentials in Korea, in January 2004, we commenced cooperation with EFM. As confirmed by EFM, we have been the exclusive supplier of Jointly Developed Products to EFM since commencement of our cooperation in 2004. On 3 March 2017, EFM and Zioncom Shenzhen entered into a joint development agreement (the "**Joint Development Agreement**") to formalise the joint development arrangement between them. The salient terms of our Joint Development Agreement with EFM are as follows:

Term:	The term of the agreement is three years and is renewable for another term of three years unless otherwise notified by either party no later than two months prior to expiry of the agreement.
Development of networking products:	EFM shall be responsible for the research and development of firmware software, application software, product case designs and package designs. We

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are responsible for the research and development of the hardware of the Jointly Developed Products, including circuit design drawings and PCB layout designs. The costs incurred during the development of these products shall be split between EFM and us.

Intellectual property rights: The intellectual property rights attached to the outputs independently developed by each respective party shall be owned by such party. However, we shall assign to EFM the right to use the outputs independently developed by us for free in the Jointly Developed Products manufactured by us during the term of the agreement.

Production and sale of networking products: We shall produce the Jointly Developed Products using the outputs co-developed by EFM and us and supply the Jointly Developed Products to EFM. EFM shall not consign the production and supply of the Jointly Developed Products to any third party without our prior written consent.

We can sell our *TOTOLINK* products and EMS products that are loaded with the outputs developed independently by EFM (other than Jointly Developed Products) with written consent of EFM. With this consent, we will also be granted the exclusive selling rights of Branded Products and EMS products loaded with outputs independently developed by EFM in China, Taiwan, Vietnam and Hong Kong.

We shall have all rights on the production and sale of networking products using outputs independently developed by us except for EFM's networking products.

Royalty: We shall pay the royalty fee to EFM for the sale of the certain networking products produced by us (other than the Jointly Developed Products). The royalty fee shall be determined separately as agreed by EFM and us.

As advised by the Korea Legal Advisers, the Joint Development Agreement is valid, binding and enforceable against the parties under the laws of the Republic of Korea.

Pursuant to the Joint Development Agreement, we can sell our *TOTOLINK* products and other products that are loaded with the outputs developed independently by EFM with written consent of EFM. EFM has granted its consent to us in relation to the sale of *TOTOLINK* products and EMS products that are loaded with the outputs developed independently by EFM and has granted us the exclusive selling rights of Branded Products and EMS products loaded with outputs developed independently by EFM (other than Jointly Developed Products) in China, Taiwan, Vietnam and Hong Kong. During the Track Record Period, we generated approximately HK\$52.7 million, HK\$34.8 million and HK\$9.9 million of our revenue from the sale of *TOTOLINK* and other EMS products that are loaded with the outputs developed independently by EFM, accounting for approximately 9.8%, 6.8% and 4.0% of our total revenue, for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

According to the Frost & Sullivan Report, it is not uncommon for networking equipment manufacturers to develop networking products jointly with their customers, especially for those manufacturers who are highly capable of particular manufacturing services, as developing jointly with their customers could optimise the collaboration cycle and shorten the lead time for product launch.

We sell the Jointly Developed Products to EFM on an order-by-order basis pursuant to the supply agreement which we entered into with EFM. The Jointly Developed Products are sold by EFM under the

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brand *ipTIME*, for which the trademark has been registered in Korea by EFM. For details of our sales arrangement with EFM, please see “— Sales, Marketing and Distribution — Direct Sales of Jointly Developed Products to EFM” in this section.

Pursuant to the Joint Development Agreement, we shall pay royalties to EFM for the sale of certain networking products (loaded with outputs developed independently by EFM) produced by us (other than the Jointly Developed Products). The royalty arrangement is determined through separate agreement between EFM and us, based on the respective agreed royalty amount per unit of each type of networking products. During the Track Record Period, the amount of royalties that were paid by us to EFM for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 were approximately HK\$2.2 million, HK\$1.4 million and HK\$0.3 million, respectively.

During the Track Record Period, we generated approximately 59.1%, 63.0% and 56.7% of our revenue from the sale of Jointly Developed Products for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

The Directors confirm that, save as disclosed in this prospectus, there is no other past or present relationship, business or otherwise, transactions or arrangements between EFM and our Company, its subsidiaries, their shareholders, directors, senior management and any of their respective associates.

The following table sets forth a breakdown of our revenue from sale of products by types of products (other than processing service fee) generated from Jointly Developed Products during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June							
	2015			2016			2016			2017				
	Percentage of total revenue from sale of Jointly Developed Products	Average selling price	Sales Volume	Percentage of total revenue from sale of Jointly Developed Products	Average selling price	Sales Volume	Percentage of total revenue from sale of Jointly Developed Products	Average selling price	Sales volume	Percentage of total revenue from sale of Jointly Developed Products	Average selling price	Sales volume		
Revenue	HK\$'000	units'000	Revenue	HK\$'000	units'000	Revenue	HK\$'000	Units'000	Revenue	HK\$'000	Units'000	Revenue	HK\$'000	Units'000
<i>(Unaudited)</i>														
Routers														
- 4 ports 802.11 ac protocol	75,301	23.7	421	178.9	115,590	35.8	710	162.8	50,705	34.8	317	160.0	52,479	37.5
- 4 ports 802.11 b/g/n protocols	151,979	47.9	2,033	74.8	105,822	32.8	1,655	63.9	49,871	34.2	782	63.8	36,717	26.3
- Other routers ⁽¹⁾	7,618	2.4	26	293.0	8,279	2.6	23	360.0	3,501	2.4	11	318.3	8,146	5.8
Subtotal	234,898	74.0	2,480	94.7	229,691	71.2	2,388	96.2	104,077	71.4	1,110	93.8	97,342	69.6
Ethernet switches	33,108	10.4	509	65.0	37,203	11.5	556	66.9	16,477	11.3	250	65.9	15,956	11.4
Other networking products ⁽²⁾	27,436	8.6	570	48.1	33,072	10.2	618	53.5	14,715	10.1	286	51.5	15,275	10.9
Non-networking products ⁽³⁾	22,160	7.0	304	72.9	22,925	7.1	318	72.1	10,449	7.2	152	68.7	11,190	8.1
Total	317,602	100.0	3,863	82.2	322,891	100.0	3,880	83.2	145,718	100.0	1,798	81.0	139,763	100.0

Notes:

- (1) Other routers included 2, 8, 16 and 24 ports routers.
- (2) Other networking products mainly included LAN cards, Wi-Fi modules and Access Points.
- (3) Non-networking products mainly included hard disk cases and USB hubs.

The following table sets forth a breakdown of our revenue from sale of products by types of products (other than processing service fee) generated from products with software developed by EFM during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June						
	2015			2016			2016			2017			
	Percentage of total revenue from sale of products	Average selling price	Percentage of total revenue from sale of products	Average selling price	Percentage of total revenue from sale of products	Average selling price	Percentage of total revenue from sale of products	Average selling price	Percentage of total revenue from sale of products	Average selling price	Percentage of total revenue from sale of products	Average selling price	
Revenue HK\$'000	Volume units'000	Revenue HK\$'000	Volume units'000	Revenue HK\$'000	Volume units'000	Revenue HK\$'000	Volume units'000	Revenue HK\$'000	Volume units'000	Revenue HK\$'000	Volume units'000	Revenue HK\$'000	
Routers													
- 4 ports 802.11 ac protocol . . .	12,686	72.1	175.9	88.1	189.6	6,082	43.2	37.1	163.9	8,254	83.8	41.5	198.9
- 4 ports 802.11 b/g/n protocols	39,184	324.5	120.8	121.8	121.3	6,608	46.9	57.0	115.9	411	4.2	3.0	137.0
- Other routers ⁽¹⁾	-	-	-	-	-	-	-	-	-	501	5.1	4.0	125.3
Other networking products⁽²⁾ . . .	863	9.0	95.9	3,278	9.4	1,394	9.9	8.0	174.3	686	6.9	5.0	137.2
Total	52,733	405.6	130.0	34,764	100.0	14,084	100.0	102.1	137.9	9,852	100.0	53.5	184.1

Notes:

- (1) Other routers were 2 ports routers.
- (2) Other networking products were Access Points.

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Other EMS products

Our other EMS products are mainly routers, Wi-Fi modules, Ethernet switches, LAN cards and Access Points. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, we generated approximately 18.8%, 13.2% and 14.6% of our revenue from the sale of our other EMS products, respectively.

Branded Products business model

We manufacture and sell our Branded Products under the brand *TOTOLINK*. We sell our Branded Products mainly on a wholesale basis through our distributors. The retailing of our Branded Products is made through our distributors and consignees. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, revenue from the sales of Branded Products to distributors accounted for approximately 92.0%, 81.7% and 76.7% of our revenue from the sales of Branded Products, respectively. We believe such sales strategy of our Branded Products is beneficial to our Group as this allows us to penetrate target markets expediently by leveraging the retail expertise, management resources, local knowledge and local connections of our distributors.

We also sell some of our Branded Products directly to other customers, which to the best knowledge of our Directors, are retailers or corporate customers who purchase the products for their own use other than distribution.

OEM business model

Under our OEM business model, we manufacture products primarily based on our customers' design and specifications. During the Track Record Period and up to the Latest Practicable Date, OEM products included action cameras and 4G LTE routers. To the best of our knowledge, our OEM customers during the Track Record Period were mainly brand owners. When the sales team receives orders from our customers, they would request our product management team to estimate the order price and evaluate the function and performance standards of those products. Upon confirming the above with our product management team, prototypes of the product will be created and submitted to our customers for approval.

We are generally responsible for procuring the necessary raw materials and components in accordance with the specifications of our OEM customers. In some cases, our OEM customers would provide us with the raw materials and components required so that we would only be responsible for processing and manufacturing. We subcontracted the entire manufacturing process of action cameras, one of the products we manufactured under the OEM business model during the Track Record Period, to a third party.

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, we generated approximately 4.2%, 2.3% and 6.2% of our revenue from the sale of OEM products, respectively.

Processing services

We also provide processing services to the Relevant Customer which is mainly engaged in the wholesale of electronic products in the PRC for manufacturing of the Branded Products for its sale in the PRC. As we would like to promote our sales of Branded Products in the PRC, we believe that the Relevant Customer could act as a sales channel for our Group to sell the Branded Products in the PRC, particularly through the PRC online sales platform. As confirmed by the Relevant Customer, the annual sales revenue of the Relevant Customer amounted to approximately RMB46.8 million and RMB38.8 million for the years ended 31 December 2015 and 2016, with over 40 employees in eight offices as at 31 December 2016. The products manufactured by us for the Relevant Customer are Branded Products.

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Almost all of the Branded Products in the PRC are marketed and sold by the Relevant Customer. In January 2013, our Group entered into a processing service agreement (the “**Processing Service Agreement**”) with the Relevant Customer, which was controlled by Mr. Xiao, our executive Director, at that time. Mr. Xiao has subsequently disposed of his entire interest in the Relevant Customer on 18 July 2014 to the other shareholder of the Relevant Customer, who is an Independent Third Party. The Directors confirm that to their knowledge, save for Mr. Xiao’s shareholding in the Relevant Customer prior to the disposal of his entire interest in the Relevant Customer in 2014 and his appointment as a supervisor between May 2011 and December 2015 (during which Mr. Xiao had no involvement in the business of the Relevant Customer), there is no past or present relationships, business or otherwise, between the Relevant Customer and our Company, its subsidiaries, their shareholders, directors, senior management and any of their respective associates save as otherwise disclosed herein. Pursuant to the Processing Service Agreement, the Relevant Customer is responsible for providing the necessary major materials and components and we are responsible for processing the materials in accordance with the specifications of the Relevant Customer.

The Relevant Customer generally provides most of the materials and components for the production of the Branded Products save for certain materials and components which we purchase for them as the cost is considered lower than procuring the relevant materials by itself. As such, we charge the Relevant Customer both processing service fees and sale of certain materials. There is no difference between the processing services provided by our Group to the Relevant Customer from the production of our Group’s Branded Products save for the provision of materials and components by the Relevant Customer on its own for the production through processing services. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, we generated approximately 3.4%, 4.7% and 1.5% of our revenue from the provision of processing services and sale of materials to the Relevant Customer, respectively, for the said periods. The Directors confirm that, save for the Relevant Customer, there were no other similar processing services provided to other customers of our Group during the Track Record Period.

In limited circumstances, having taken into consideration that certain models of our Branded Products would be produced in small production volume and at relatively high production costs, we may authorise the Relevant Customer to arrange for the manufacture of certain Branded Products on its own for the purpose of broadening the product offering of the Branded Products. The production volume, price, production techniques, designs, software, quality standard, storage method and sales channel of these Branded Products have to comply with our requirements. To the knowledge of our Directors, for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the sales amount of these Branded Products only amounted to approximately HK\$0.3 million, HK\$0.8 million and HK\$0.2 million, respectively, and thus the foregone contribution to our revenue is minimal. As there were no overlapping of sales of these Branded Products by the Relevant Customer with the products which we manufacture for the Relevant Customer for each of the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, and we have no plans to manufacture these Branded Products due to cost-effectiveness, our Directors believe that there is no direct competition between us and the Relevant Customer in respect of the manufacture and sale of Branded Products in the PRC.

Transfer of the TOTOLINK trademark (No. 9056962)

The *TOTOLINK* trademark (No. 9056962) (“the **PRC TOTOLINK trademark**”) was first registered by us in the PRC on 21 March 2012 (the “**First Registration Date**”). The Relevant Customer requested us to transfer to it the *PRC TOTOLINK* trademark as it was proposing to sell our Branded Products produced by us for them through PRC online sales platform which required it to be the registered owner of the trademark of our Branded Products. As we were proposing to promote our sales of Branded

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Products in the PRC, we agreed to transfer to it the PRC *TOTOLINK* trademark. On 16 March 2014, we entered into a trademark transfer agreement (the “**2014 Trademark Transfer Agreement**”) with the Relevant Customer pursuant to which we agreed to transfer the PRC *TOTOLINK* trademark to the Relevant Customer at nil consideration. At the time of entering of the 2014 Trademark Transfer Agreement, it is the mutual understanding between our Group and the Relevant Customer that our Group is entitled to the unfettered use of the PRC *TOTOLINK* trademark, which could be evidenced by the entering into of the 2015 Trademark Licence Agreement (as defined below) and the 2016 Trademark Transfer Agreement (as defined below). As such, it was the commercial decision between our Group and the Relevant Customer to have nil consideration for the transfer under the 2014 Trademark Transfer Agreement given that the arrangement was set up for the facilitation of PRC online sales of Branded Products by the Relevant Customer instead of an actual transfer. The registration of transfer of PRC *TOTOLINK* trademark was granted on 27 September 2014 by the Trademark Officer of the State Administration for Industry and Commerce of the PRC. Therefore, on 27 September 2014, we assigned the PRC *TOTOLINK* trademark to the Relevant Customer.

On 30 July 2015, we have entered into a trademark licence agreement with the Relevant Customer (the “**2015 Trademark Licence Agreement**”) pursuant to which we have been granted the exclusive licence of the PRC *TOTOLINK* trademark within the PRC (but not to the exclusion of the licensor) and the sole exclusive licence of the PRC *TOTOLINK* trademark outside of the PRC, such that the Relevant Customer would not be able to use the PRC *TOTOLINK* trademark outside of the PRC, on a royalty-free basis between 27 September 2014 and 30 March 2022. As the transfer of the PRC *TOTOLINK* trademark by our Group to the Relevant Customer in March 2014 was only intended to facilitate the PRC online sales of Branded Products by the Relevant Customer, there was always mutual consent between the Relevant Customer and our Group that our Group is entitled to the unfettered use of the PRC *TOTOLINK* trademark on a royalty-free charging basis. The 2015 Trademark Licence Agreement merely sought to confirm such arrangement in writing. We only entered into the 2015 Trademark Licence Agreement more than a year after the transfer of the PRC *TOTOLINK* Trademark after we have been advised by our PRC Legal Advisers that our arrangement with the Relevant Customer should be put down formally in writing. As advised by the PRC Legal Advisers, the 2015 Trademark Licence Agreement is legally binding under the laws of the PRC. After we have decided to apply for the Listing, we requested the Relevant Customer to transfer the PRC *TOTOLINK* trademark to us. On 14 January 2016, we entered into a trademark transfer agreement (the “**2016 Trademark Transfer Agreement**”) with the Relevant Customer pursuant to which the Relevant Customer has agreed to transfer the PRC *TOTOLINK* trademark back to us at nil consideration as it has always been our mutual understanding between the Relevant Customer and our Group since the 2014 Trademark Transfer Agreement that the Relevant Customer would transfer the PRC *TOTOLINK* trademark to us at nil consideration upon our request. On 13 December 2016, the registration of transfer of PRC *TOTOLINK* trademark was granted by the Trademark Officer of the State Administration for Industry and Commerce of the PRC and the trademark has been owned by us up to the Latest Practicable Date. The sale of Branded Products is mainly carried out by the Relevant Customer for which we provide processing services to manufacture the Branded Products. Our Group does not actively engage in the sales of Branded Products in the PRC. From the First Registration Date to the date of the 2016 Trademark Transfer Agreement, no revenue was generated by our Group from the PRC *TOTOLINK* Trademark in the PRC. From the date of the 2016 Trademark Transfer Agreement to the six months ended 30 June 2017, the revenue generated by our Group from the PRC *TOTOLINK* Trademark in the PRC amounted to approximately HK\$85,000, which was mainly from online sales by our Group in the PRC. It took approximately 12 months for the relevant PRC authority to complete the transfer process of the PRC *TOTOLINK* trademark.

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After the transfer of the PRC *TOTOLINK* trademark to our Group was completed in December 2016, our Group entered into a trademark licence agreement with the Relevant Customer (the “**2017 Trademark Licence Agreement**”) on 31 March 2017 for the Relevant Customer to continue its role as a supplier of the Branded Products in the PRC. Pursuant to the 2017 Trademark Licence Agreement, we agreed to grant a licence to the Relevant Customer for the use of PRC *TOTOLINK* trademark in the PRC between 13 December 2016 and 12 December 2026 subject to a royalty fee of 1% of the annual sales revenue of the products of the Relevant Customer with the PRC *TOTOLINK* trademark. The charging of such royalty fee pursuant to the 2017 Trademark Licence Agreement was made by us as a commercial decision based on factors considered by our Group including the increase in our Group’s revenue contributed by the Relevant Customer from approximately HK\$18.3 million for the year ended 31 December 2015 to approximately HK\$23.8 million for the year ended 31 December 2016. Our Directors confirmed that there was no change to the charging basis of our Group’s processing services provided to the Relevant Customer subsequent to the charging of the royalty fee by our Group commencing in December 2016. The processing service fees are different from the royalty fees charged by our Group as the processing service fees are fees charged to the Relevant Customer by our Group for processing the materials and components in accordance with the specifications of the Relevant Customer while the royalty fee is the fee that the Relevant Customer is required to pay to our Group pursuant to the licensing of the PRC *TOTOLINK* trademark to the Relevant Customer under the 2017 Trademark Licence Agreement. Therefore the charging basis of our Group’s processing services has not been affected by the commencement of charging of the royalty fee by our Group in December 2016. The Relevant Customer shall have no right to transfer, assign or sub-licence any of its rights of the PRC *TOTOLINK* trademark to any third party without obtaining the prior written consent from our Group. Pursuant to the 2017 Trademark Licence Agreement, we remain as the sole owner of the PRC *TOTOLINK* trademark and its intellectual property rights attached. To the best knowledge of our Directors, subsequent to the transfer of the PRC *TOTOLINK* trademark to our Group pursuant to the 2017 Trademark Licence Agreement, the Relevant Customer could continue to sell our Group’s Branded Products through its PRC online sales platform as the Relevant Customer no longer needs to demonstrate to the PRC online sales platforms that it is the registered owner of the products. The Directors believe that there is no direct competition between our Group and the Relevant Customer. Despite that our Group and the Relevant Customer have been selling Branded Products bearing the PRC *TOTOLINK* trademark within the PRC during the Track Record Period, the sales amount of the Branded Products of our Group bearing the PRC *TOTOLINK* trademark within the PRC is minimal. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our revenue generated from the sale of Branded Products in the PRC only amounted to nil, approximately HK\$0.1 million and nil, respectively. Further, the Branded Products that were sold by the Relevant Customer were products that were not targeted for the consumer market. In addition, it is the current plan of our Group that the sale of Branded Products in the PRC will be carried out mainly through the Relevant Customer. Our Group have also been selling Branded Products in other jurisdictions via third parties which is similar in substance in terms of the business model as to the sale of Branded Products bearing the PRC *TOTOLINK* trademark in the PRC via the Relevant Customer apart from the processing services provided by our Group. Our Group considered that the Relevant Customer acts as a channel for our Group to sell its Branded Products bearing the PRC *TOTOLINK* trademark in the PRC. As such, our Directors believe that there is no direct competition between our Group and the Relevant Customer within the PRC.

OUR PRODUCTS

Our main products are routers, Ethernet switches, LAN cards, Wi-Fi modules and Access Points. Our routers can be categorised into consumer routers with 4 ports that are primarily targeted for home use

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and small scale commercial applications and others routers either with 2, 8, 16, 24 ports or with 4G LTE or VPN functions. Our 4 port wireless routers may be categorised into two groups. We categorise our routers based on wireless network standard with 802.11ac protocol, a fifth generation wireless technology, as one category and 802.11 b/g/n protocols, the older generations of wireless technologies, as another category.

The life cycle of our products depends on the status of development of the wireless network standard and the wireless information technology infrastructure of the local markets. Generally, where the wireless information technology infrastructure is more advanced in the local market, the product life cycle of wireless networking products based on the more advanced wireless network standard will to a larger extent be determined by the development of the wireless network standard. Since 2003, the wireless network standard has been revised between every one to six years. During the Track Record Period, we sold our products to all our customers, including our distributors, our OEM customers and other EMS customers in over 50 countries and regions and the development status of wireless information technology infrastructure is different in different areas of these countries and regions, we are able to extend the life cycle of our products that are developed for the older wireless network standards by selling them to countries and regions where the older wireless network standards are more prevalent.

The following table sets forth a breakdown of our revenue from sale of products by types of products (other than processing service fee) during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June						
	2015			2016			2016			2017			
	Percentage of total revenue from sale of products %	Average selling price HK\$	Percentage of total revenue from sale of products %	Revenue HK\$'000	Price range HK\$	Average selling price HK\$	Percentage of total revenue from sale of products %	Revenue HK\$'000	Price range HK\$	Average selling price HK\$	Percentage of total revenue from sale of products %	Revenue HK\$'000	Price range HK\$
Routers													
- 4 ports 802.11 ac protocol	23.0	170.7	28.5	139,269	116.3 – 675.8	167.4	27.0	60,426	162.8 – 675.8	163.3	30.9	74,934	172.7 106.2 – 980.6
- 4 ports 802.11 b/g/n protocols	46.3	78.8	37.5	183,215	39.5 – 547.5	72.5	40.8	91,345	31.0 – 428.0	75.2	29.2	70,732	70.2 41.5 – 399.9
- Other routers ⁽¹⁾	3.1	34	4.0	19,764	4,356.6 – 19,764	581.3	3.9	8,791	4,224.8 – 4,224.8	586.1	13.3	32,380	226.4 48.8 – 2,086.9
Subtotal	72.4	3,788	70.0	342,248	N/A	100.9	71.7	160,562	N/A	100.4	73.4	178,046	112.4 N/A
Ethernet switches	7.8	64.7	9.6	46,657	25.2 – 488.3	67.6	9.3	20,750	23.3 – 1,348.5	65.3	8.1	19,626	70.9 27.9 – 853.8
Other networking products⁽²⁾	10.8	1,142	12.6	61,621	16.7 – 426.3	52.1	11.5	25,794	20.2 – 457.2	51.6	11.9	28,887	54.3 17.8 – 684.7
Non-networking products⁽³⁾	9.0	381	7.8	37,830	5.4 – 713.0	90.3	7.5	16,704	5.4 – 689.8	92.3	6.6	16,050	80.3 5.4 – 1,173.4
Total	100.0	5,936	100.0	488,356	N/A	85.9	100.0	223,810	N/A	86.1	100.0	242,609	93.6 N/A

Notes:

- (1) Other routers included 2, 8, 16 and 24 ports routers, VPN routers and 4G LTE routers.
- (2) Other networking products mainly included LAN cards, Wi-Fi modules and Access Points.
- (3) Non-networking products mainly included action cameras, hard disk cases, power banks and USB hubs.

Routers

A router is a networking device that forwards data packets between computer networks by connecting to two or more data lines from different networks. Routers for home use and small scale commercial applications simply pass data between the computers among home and small office and the Internet. Most of our routers provide for wired and wireless transmission of data to devices while maintaining wired connection with modems. For wired connections with devices, we produce a wide array of wired routers consisting of 2, 4, 8, 16 or 24 LAN ports. For wireless connections, the routers that we offer have transmission rates ranging from 150Mbps to 2.6 Gbps, and support 802.11 b/g/n/ac Wi-Fi standard.

In 2016, we have developed GPON wireless routers and began to develop 4G LTE routers. In 2017, we have completed development of the hardware of 4G LTE routers and began to supply 4G LTE routers. Our Group's 4G LTE routers, Ethernet Switches and LAN cards do not include the software of EFM. Our 4G LTE wireless router has one SIM card slot with built-in battery with a maximum capacity of 2,200 mAh and offers both 4G LTE and Wi-Fi connections at frequency band at 2.4 GHz with up to 32 users. Our GPON router is an all-in-one device that integrates the functions of GPON ONT, Access Points, 4-port switch and VoIP gateway. Both our 4G LTE and GPON wireless routers may transmit data of up to 1.2 Gbps high speed Wi-Fi. The price range for our 4 ports 802.11 b/g/n protocols routers was approximately HK\$39.5 to HK\$547.5, HK\$31.0 to HK\$428.0 and HK\$41.5 to HK\$399.9 per unit for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively and remained relatively stable. According to the Frost & Sullivan Report, it is estimated that the price of 802.11 b/g/n protocols routers will maintain at a certain level and represent a stable growth rate. The decrease in the highest price of our 4 ports 802.11 b/g/n protocols routers of the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 was solely due to the different products sold to different customers. The sales volume for our 4 ports 802.11 b/g/n protocols routers amounted to approximately 3.1 million units and 2.5 million units for the years ended 31 December 2015 and 2016, respectively. The decrease in the sales volume for our 4 ports 802.11 b/g/n protocols routers for the year ended 31 December 2016 was mainly because EFM, our largest customer during the Track Record Period and a major customer of this product located in Korea, decreased its order volume of 4 ports 802.11 b/g/n protocols routers from us. The sales volume for our 4 ports 802.11 b/g/n protocols routers amounted to approximately 1.2 million units and 1.0 million units for the six months ended 30 June 2016 and 2017, respectively. The decrease in the sales volume for our 4 ports 802.11 b/g/n protocols routers for the six months ended 30 June 2016 and 2017 was mainly attributable to the decrease of sales of 4 ports 802.11 b/g/n protocols routers in Korean market. However, we recorded increase in the sales volume of our branded 4 ports 802.11 b/g/n protocols routers to a number of countries, including Vietnam. During the Track Record Period, the average selling price of our 4 ports 802.11 b/g/n protocols routers were lower as compared to the reference selling prices in the industry provided by Frost & Sullivan. This is mainly attributable to our Group's adoption of a competitive pricing strategy in order to expand its market share for the 802.11 b/g/n protocols, in order to promote the sales of 802.11 b/g/n protocols routers in light of the increasing market penetration of 802.11 ac protocols routers in the consumer market. Therefore, this has led to a lower average selling price of our 4 ports 802.11 b/g/n protocols routers as compared to the reference selling prices in the industry. For the fluctuation of the average selling price of our 4 ports 802.11 b/g/n protocols routers, please see "Financial Information" in this prospectus.

The price range of our 4 ports 802.11 ac protocols routers was approximately HK\$116.3 to HK\$675.8, HK\$162.8 to HK\$675.8 and HK\$106.2 to HK\$980.6 for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. There was a substantial increase in the

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high end of the price range for the six months ended 30 June 2017 as there were orders from one of our customers for more advanced models. According to the Frost & Sullivan Report, it is estimated that the price of 802.11 ac protocols routers will maintain at a relatively high level. The sales volume for our 4 ports 802.11 ac protocols routers amounted to approximately 0.7 million units and 0.8 million units for the years ended 31 December 2015 and 2016, respectively. The increase in the sales volume for our 4 ports 802.11ac protocols routers for the year ended 31 December 2015 and 2016 was mainly because EFM increased the volume of its purchases of 4 ports 802.11 ac protocol routers from us. We believe that this change of mix of routers we sold to EFM mainly resulted from the transition in Korea market to popularisation of more advanced 802.11 ac protocol routers. According to the Frost & Sullivan Report, as technology evolves, 802.11 ac protocol routers have been gradually replacing the market share of 802.11 b/g/n protocols routers in Korean market. The sales volume for our 4 ports 802.11 ac protocols remained relatively stable, and amounted to approximately 0.4 million units and 0.4 million units for the six months ended 30 June 2016 and 2017, respectively.

The price range of our other routers was approximately HK\$139.5 to HK\$4,356.6, HK\$123.2 to HK\$4,224.8 and HK\$48.8 to HK\$2,086.9 for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. There was a substantial decrease in the high end of the price range for the six months ended 30 June 2017 as the products ordered by our customers were less advanced models of lower selling prices. The sales volume for our other routers amounted to approximately 34,000 units, 34,000 units, 15,000 units and 0.1 million units for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively. The significant increase in the sales volume for the six months ended 30 June 2017 was due to the increase in the sales of 4G LTE routers.

The table below sets out the selected models of our Branded Products which are more popular or advanced:

Selected models of our Branded Products

Features

AC1900 series wireless dual band gigabit NAS router



Wi-Fi speed of up to 1.9 Gbps, with 1.3 Gbps on 5GHz and 600 Mbps on 2.4 GHz band. Six high gain antennas and five gigabits Ethernet ports.

300Mbps Wireless N router



Wi-Fi-speed of up to 300Mbps, and complies with IEEE 802.11 b/g/n standards. Supports multiple networking modes such as PPPoE/PPTP/L2TP/DHCP/Static IP, and VLAN function for IPTV and other internet services.

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Selected models of our Branded Products

Features

AC750 Dual Band Wi-Fi Range Extender



Extend wireless coverage with Wi-Fi speed of up to 433 Mbps on 5 GHz or 300 Mbps on 2.4 GHz, and complies with 802.11ac/a/b/g/n standards.

Ethernet switches

A network switch is a networking device used in wired network that connects devices together on a computer network, by using packet switching to receive, process and forward data to the destination device. Our product lines include switches with 5, 8, 16, or 24 ports to meet the demands of network switching. The price range for our network switch was approximately HK\$25.2 to HK\$488.3, HK\$23.3 to HK\$1,348.5 and HK\$27.9 to HK\$853.8 per unit for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively. The significant increase in the high end of the price range in the year ended 31 December 2016 was due to the sale of Ethernet switches with 24 ports. There was a decrease in the high end of the price range for the six months ended 30 June 2017 as there was no sale of Ethernet switches with 24 ports. The sales volume for our Ethernet switches amounted to approximately 0.6 million units and 0.7 million units for the years ended 31 December 2015 and 2016, respectively. The increase in sales volume of Ethernet switches was mainly attributable to the increase in sales volume of our 8 ports switch products to EFM and our branded 8 ports switch products. For the six months ended 30 June 2016 and 2017, the sales volume for our Ethernet switches remained stable and amounted to approximately 0.3 million units and 0.3 million units, respectively.

LAN cards and Wi-Fi modules

Both LAN cards and Wi-Fi modules are a kind of embedded equipment designed to help isolated electronic devices connect to the network. While LAN cards are finished products which can be readily embedded into isolated electronic devices to connect to the network, Wi-Fi modules are semi-finished products used in wireless LAN cards or other networking products providing Wi-Fi connectivity.

There are two main categories of LAN cards, namely wired network cards and wireless network cards. Wired network cards are traditionally used in personal computers as network data reception cards. We mainly manufacture wireless network cards, and other mainstream data interfaces. Through wireless network cards, devices without the wireless reception function can support wireless network by receiving and transmitting data through the interfaces. The transmission speed of our main products ranges from 150Mbps to 1.9Gbps, and they support 802.11b/g/n/ac wireless standards. The price range for our LAN cards and Wi-Fi modules was approximately HK\$16.7 to HK\$118.6, HK\$20.2 to HK\$247.2 and HK\$17.8 to HK\$333.3 per unit for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively. The increase in the high end of the price range in the year ended 31 December 2016 and the six months ended 30 June 2017 was due to the sale of more advanced models of our LAN

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cards and Wi-Fi modules. The sales volume for our LAN cards and Wi-Fi modules remained stable during the Track Record Period which amounted to approximately 0.9 million units, 0.8 million units, 0.4 million units and 0.3 million units for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively.

For further details regarding the standards used and their historical development, please see “Industry Overview” in this prospectus.

Other products

Action Cameras

An action camera is a high resolution digital camera with video recording capabilities, which is designed to film action and is often used for action photography in sports. During the Track Record Period, we subcontracted the entire manufacturing process for action cameras to a third party. One of the action camera models of our OEM customers has built-in Wi-Fi and supports the 4k resolution for ultra-high definition video capture. The price range for the action camera was approximately HK\$256.0 to HK\$958.4, HK\$319.2 to HK\$950.6 and HK\$373.2 to HK\$381.1 per unit for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. The decrease in the high end of the price range was mainly attributable to the decrease in order for high end action camera models from our OEM customer. The sales volume for our action cameras amounted to approximately 31,000 units and 24,000 units for the years ended 31 December 2015 and 2016, respectively. The sales volume for our action cameras amounted to approximately 11,000 units and 3,000 units for the six months ended 30 June 2016 and 2017, respectively. The decrease in the sales volume of our action cameras during the Track Record Period was mainly attributable to decreased purchase from our OEM customer, Customer D. Since April 2017, we have not entered into new transactions with Customer D as it did not settle its purchase amount within the credit term we granted to it, for which we had claimed for export credit insurance and written off the residual amount that would not be covered by export credit insurance. For details, please see “Financial Information” in this prospectus.

Power banks and USB hubs

A power bank is a portable device that can supply power from its built-in batteries through a USB port and a USB hub is a device that expands a single USB port into several USB ports so that there are more ports available to connect device to a host system. The price range for both power banks and USB hubs remained relatively stable during the Track Record Period. There was no price range for power banks for the year ended 31 December 2015 as they were only introduced at the end of 2015 and no sales was recorded in that year. For the year ended 31 December 2016 and the six months ended 30 June 2017, the price range for power banks was approximately HK\$73.2 to HK\$109.4 and HK\$42.6 and HK\$114.3, respectively. The price range for USB hubs was approximately HK\$82.9 to HK\$95.3, HK\$80.6 to HK\$95.3 and HK\$80.6 to HK\$92.2 per unit for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

The sales volume for power banks was approximately 20,000 units, 400 units, 44,000 units for the year ended 31 December 2016 and the six months ended 30 June 2016 and 2017, respectively. There was a substantial increase in the sales volume for the six months ended 30 June 2017 as power bank is a newly launched product in 2015 and we only started to generate sales in 2016. The sales volume for USB hubs was approximately 78,000 units, 0.1 million units, 45,000 units and 56,000 units for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively. The increase in sales volume for the year ended 31 December 2016 was mainly due to the increase in orders from EFM.

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SALES, MARKETING AND DISTRIBUTION

We generated our revenue mainly from selling products to our direct customers, distributors and consignees. The following table sets forth a breakdown of our revenue from sales of products (other than processing service fee) by sales channels for the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June			
	2015		2016		2016		2017	
	Percentage of total revenue from sale of products		Percentage of total revenue from sale of products		Percentage of total revenue from sale of products		Percentage of total revenue from sale of products	
	Revenue		Revenue		Revenue		Revenue	
HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
	<i>(Unaudited)</i>							
Direct sales	447,545	86.2	408,480	83.7	188,460	84.2	196,405	81.0
Distribution	71,672	13.7	70,449	14.4	31,881	14.2	39,695	16.3
Consignment	193	0.1	9,427	1.9	3,469	1.6	6,509	2.7
Total	519,410	100.0	488,356	100.0	223,810	100.0	242,609	100.0

During the Track Record Period, we sold our products to over 50 countries and regions. The following table sets forth the breakdown of our revenue by geographical regions where our customers are located for the periods indicated:

	For the year ended 31 December				For the six months ended 30 June			
	2015		2016		2016		2017	
	Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue	
	Revenue		Revenue		Revenue		Revenue	
HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
	<i>(Unaudited)</i>							
Korea	359,897	66.9	363,388	70.9	166,390	72.0	165,642	67.2
Vietnam	28,674	5.3	4,042	0.8	997	0.4	12,302	5.0
PRC	63,723	11.9	49,663	9.7	20,982	9.1	8,972	3.6
Other Asia ⁽¹⁾	38,710	7.2	60,290	11.8	23,458	10.2	29,733	12.1
North								
America ⁽²⁾	1,782	0.3	2,994	0.6	1,182	0.5	15,303	6.2
Europe ⁽³⁾	14,532	2.7	14,622	2.9	9,049	3.9	8,090	3.3
South America ⁽⁴⁾	23,041	4.3	9,303	1.8	4,360	1.9	4,173	1.7
Africa ⁽⁵⁾	7,032	1.3	7,879	1.5	4,692	2.0	2,156	0.9
Central								
America ⁽⁶⁾	310	0.1	9	-	9	-	51	-
Australia	2	-	2	-	2	-	-	-
Total	537,703	100.0	512,192	100.0	231,121	100.0	246,422	100.0

Notes:

- (1) Other Asia includes Hong Kong, Taiwan, Philippines, India, Thailand, Nepal, Pakistan, Israel, Singapore, Indonesia, the United Arab Emirates, Mongolia, Lebanon, Yemen, Iran, Iraq, Myanmar, Republic of Maldives, Saudi Arabia, Kazakhstan, Kuwait, Sri Lanka and Bangladesh.
- (2) North America includes U.S., Canada and Mexico.
- (3) Europe includes Italy, France, Poland, Germany, Czech Republic, Greece, Spain, Republic of Serbia, Russia, Ukraine, Romania, Turkey, Republic of Lithuania, Republic of Albania, Bulgaria, Republic of Ireland, Republic of Cyprus, the Netherlands, Georgia and Moldova.
- (4) South America includes Brazil, Argentina, Chile and Colombia.

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- (5) Africa includes South Africa, Republic of Tunisia and Egypt.
- (6) Central America includes Republic of Panama.

Direct sales of Jointly Developed Products to EFM

EFM was our largest customer during the Track Record Period. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our revenue generated from the sale of Jointly Developed Products to EFM amounted to approximately HK\$317.6 million, HK\$322.9 million and HK\$139.8 million, respectively, representing approximately 59.1%, 63.0% and 56.7% of our total revenue respectively for the said periods.

We entered into a legally binding supply agreement with EFM for a term of three years commencing from April 2015 to March 2018. Pursuant to the terms of the agreement, we sell the Jointly Developed Products to EFM on an order-by-order basis.

The salient terms of our supply agreement with EFM are as follows:

Duration:	The term of the agreement is three years and is automatically renewable for another term of three years unless written notice is given by either party no later than 60 days prior to expiry of the agreement.
Payment:	Payment is to be made by telegraphic transfer.
Delivery:	FOB Hong Kong
Goods return:	EFM is entitled to return defective products to us and we would provide replacement or repair for defective products for free after inspection. We undertake to repurchase the products according to the condition of the products at the agreed price where the quantity of defective products exceeds the agreed threshold.

The payment of the Jointly Developed Products is settled at the port of shipment. We generally provide a warranty of one year for power adaptors upon delivery of the products. During the Track Record Period and up to the Latest Practicable Date, there was no material product recall or product return that has materially adversely affected our business and results of operations. Our Directors confirm that there was also no repurchase of products as provided for under the supply agreement with EFM during the Track Record Period.

On 3 March 2017, we entered into a Joint Development Agreement with EFM pursuant to which EFM will be responsible for the research and development of the software to be installed in the Jointly Developed Products and the product case and package designs; and we are responsible for the research and development of the hardware and manufacturing of the Jointly Developed Products. Pursuant to the Joint Development Agreement, we will be the exclusive supplier of the networking products using Jointly Developed Products to EFM for a term of three years, and is renewable for another three years unless otherwise notified by either party no later than two months prior to expiry of the agreement. For details of the Joint Development Agreement, please see “— Our Business Model — EMS Business Model — Jointly Developed Products” in this section.

Direct sales of other EMS products

We generally sell our other EMS products on an order-by-order basis. Our other EMS customers would place purchase orders to us, which would stipulate details such as the model number, quantity, unit

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price, total price of the products, payment terms as well as the date and method of delivery. Our other EMS customers may stipulate any modification requirements to the original design. Upon receiving the purchase order, we would arrange for production of the products in accordance with any modification requirements.

During the Track Record Period, we did not have any material disputes with any of our other EMS customers.

Direct sales of OEM products

For our OEM business model, our products are generally manufactured in accordance with our customers' design and specification and are marketed under our customers' brand name.

We generally sell our OEM products on an order-by-order basis. Our OEM customers would place purchase orders to us, which would stipulate details such as the model number, quantity, unit price, total price of the products, payment terms as well as the date and method of delivery. After receiving the purchase order, we would procure raw materials and components in accordance with the specifications of the products and arrange for production. The OEM products are usually delivered on FOB basis.

During the Track Record Period, we did not have any material disputes with our OEM customers.

Distribution

We manufacture part of our products under the brand *TOTOLINK* and sell them predominantly on a wholesale basis to our distributors. Some of our distributors are exclusive distributors with a specified region and some are not. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our revenue generated from the sales of our Branded Products amounted to approximately HK\$77.9 million, HK\$86.2 million and HK\$51.7 million, respectively, representing approximately 14.5%, 16.8% and 21.0% of our total revenue respectively for the said periods. The decrease in our sales by distribution for the year ended 31 December 2016 was due to the decrease in sales to Customer C, which to the best knowledge of our Directors, was because Company X, a related company of Customer C, did not secure a contract with a telecommunications company in Vietnam. For illustration purpose only, excluding our revenue from Customer C, our sales by distribution increased from approximately HK\$43.5 million for the year ended 31 December 2015 to approximately HK\$68.6 million for the year ended 31 December 2016. We recognise the sales as our revenue on FOB basis. It is our general policy that no sales return is allowed for unsold goods except for defective products.

Distribution model

A majority of our sales of Branded Products are made on a wholesale basis to our distributors, who then distribute our products to their customers. To the best of our Directors' knowledge, the customers of our distributors are mainly wholesalers.

According to the Frost & Sullivan Report, distribution is one of the typical sales channels for network equipment manufacturers in the network equipment industry. By delegating to our distributors relationships with their wholesale customers and arrangements with third-party retailers and online sales, we believe that this operation model allows our Branded Products to reach more geographical regions over the world and penetrate into the market more quickly and effectively, by leveraging the local market knowledge, established network and sales channels of our distributors. This operation model not only allows us to utilise our internal resources to grow as a brand owner but also minimises inventory risk to our Group and allows us to focus on our core competitive strengths of brand management and product development.

Our distributors

As at 31 December 2015, 2016 and 30 June 2017, we had over 35, 60 and 65 distributors, respectively. To the best of our Directors’ knowledge, our distributors are mainly wholesalers of electronic products. All of our distributors during the Track Record Period are Independent Third Parties. To the best of our knowledge, our distributors manage their business and operations independently of each other.

As at 30 June 2017, we had over 65 distributors in 40 countries and regions as shown in the following map:



- | Asia | South America | Europe | Africa |
|----------------|------------------------|---------------|------------------------|
| ① Yemen | ⑪ Bangladesh | ⑳ Brazil | ⑳ South Africa |
| ② Pakistan | ⑫ Hong Kong | ㉑ Argentina | |
| ③ Israel | ⑬ Thailand | ㉒ Colombia | Central America |
| ④ Taiwan | ⑭ Myanmar | ㉓ Chile | ㉔ Panama |
| ⑤ Nepal | ⑮ Philippines | | |
| ⑥ Iraq | ⑯ Vietnam | North America | |
| ⑦ Iran | ⑰ Lebanon | ㉔ Canada | |
| ⑧ Indonesia | ⑱ Sri Lanka | ㉕ Mexico | |
| ⑨ India | ㉑ United Arab Emirates | | |
| ⑩ Saudi Arabia | | ㉖ Germany | |
| | | ㉗ Ukraine | |
| | | ㉘ Spain | |
| | | ㉙ Poland | |
| | | ㉚ Romania | |
| | | ㉛ Russia | |
| | | ㉜ Bulgaria | |
| | | ㉝ Ireland | |
| | | ㉞ Italy | |
| | | ㉟ Moldova | |
| | | ㊱ Cyprus | |
| | | ㊲ Turkey | |

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The following table sets out the movement in the number of our distributors during the periods indicated:

	For the year ended		For the
	31 December		six months
	2015	2016	ended 30 June 2017
Distributors at the beginning of the period	44	39	64
Non-renewal during the period	(26)	(2)	(1)
Addition during the period	21	27	6
Distributors at the end of the period	<u>39</u>	<u>64</u>	<u>69</u>

The length of our business relationship with the five largest distributors for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 ranges from less than one year to six years, and two years on average. Additional distributors were engaged during the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, from 44 as at 1 January 2015 to 64 as at 31 December 2016 and further increased to 69 as at 30 June 2017, reflecting the expansion of our distribution network. Such expansion is also evidenced by the increase in the number of geographical regions for the sales of our Branded Products from over 25 countries and regions for the year ended 31 December 2015 to 40 countries and regions for the year ended 31 December 2016.

We did not renew distributorship with certain distributors during the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 as we considered the distribution network of certain of such distributors no longer matched our distribution strategy. To develop our distribution network, we have engaged 21, 27 and 6 additional distributors during the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

During the Track Record Period, we did not have any material disputes with any of our distributors.

Criteria for selection of potential distributors

We actively identify potential distributors through attending international electronics exhibitions, and conducting site visits. We then select distributors that we believe to be capable and suitable for establishing the distribution network for our Branded Products. In the course of the selection process, we take into account a number of factors, including:

- experience in routers or network equipment distribution;
- scale of operations, financial resources and annual turnover;
- the extensiveness of the distribution network;
- the quality of the pre-sales and after-sales services; and
- the strength and experience in sales and marketing.

Distribution arrangements

Our relationship with each of our distributors is one of seller and buyer. We do not have contractual relationships with the customers of our distributors and have no direct control over their respective distribution channels, but we exert a certain degree of control over our major distributors through our distribution agreements. For further details of potential risks associated with our distribution model,

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please see “Risk Factors — We rely on our distributors for the sale of our Branded Products, and therefore if we fail to attract quality distributors or if our distributors fail to successfully sell and distribute our products, our business, results of operations, financial condition and prospects may be materially and adversely affected” in this prospectus.

We generally enter into distribution agreements with our major distributors on terms and conditions in line with our sales and distribution policy for our Branded Products. We review the performance of our distributors in terms of sales target, market promotion, after-sales service and customer satisfaction annually. If the performance of our distributors is not satisfactory, we will provide suggestions and revise distribution agreements accordingly. As at 30 June 2017, for most of the distributors with distribution agreements, we set different sales targets for generally ranging from US\$0.2 million to US\$3.0 million annually and approximately US\$1.0 million on average. For distributors without distribution agreements, we will sell our Branded Products on an order-by-order basis and do not generally set sales targets. As at 31 December 2015 and 2016 and 30 June 2017, there were 29, 44 and 47 distributors who did not enter into distribution agreements with us. The revenue generated from these distributors amounted to approximately HK\$21.7 million, HK\$26.5 million and HK\$12.5 million, representing approximately 4.0%, 5.2% and 5.1% of our total revenue for the same periods, respectively.

Distribution agreements

The following summarises the salient terms of our typical existing distribution agreements:

Duration:	The term of our distribution agreements is generally one year and is automatically renewable for another six to 12 months upon expiry unless written notice of termination is given.
Territory and exclusivity:	Our distributors are authorised to sell our Branded Products within a designated territory.
Sales and pricing policies:	We inform our distributors about the recommended retail price and they decide upon the market price with reference to the recommended retail price.
Sales target:	Sales targets are specified. Distributorship may be terminated or renewed on a non-exclusive basis if our distributors cannot meet the targets.
Sales and marketing support:	<ul style="list-style-type: none">• Our distributors generally bear all expenses on marketing within that designated territory. However, we would provide marketing subsidy to our distributors if the sales turnover has exceeded the minimum requirement.• We are responsible for providing training as well as marketing materials for our Branded Products to our distributors.
Warranty:	<p>We will provide a warranty of 15 to 36 months for product repair after shipment of products. If the defective rate exceeds 1% within the warranty period, we will repair the defective goods for free or repurchase such products at an agreed price. If the defective rate does not exceed 1%, we will repair the defective goods for free, but extra material cost from repairing will be borne by the distributor.</p> <p>As for power adaptors, we will provide a warranty of six to 12 months with new replacement after shipment of products.</p>

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- Other rights and obligations of our distributors:
- Our distributors are required to submit to us a sales forecast for the next two months or the coming quarter.
 - Our distributors are required to submit to us market reports regarding changes of local regulations in relation to the import and sales of products, market conditions and purchaser's comments on our products at least once a quarter or at any time when necessary. They shall also provide us with information relating to our competitors from time to time, such as prices, sales and marketing materials.
 - Our distributors are required to submit all marketing materials for our approval.
 - Our distributors may use the trademarks or trade names owned by us for the sale of our Branded Products and shall acknowledge that all intellectual properties relating to our Branded Products remain as our sole properties. At no time during or after the term of the distribution agreement shall our distributors challenge or assist others to challenge the said trademarks or trade names or attempt to register any trademarks, or trade names confusingly similar to ours. Should our distributors come to the knowledge of any infringement of our trademarks or trade names, they shall notify us and assist us to take steps to protect our intellectual property rights.

Termination: If either party has breached the distribution agreement, the other party has a right of termination.

Payment particulars are usually specified in a separate sales confirmation. Payment terms in relation to products to be exported may be varied due to requirements of the export insurance company concerned and our relationship with the distributors. For instance, we may require a deposit of 10% to 30%, a credit period of 30 to 180 days or full payment before shipment.

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the rebate which we offered to our distributors as marketing support amounted to approximately HK\$1.7 million, HK\$1.0 million and HK\$0.5 million respectively.

Management of our distribution network

To avoid potential competition between distributors, we generally only appoint one distributor for one country. Where there are more than one distributor appointed in one country or region, if possible, we would try to divide them to be responsible for different regions or different sales channels. As at 30 June 2017, out of the 40 countries and regions where we have distributors, we had appointed sole distributor in 32 countries and regions. We may appoint more than one distributor in some of our major markets or markets with potentials, markets which we wish to penetrate or when a distributor underperforms. As at 30 June 2017, there were eight countries where we had more than one distributor, which are Taiwan, Indonesia, South Africa, Philippines, Vietnam, India, Italy and Iraq, and of which there were 20 distributors in Taiwan, four distributors in Vietnam, three distributors in South Africa and two distributors in each of Indonesia, Philippines, India, Italy and Iraq. More distributors were appointed in Taiwan as we have established Zioncom Taiwan in September 2015. This enables us to expand our

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distribution network in Taiwan as we can manage the distributors more directly. In all of these eight countries, there is a distributor which contributes to the majority of revenue from that country for the six months ended 30 June 2017 ranging from approximately 56.0% to 100%. If the revenue from the largest distributor in these countries is excluded, the revenue from other distributors only amounted to approximately HK\$2.9 million, HK\$4.7 million and HK\$6.3 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively, representing approximately 4.0%, 6.7%, 15.9% of our total revenue from distributors and approximately 0.5%, 0.9% and 2.6% of our total revenue of the corresponding periods. In view of the insignificant amount of revenue from these other distributors, our Directors are of the view that there was no cannibalisation among distributors in these countries. In order to manage the risk of cannibalisation between our distributors, our Group has adopted the following policies:

- (i) We take into consideration the distributors' respective geographical coverage as well as distribution channels in our selection of distributors so as to manage the risk of potential competition among the distributors within a region or country;
- (ii) Our distribution agreements specify the region or country which the distributors can distribute our Branded Products and they are not allowed to sell our products beyond the designated region or country. In the case where our distributors do not sell our products within the designated geographical region or country, we can take remedial actions pursuant to the distribution agreements; and
- (iii) We conduct on-site inspections from time to time and have communications with our major distributors to monitor various aspects of their sales activities, including sales volume and inventory levels.

We have no ownership or managerial control over any of the distribution networks of our distributors and sub-distributors, if any, and we manage our distribution networks through monitoring our distributors' compliance with our policies. Under the existing distribution agreements, there is no restriction imposed on our distributors restricting them from appointing sub-distributors, nor is there any restriction on how distributors exercise their control over the sub-distributors. Distribution networks are owned and managed by our distributors and their wholesale customers (which includes operators of third-party retailers and sub-distributors). Major distributors (who contribute over 1% of our Group's revenue) are required to submit to us a sales and inventory report on a monthly basis, but we do not have direct day-to-day access to the sales and inventory levels of our distributors as well as the third-party retailers with whom they contract.

We do not have contractual relationships with the wholesale customers, such as third-party retailers and sub-distributors, of our distributors. We rely on our distributors to monitor the business behaviour of such wholesale customers. We conduct site visit on our major distributors on a regular basis to monitor their inventory levels as well as to obtain more information relating to their sales orders and operations. We also visit the wholesale customers from time to time to gain a better understanding of their requirements and the market reception of our Branded Products. To manage potential channel stuffing with our existing distributors, we would monitor the payment pattern and amount of sales return from distributors on a regular basis. We did not obtain information in relation to the inventory amount held by distributors which were not renewed as of the date of non-renewal during the Track Record Period. However, our Directors consider that there had not been any channel stuffing with our distributions and their sub-distributors, if any, having taken into account that:

- (i) The amount of sales revenue from such distributors which were not renewed during the Track Record Period was insignificant, and the inventory amount held by such distributors as of the

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date of non-renewal would not be larger than the amount of our sales revenue generated from them. Such revenue was approximately HK\$10.5 million, HK\$0.6 million and HK\$6,975 for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively, representing approximately 14.7%, 0.8% and 0.02% of the revenue from distributors and approximately 2.0%, 0.1% and 0.003% of our Group's total revenue in the corresponding periods;

- (ii) There had not been any material long overdue trade receivables from distributors. As at 31 December 2015, 31 December 2016 and 30 June 2017, the amount of trade receivables that had been overdue for over 180 days from distributors was merely HK\$0.1 million, HK\$2.7 million and HK\$1.4 million, respectively, representing approximately 0.2%, 4.0% and 2.1% of our Group's total trade receivables as at the relevant dates; and
- (iii) There had been no material sales return from distributors during the Track Record Period.

Where a distributor fails to meet the sales target as stipulated in the distribution agreements, we may decide not to renew the distribution agreement.

Our distributors are managed and monitored by our sales and marketing team consisting of 51 members as at the Latest Practicable Date. Our sales and marketing team is further divided into three subdivisions in accordance with the geographical regions of our distributors, which are namely (i) Southeast and South Asia; (ii) Middle East; and (iii) others. Our sales and marketing team is responsible for communicating with our distributors and obtaining information about market conditions and demands.

Consignment

During the Track Record Period, sales of the Branded Products to our certain customers in Taiwan were made on consignment basis to diversify our distribution channels. Our major consignee would act as our medium to sell Branded Products to a designated electronics retailer. Consignment sales revenue is recognised when our products are sold by consignees to a third party. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, we generated approximately HK\$0.2 million, HK\$9.4 million and HK\$6.5 million of our revenue from consignment sales of our Branded Products respectively, accounting for approximately 0.1%, 1.9% and 2.7% of our total revenue, respectively. We had established our Taiwan subsidiary in September 2015. We did not have material operations in Taiwan in 2015. Our general policy is that no sales return is accepted except for defective products.

Product pricing

We generally adopt a cost-plus policy for the pricing of all our products. Any downward adjustment on the standard profit margin would require management's approval. During the Track Record Period, our gross profit margin was approximately 12.7%, 15.6% and 15.6% for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. Our sales are in RMB, VND and New Taiwan Dollar for transactions in PRC, Vietnam and Taiwan respectively, and mainly in USD for transactions in other places.

For our Branded Products, we provide our distributors with a range of retail prices as guidance but allow them the discretion to determine the retail price.

After-sale services and warranty

Our general policy is that no sales return is accepted. We request our customers to conduct quality inspections upon receipt of our products. Once accepted, our distributors are not allowed to return products to us, except where our products are defective.

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For our Branded Products which are sold through our distributors or consignees, we generally provide a warranty period of 15 to 36 months for product repair after shipment of products. As for power adaptors, we generally provide a warranty of six to 12 months with new replacement after shipment of products. If there are defective products, they would be returned by the distributors or our consignees to us for repair during the warranty period.

For our Jointly Developed Products, we generally provide a warranty period of one year for power adaptors upon delivery of the products.

For OEM and other EMS products, we generally provide a warranty period ranging from 12 to 36 months upon acceptance or delivery of the products. Where there are accessories to the core products, such as power adaptors, we generally provide a warranty period of 12 to 18 months. During this warranty period, we would repair the products and provide technical support services for free.

During the Track Record Period and up to the Latest Practicable Date, we did not incur any significant expenses in relation to product warranty that would materially and adversely affect our business, results of operations and financial condition. As such, no provision has been made in this regard. In practice, we usually deliver up to 1% additional products that we have agreed to such that any defective products may be replaced by these additional products. The number of defective products returned to us had been immaterial during the Track Record Period. In June 2016, Zioncom HK accepted the return of certain products (the “**Relevant Products**”) of approximately US\$0.2 million with customised firmware and user interface from a Customer C in Vietnam. To the best knowledge of our Directors, such Relevant Products were ordered with customised firmware and user interface because a related company of Customer C (“**Company X**”) was trying to secure a contract with a telecommunications company in Vietnam. Company X subsequently failed to secure the contract with the telecommunications company. Because of the customised firmware and user interface of the Relevant Products, it was difficult for Customer C or Company X to sell the Relevant Products to other customers. As such, Customer C requested us to accept the return of those products. Although it is our general policy not to accept any sales return except for defective products, having considered the fact that (i) we would like to maintain the business relationship with Customer C; and (ii) even though the Relevant Products were loaded with customised firmware and user interface, the models of the Relevant Products were our popular models, Zioncom HK accepted the return of those products. Customer C has confirmed that the return of those products was not due to any quality issues of the products or any dispute in connection with those products and they have no claims against Zioncom HK with respect to the Relevant Products. After we accepted the return of the products, we modified the products and sold most of those products to our other customers without incurring losses.

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the sales return of our products amount to approximately HK\$0.7 million, HK\$3.2 million and HK\$0.5 million, respectively, accounting for approximately 0.1% and 0.6% and 0.2% of our total revenue, respectively. During the Track Record Period and up to the Latest Practicable Date, there was no material product recall or product return that has materially adversely affected our business and results of operations or any material complaint, product liability or other claim in connection with our product quality, which if determined adversely against us, would have materially adversely affected our business and results of operations.

Marketing and promotion

As the Jointly Developed Products under the brand *ipTIME* are sold by EFM in Korea, we are not responsible for the marketing and promotion of such products. We conduct marketing and promotion for

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our Branded Products. For details of our sales and marketing team, please see “— Sales, marketing and distribution — Distribution — Management of our distribution network” in this section.

Our marketing initiatives for our Branded Products are mainly: (i) media advertising conducted by certain of our distributors as well as incentives for certain of our distributors with target sales volume; (ii) electronics exhibitions such as the Electronics and Components Sourcing Fair held in Hong Kong; (iii) product catalogues and complimentary gifts to retailers or internet service providers; (iv) discussions and advertisements on social media; and (v) promotion of our product offering on our Company’s website. Moreover, for our Branded Products sold on consignment basis in Taiwan, we would publicise by putting on posters at retail selling points.

We would also set marketing strategies with our distributors. Recent marketing initiatives of our distributors include the Cairo ICT which was held in Egypt and Iran Elecomp Fair which was held in Iran.

Seasonality

Historically, our sales were subject to seasonality. We generally experience higher sales before the National Day, Chinese New Year and Christmas where our customers place purchase orders with us in anticipation of the temporary suspension of our operations due to the long public holidays.

CUSTOMERS

We have three main categories of customers for our products sold: (i) our EMS customers, which include EFM, customer of our Jointly Developed Products and other EMS customers; (ii) our direct customers and our distributors and consignees of our Branded Products; and (iii) our OEM customers. During the Track Record Period, we sold our products to approximately 70 direct EMS customers, approximately 90 direct customers of our Branded Products, over 65 distributors and consignees and three direct OEM customers. Each of our five largest customers during the Track Record Period is an Independent Third Party. Sales to our five largest customers represented approximately 77.8%, 76.6% and 74.7% of our total revenue for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. Sales to EFM, our largest customer for the same periods represented approximately 59.1%, 63.0% and 56.7% of our total revenue, respectively. As at the Latest Practicable Date, our business relationship with our five largest customers ranged from one to 13 years, which included EFM whom we had established over 10 years of business relationship.

None of our Directors, our chief executive or any person who, to the best knowledge and information of our Directors, owned more than 5% of our issued share capital or any of our subsidiaries, or any of their respective close associates, had any interest in any of our top five customers during the Track Record Period.

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The following table sets forth details of our five largest customers for each year/period during the Track Record Period:

For the year ended 31 December 2015

Name of customer	Profiles and background	Location of customer	Major types of products sold or services rendered	Approximate number of years of business relationship	Approximate % of revenue	Payment method	Payment terms
EFM	Mainly engaged in manufacturing and wholesale of telecommunication equipment and device	Korea	Routers, Ethernet switches, other networking products and non-networking products	13	59.1	Telegraphic transfer	No credit terms <i>(Note 1)</i>
Customer B Group <i>(Note 2)</i>	Mainly engaged in network and broadband connection services	PRC	Routers	2	5.7	Telegraphic transfer	In general, 70% of the invoice amount was settled 30 days after invoice was issued upon delivery, while 30% of the invoice amount was settled 90 days after delivery
Customer C	Mainly engaged in trading networks equipments	Vietnam	Routers, Ethernet switches, other networking products and non-networking products	5	5.3	Telegraphic transfer	60 days after shipment
Customer D	Mainly engaged in manufacture and sale of video and other audio equipment including action cameras	Korea	Action cameras	3	4.3	Telegraphic transfer	End of month after monthly statement
Relevant Customer	Mainly engaged in wholesale of electronic products	PRC	Processing services	5	3.4	Telegraphic transfer	180 days after invoice
Total					77.8		

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For the year ended 31 December 2016

Name of customer	Profiles and background	Location of customer	Major types of products sold or services rendered	Approximate number of years of business relationship	Approximate % of revenue	Payment method	Payment terms
EFM	Mainly engaged in manufacturing and wholesale of telecommunication equipment and device	Korea	Routers, Ethernet switches, other networking products and non-networking products	13	63.0	Telegraphic transfer	No credit terms <i>(Note 1)</i>
Relevant Customer	Mainly engaged in wholesale of electronic products	PRC	Processing services	5	4.7	Telegraphic transfer	180 days after invoice
Customer B Group <i>(Note 2)</i>	Mainly engaged in network and broadband connection services	PRC	Routers	2	3.4	Telegraphic transfer	In general, 70% of the invoice amount was settled 30 days after invoice was issued upon delivery, while 30% of the invoice amount was settled 90 days after delivery
Customer E	Mainly engaged in distributing information technology products, broadband and network related products	Taiwan	Routers, Ethernet switches, other networking products and non-networking products	2	3.2	Telegraphic transfer	45 days after monthly statement
Customer F	Mainly engaged in import, distributing and selling IT equipment and network system	Thailand	Routers, Ethernet switches, other networking products and non-networking products	1	2.3	Telegraphic transfer	45 days after invoice
Total					<u>76.6</u>		

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For the six months ended 30 June 2017

Name of customer	Profiles and background	Location of customer	Major types of products sold or services rendered	Approximate number of years of business relationship	Approximate % of revenue	Payment method	Payment terms
EFM	Mainly engaged in manufacturing and wholesale of telecommunication equipment and device	Korea	Routers, Ethernet switches, other networking products and non-networking products	13	56.7	Telegraphic transfer	No credit terms (Note 1)
Customer G	Mainly engaged in provision of intelligent wireless solutions	U.S.	Routers	less than 1	5.9	Telegraphic transfer	90 days after bill of lading
Customer H	Mainly engaged in manufacturing of video and other audio equipment including set-top box (satellite, cable and terrestrial), video gateway and broadband gateway	Korea	Routers	2	5.1	Telegraphic transfer	90 days after bill of lading and invoice
Customer E	Mainly engaged in distributing information technology products, broadband and network related products	Taiwan	Routers, Ethernet switches, other networking products and non-networking products	2	3.9	Telegraphic transfer	45 days after monthly statement
Customer I	Mainly engaged in provision of managed security services, VPN, UTM (Unified Threat Management) and firewall	Korea	Routers	8	3.1	Telegraphic transfer	30 days after shipping date
Total					74.7		

Notes:

- (1) There was no credit terms granted to EFM during the Track Record Period as (i) EFM has never requested us to grant a credit term; and (ii) EFM has a track record for timely payment for the products sold by our Group and there were no material disputes or disagreements in relation to the payment of the products sold by our Group to EFM over the long term business relationship with EFM for approximately 13 years. During the Track Record Period, EFM would arrange several payments to our Group each month for products sold to EFM, and the payment amount paid by EFM to our Group each month has generally accounted for approximately over 70% of the amount of sales to EFM for each respective month. In addition, due to the smooth cooperation between our Group and EFM for the joint development of products over the past decade, our Group and EFM have developed mutual trust with each other. As such, our Group has great comfort for allowing flexibility over the payment terms for products sold to EFM and no credit term has been granted to EFM during the Track Record Period. As at 30 June 2017, the amount of trade receivables from EFM was approximately HK\$1.2 million, which accounted for 1.9% of our Group's total trade receivables.
- (2) Including transactions with subsidiaries of Customer B which were incorporated mainly in the PRC and are considered as a single customer.

EFM

During the Track Record Period, EFM was our largest customer. For further details of our Jointly Developed Products, please see “— Our business model — EMS business model — Jointly Developed

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Products” in this section. Payments are usually settled in USD and mainly by way of telegraphic transfer, and are made at the time the products are exported.

For details of risks relating to the geographical concentration of our sales in the Korean market, and reliance on our largest customer, please see “Risk Factors” in this prospectus.

Our Directors are of the view that the following factors should contribute to the sustainability of our business notwithstanding our reliance on EFM:

Mutual complementary reliance

We and EFM rely on each other’s skills and technologies in developing the Jointly Developed Products. Owing to such, we have entered into the Joint Development Agreement with EFM for a term of three years and is renewable for another term of three years unless otherwise notified by either party no later than two months prior to expiry of the agreement. Pursuant to the Joint Development Agreement, EFM shall not consign the production and supply of the Jointly Developed Products to any third party without prior written consent of our Group.

Although EFM is responsible for the research and development of the software to be installed in the Jointly Developed Products under the Joint Development Agreement, EFM relies on us for the research and development of the hardware and manufacturing of the Jointly Developed Products. The intellectual property rights attached to the hardware developed by us are owned by us and EFM shall not consign the production and supply of the Jointly Developed Products to any third party without our prior written consent under the Joint Development Agreement. In addition, in order to manufacture the hardware of the Jointly Developed Products, it is necessary for the manufacturer to develop hardware moulds for the Jointly Developed Products. As at 30 June 2017, our Group owned approximately over 350 different moulds in relation to the hardware of the Jointly Developed Products such as PCB and product cases for EFM. During the Track Record Period, over 300 different moulds in relation to the hardware of the Jointly Developed Products are in use, of which over 130 moulds are currently in use for the production of our Group’s products other than those exclusively used in Jointly Developed Products. To the best knowledge of our Directors, development of each of such hardware moulds would generally require approximately one to six months’ time and would cost around RMB10,000 to RMB300,000 to develop one hardware mould. The development costs of such hardware moulds that are currently in use for the production of Jointly Developed Products are over RMB4.0 million, of which approximately RMB1.8 million represented the development costs of the hardware moulds that are currently in use for the production of our Group’s products other than those exclusively used in the Jointly Developed Products.

In addition, as confirmed by EFM, the revenue generated from the networking products purchased from our Group accounted for over 95% of the revenue of EFM, in each of the years ended 31 December 2014, 2015 and 2016 and up to September 2017. EFM also confirmed that our Company has remained as the sole supplier of EFM in respect of its networking products during such period. Further, during the period of our Group’s long standing business relationship with EFM, there had not been any material claims, disputes or significant complaints in relation to the Jointly Developed Products which demonstrated EFM’s trust and confidence in the quality of the Jointly Developed Products. Our Directors believe that such trust and confidence established from business cooperation for more than a decade has translated into smooth and reliable business dealing as well as continuous business development for both parties and thus is not easily substituted.

Further, our Group has strong hardware design, research and development capabilities. As at 30 June 2017, our Group has a dedicated team of nearly 10 engineers specialising in hardware design, research and development, half of whom held a bachelor degree in the relevant discipline and the team of

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engineers has, on average, over ten years of work experience in the relevant discipline. In addition, our Group has a hardware testing research and development facility headquartered at our production facilities in Shenzhen, in which the team of engineers implemented the hardware componentry of the products. During the Track Record Period, (i) our Group was responsible for the hardware design for the products for over 55 customers in 17 countries and regions; (ii) our Group has four registered designs in the PRC; and (iii) our Group has developed the hardware of GPON wireless routers and 4G LTE routers, which demonstrates our Group's hardware research and development capabilities.

As such, given the complexity and the lengthy period of time required for EFM to re-develop the wide variety of such 350 hardware moulds provided by our Group, our Group's long standing business relationship with EFM, and our Group's strong hardware design, research and development capabilities our Directors believe that there is no commercial reason, and it would not be practically feasible, for EFM to replace our Group with other manufacturers within a short period of time.

In addition, EFM is required by contract to obtain our Group's consent if it seeks to engage another manufacturer to manufacture the Jointly Developed Products while our Group is also required by contract to obtain EFM's consent if our Group seeks to produce or supply the Jointly Developed Products to any third party. Pursuant to the Joint Development Agreement, EFM shall not consign the production and supply of the Jointly Developed Products to any third party without the prior written consent of our Group during the term of the Joint Development Agreement which is three years, and is renewable for another term of three years unless otherwise notified by either party no later than two months prior to expiry of the Joint Development Agreement.

Further, there is no direct competition between our Group's Branded Products and other EMS Products with the Jointly Developed Products sold by EFM as EFM and our Group mainly targeted on markets in different countries during the Track Record Period. During the Track Record Period, to the knowledge of the Directors, the Jointly Developed Products were sold by EFM only within Korea while our Group's Branded Products and other EMS Products were mainly sold outside Korea, except for one customer in Korea ("**Customer L**") which was introduced by EFM to our Group. During the Track Record Period, our Group's revenue generated from Customer L amounted to approximately HK\$4.6 million, HK\$3.3 million and nil for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017. As our Group's other EMS Products were sold to Customer L with EFM's consent and that we have not sold other EMS Products to Customer L upon the entering of the Joint Development Agreement with EFM, our Directors believe that there was no breach of the Joint Development Agreement by our Group in relation to the selling of its other EMS Products loaded with software developed by EFM to Customer L in Korea during the Track Record Period.

Pursuant to the Joint Development Agreement and a consent letter entered into by EFM and our Group, our Group has been granted an exclusive selling right by EFM to sell its Branded Products and other EMS products loaded with software developed by EFM in the PRC, Taiwan, Vietnam, and Hong Kong for three years from the date of the Joint Development Agreement. In addition, to the best knowledge of our Directors, EFM has no current plans to sell the Jointly Developed Products outside Korea. Therefore, our Company is of the view that there is no direct competition between our Group's Branded Products and other EMS Products with the Jointly Developed Products sold by EFM.

Given that our Group has not received EFM's request for seeking to engage another manufacturer to manufacture the Jointly Developed Products during our Group's established business relationship with EFM for approximately 13 years, and that EFM would require our Group's consent to engage another manufacturer pursuant to the Joint Development Agreement, our Directors believe that our Group is not easily substituted by other manufacturers readily available in the market. Further, based on the

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information available to us, we believe that the sale of the Jointly Developed Products constituted the majority of the revenue of EFM during the Track Record Period. As such, we believe that EFM relies on us for the manufacture of the Jointly Developed Products.

We have 13 years of business relationship with EFM. We gained trust from EFM as we share the same cultural background, which our Directors believe, affords them greater comfort over the protection of intellectual properties as demonstrated by our track record over the long history of cooperation. We believe that the mutual trust and smooth cooperation built up during our joint product development in the past decade has not only demonstrated mutual complementary reliance between us and EFM, but has also evidenced that such relationship and mode of cooperation is commercially beneficial to both and most importantly sustainable.

Notwithstanding the above, we cannot assure you that the purchase volume of EFM in the future will be comparable to that during the Track Record Period, nor can we guarantee that we will continue to be able to manufacture and sell the Jointly Developed Products to EFM upon expiry of the current supply agreement and the Joint Development Agreement. In the event that EFM reduces the purchase volume or no longer purchases the Jointly Developed Products from us in the future and we are unable to secure new customers, our business, results of operations and financial condition may be materially and adversely affected. Please see “Risks relating to our business — We generate substantial amount of our revenue from EFM and we rely substantially on EFM in respect of our contractual right to use the software developed by it in connection with the Jointly Developed Products. Any adverse changes in the business or financial condition of EFM or in our relationship with EFM could materially and adversely affect our business.” in this prospectus.

Risk diversification by expanding our distribution network for Branded Products and customer base

We consider that the expansion of our Branded Products business and the diversification of our product portfolios allow us to diversify business risk and seek avenues for business growth and opportunities. It has been and will continue to be our business strategy to explore more growth opportunities by expanding our distribution network for Branded Products and diversifying our product portfolios.

During the years ended 31 December 2015 and 2016, revenue generated from our sale of Branded Products amounted to approximately HK\$77.9 million and HK\$86.2 million, respectively, representing an increase of approximately 10.6%. For the six months ended 30 June 2016 and 2017, revenue generated from the sale of our Branded Products amounted to approximately HK\$36.9 million and HK\$51.7 million, representing an increase by approximately 40.1%. This indicates a continuing growth in the sale of our Branded Products.

We aim to supplement our product offering with popular products to augment the sale of our Branded Products. We entered into an agreement with Customer G in September 2016 regarding the supply of 4G LTE routers on OEM basis, given that to the best knowledge of our Directors, Customer G possesses its own design capacity and as such, they looked for an experienced and reliable manufacturer with presence in Asia to manufacture their products. Through the supply of 4G LTE routers under the agreement, we generated revenue of approximately HK\$14.5 million for the six months ended 30 June 2017. After accumulating experience of manufacturing 4G LTE routers for Customer G, we began to supply 4G LTE routers on EMS basis to a new customer, Customer X in May 2017. Shortly afterwards, we managed to secure an order from Customer X of approximately HK\$8.5 million in August 2017, and our Directors believe that it would continue to purchase from us on a regular basis. It is our plan to begin research and development of our own branded 4G LTE routers in the first half of 2018, which are

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expected to be launched to Southeast Asian markets by the end of 2018. We trust that the addition of 4G LTE routers to our product portfolio will further increase the sale of our Branded Products.

We strive to expand our business further by diversifying our product portfolios to include more non-networking products. During the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, revenue generated from our sale of non-networking products amounted to approximately 9.0%, 7.8% and 6.6% of our total revenue (other than processing fees), respectively. Leveraging on our expertise in manufacturing wireless networking products, we supplied portable consumer action cameras with wireless capabilities during the Track Record Period. We began to supply other non-networking products, such as power banks in 2015.

We also strive to diversify our risk by expanding our distribution network for our Branded Products. As at 30 June 2017, we had over 65 distributors in 40 countries and regions. The number of our distributors has increased from over 40 as at 1 January 2015 to over 65 as at 30 June 2017, reflecting the expansion of our distribution network. To develop our distribution network, we have engaged 21, 27 and 6 additional distributors during the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. Such expansion is also evidenced by the increase in the number of geographical regions for the sales of our Branded Products from over 25 countries and regions for the year ended 31 December 2015 to 40 countries and regions for the year ended 31 December 2016. We also plan to increase our market penetration in a number of emerging Asian countries such as Thailand and Philippines by engaging more distributors which we believe have market potential for our products. We believe that the increase of market penetration of our Branded Products would benefit us by enhancing brand recognition as well as stronger profitability.

Apart from that, we intend to expand our customer base of our other business models. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, we had 12, 14 and 5 new customers for our other EMS products, respectively.

In view of our plans to (i) broaden our product offering by developing our own branded 4G LTE routers; (ii) diversify our product portfolios to include more non-networking products; (iii) expand the distribution network for our Branded Products; and (iv) increase our market penetration in emerging Asian countries, our Directors are of the view that our Group can reduce our reliance on EFM.

Prospects of the industry and viability of our business

According to the Frost & Sullivan Report, the number of broadband users in Korea increased from 37.2 per hundred persons in 2012 to 41.1 per hundred persons in 2016, representing a CAGR of 2.5%. The number of mobile phone subscribers in Korea also increased from approximately 53.6 million in 2012 to approximately 61.6 million in 2016, representing a CAGR of 3.5%. In addition, the networking equipment manufacturing market has achieved USD745.0 million in 2016, representing a CAGR of approximately 15.7% for the period from 2012 to 2016. Driven by the technology upgrade, the matured network equipment manufacturing market in Korea is estimated to maintain a slightly slower but stable growth in the future as consumers in Korea are pursuing more advanced networking products which requires strong research and development, and thus the selling prices of these products would be relatively high even with a sluggish growth in the number of broadband users in Korea. The network equipment manufacturing market in Korea is estimated to achieve approximately USD1,419 million by 2021, representing a CAGR of approximately 13.4% for the period from 2017 to 2021. With the growth in the number of broadband users and the number of mobile phone subscribers in Korea, we believe there will be a stable growth in the demand for networking products in Korea.

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Furthermore, EFM has a dominant market position in Korea. According to the Frost & Sullivan Report, the retail consumer router market in Korea is highly concentrated, with the top five brands occupying a market share of more than 90.6% in 2016, while the Jointly Developed Products sold in Korea accounted for approximately 73.2% of the total sales revenue of retail consumer routers in Korea in 2016. Except EFM, each of the other top four players' market share is in single digit and as such our Directors consider that EFM's dominating position in the consumer network market in Korea remains solid at least in the near future. In view of the above and given the Joint Development Agreement that we have entered into with EFM, we believe we will be able to capture the growth in the network equipment manufacturing market in Korea and our business is commercially viable.

Customers of our Branded Products

During the Track Record Period, the major customers of our Branded Products were our distributors in 40 countries and regions. Our customers also include consignees as a small portion of our sales of Branded Products was made on consignment basis in Taiwan. For further details regarding our distributors, please see “— Sales, marketing and distribution — Distribution” in this section.

As at 30 June 2017, our business relationship with our top five distributors and consignees for the Track Record Period ranged from less than one year to six years. Payment terms in relation to products to be exported may be varied due to requirements of the export insurance company concerned and our relationship with the distributors. For instance, we may require a deposit of 10% to 30%, a credit period of 30 to 180 days or full payment before shipment.

OEM customers and other EMS customers

To the best of our Director's knowledge, our OEM customers and other EMS customers other than EFM are mainly brand owners. We solicited business from one of our other EMS customers through bidding, who was also one of our five largest customers during the Track Record Period. After winning the bid, we entered into a framework sales agreement with this customer, who, pursuant to the sales agreement, would purchase products from us on an order-by-order basis through placing purchase orders.

Payment terms in relation to products to be exported may be varied due to requirements of the export insurance company concerned and our relationship with such customers. Payments are usually settled in USD and RMB and mainly by way of telegraphic transfer and acceptance notes. As at 30 June 2017, the length of our business relationship with our OEM customers and top five other EMS customers during the Track Record Period ranges from less than one year to three years and from two to eight years respectively. Payment terms in relation to products to be exported may be varied due to requirements of the export insurance company concerned and our relationship with our OEM customers and other EMS customers. For instance, we require our OEM customers to make full payment at the end of the month after monthly statement has been issued, full payment before shipment or a credit period of 90 days after monthly statement, and other EMS customers to make full payment before shipment, a payment of deposit before delivery or a credit period of up to 90 days.

Overlapping of customer and supplier

During the Track Record Period, two of our major customers, Customer D and Customer E were also our suppliers. Sales to Customer E include our Branded Products, which attributed to approximately 0.4%, 3.2% and 3.9%, respectively of our total revenue for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017. The amount of purchase from Customer E was approximately HK\$2,900 and HK\$5,900 and nil, respectively for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, accounting for approximately 0.001% of our total purchase for each of

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the years ended 31 December 2015 and 2016. Such purchase was made because we were running short of supply of our Branded Products to one customer in Taiwan. In order to maintain a good business relationship with that customer, we repurchased some Branded Products that we had sold to Customer E to satisfy such demand with a minimal margin to Customer E. These repurchased goods were sold to the customer on a cost-plus basis which exceeded the margin we gave to Customer E for the repurchase.

Customer D was also our supplier for the year ended 31 December 2015. The amount of purchase from Customer D was approximately HK\$2.3 million for the year ended 31 December 2015, accounting for approximately 0.6% of our total purchase for the year. Such purchase from Customer D was a one-off procurement of materials and was made having considered that the price of purchasing the materials concerned from Customer D was lower than sourcing them from the market. Our Directors confirmed that all of our sales to and purchase from Customer D and Customer E was conducted in the ordinary course of business under normal commercial terms and on arm's length basis. Our Directors confirmed that all of our purchases from Customer D and Customer E was (i) entered into after due consideration taking into account the prevailing purchase and selling price at the relevant time; (ii) conducted in the ordinary course of business under normal commercial terms and on arm's length basis; and (iii) at prices that are no less favourable than from other Independent Third Parties who are not Customer D and Customer E.

Payment collection cycle

Invoices will be issued to our customers at the time products are despatched. Payments will then be collected in accordance with the above payment terms. Our finance department will monitor the aging analysis and inform the sales team to follow up with customers regarding outstanding payments. In general, our sales team will remind our customers by telephone calls to make payment prior to the end of the credit period. After the end of the credit period, our sales team will follow up with our customers by emails or telephone calls on a weekly basis regarding any outstanding payments.

RESEARCH AND DEVELOPMENT

We recognise the importance of our research and development capabilities to our business. To maintain our competitiveness, it is important to maintain our strong research and development capabilities. We have three research and development centres in Shenzhen, Xi'an and Xixiang, PRC, which carry out research, keep us up-to-date with the trends of the international industry and develop new products. The research facility in Shenzhen, the PRC is responsible for hardware development and the research facilities in both Xi'an and Xixiang, PRC are responsible for software development. At the early stage of product development, the research and development team will design products taking into consideration different applicable safety and industrial standards and certifications in the target markets.

Research and development process

We engage in product development based on: (i) customers' request for new product development with development plans delineated by our customers; or (ii) our own development plans in accordance with the market research conducted by our sales team and product management team.

- (i) Collection of data

Customers' development plans

When our customers make a request for new product development, our sales team would first discuss with our customers and gather information about the mode of cooperation, timing for development as well as product requirements, such as the function, performance and design. After receiving the proposal from our sales team, our product management team would coordinate with our

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hardware and software development team as well as design team to evaluate the feasibility of the proposal.

Our own development plans

Our product management team and sales team would delineate product development plans by analysing market demands and our market positioning. They would compile an evaluation report and pass it to our hardware development team to research on the assembly of PCB for the new product. Our procurement team would also arrange a meeting to be held among PCB suppliers and our product management team and research and development team to discuss whether our proposal for the PCB required is feasible and can be supported technically.

(ii) Evaluation and implementation of the product development plan

After completing the initial stage of planning, our product management team would conduct an evaluation meeting with our general manager and other teams, such as the sales team, research and development team, design team and procurement team. Such discussion would include product functions, raw materials, components, parts and moulds required, software and hardware design, packaging method and development plan. Upon obtaining ultimate approval from the general manager, each team would implement the part of the development plan it is responsible for.

(iii) Launching of the new product

Prototypes of the newly developed product would be produced by our research and development team and testing would be conducted on the hardware and software of the product. After confirming that the hardware and software can function normally, final testing would be conducted to ensure the function and performance of the product. If the new product cannot pass the test, further testing would be done on the hardware and software. If it can pass the test, the test report would be passed to the quality control department for reliability test before our product management team can convene a meeting in relation to the new product launch. This again, will be a meeting among various teams, such as the sales team, research and development team, product management team, procurement team and quality control team. The meeting will mainly explain the product performance, function, raw materials and components involved, issues to be noted during production and test results before proceeding to trial production.

We adhere to one of the latest technology in our industry. Our AC1900 series wireless dual band gigabit NAS routers can offer Wi-Fi speed of up to 1.9 Gbps. During the Track Record Period, our Group has launched over 20 new models of routers applying 802.11ac protocol. For the material technology required for our production, please see “— Production — Manufacturing process” in this section.

We cooperate with EFM in research and development pursuant to the Joint Development Agreement. For more details of the Joint Development Agreement, please see “— EMS business model — Jointly Developed Products” in this section.

Our research and development team is led by Mr. Xiao, a member of our senior management. As at the Latest Practicable Date, our research and development team consisted of 96 staff, and is further divided into five sub-divisions, which are namely the (i) product management team; (ii) design team; (iii) hardware development team; (iv) software development team and (v) new product introduction team. As at 31 December 2016, we have a dedicated team of 54 engineers in our research and development department researching and developing our networking products. Our engineers are a mix of electronics, mechanical, software, hardware structure field application, layout, product, pre-sales and after-sales, copywriter and testing engineers, the majority of whom hold a bachelor degree in the relevant discipline.

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Material products developed by us during the Track Record Period included routers of higher speed, greater connection stability and extensive connection coverage and 4G LTE routers. In terms of the speed of routers, we have developed hardware for 802.11 ac protocols routers with a Wi-Fi speed of 1.9 Gbps and 2.6 Gbps, being high-end routers for home use in 2015 and 2016, respectively, which are of higher speed than our previous 802.11 ac protocols routers of 1.2 Gbps. In terms of the connection stability of routers, we have developed routers of a more advanced generation within the 802.11 ac protocols which offer greater connection stability, such as 802.11 ac protocols routers of a Wi-Fi speed of 1.2 Gbps wave in 2017. In terms of connection coverage, as opposed to one single router which provides connection within a confined area, we have developed 802.11 ac protocols which enable cross connection through the use of three network equipment devices in September 2017. This includes a master device which connects to the computer network and transmits signals to the other two signal receiving devices to extend connection coverage. We have also developed 4G LTE routers for our new customer, Customer X in July 2017.

As a result of our research and development capabilities and initiatives, our Zioncom Shenzhen was first accredited as a High and New Technology Enterprise of Shenzhen City by Shenzhen Technology and Information Bureau* (深圳市科技和信息局) in the PRC in 2008 and is subsequently approved as a High and New Technology Enterprise of the PRC from 2011 to 2014 and from 2015 to 2018. The High and New Technology Enterprise status is re-evaluated every three years. On 19 June 2015, Zioncom Shenzhen was re-accredited with the High and New Technology Enterprise status, for a validity period of three years.

All research and development expenditures are expensed as incurred and consist primarily of staff costs of our research and development team. During the Track Record Period, no research and development expenditure has been capitalised. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our research and development expenses amounted to approximately HK\$15.7 million, HK\$18.0 million and HK\$9.8 million, respectively.

PRODUCTION

Shajing Production Facilities

We currently manufacture our products at the Shajing Production Facilities, which are leased from Independent Third Parties. Our production facilities have a total area of over 14,000 sq.m. with more than 500 staff as at the Latest Practicable Date. We have six SMT production lines and nine DIP production lines, and eight production lines for each of assembly and packaging. As at 30 June 2017, our machinery and equipment in the Shajing Production Facilities had a total net book value of approximately HK\$31.1 million.

Our major assets and equipment used in the production process include SMT machines, optical inspection machines, Wi-Fi test devices and Wi-Fi inspection machine. As at 30 June 2017, all assets and equipment were owned by us with age up to approximately 13.2 years old and are subject to regular inspections and daily maintenance if and when required. The estimated useful life of the machinery and equipment including SMT machines, optical inspection machines, Wi-Fi test devices and Wi-Fi inspection machine ranges from three to 10 years. For the depreciation method of our major assets and equipment, please see “Financial information – Critical accounting policies and estimates – Depreciation” in this prospectus.

The table below sets out the production capacity of our production facilities, actual production volume and utilisation rate during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June					
	Production capacity (units in '000) (Note 1)	2015 Actual production volume (units in '000)	Utilisation rate (%) (Note 2)	Production capacity (units in '000) (Note 1)	2016 Actual production volume (units in '000)	Utilisation rate (%) (Note 2)	Production capacity for the six months ended 30 June 2017 (units in '000) (Note 1)	2017 Actual production volume (units in '000)	Utilisation rate (%) (Note 2)
Networking products	8,492	5,850	68.9	8,492	6,436	75.8	4,369	2,512	57.5

Notes:

- (a) We use the same production lines to produce all our products. Our production capacity is subject to the production capacity of our SMT production lines for the production of PCBs as (i) PCB is an essential component of our products; and (ii) the production capacity of the production lines of our major production processes is generally greater than that of our SMT production lines. The production capacity in terms of points printed on PCBs is similar for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017. However, different products require different PCBs which have different number of points printed on them, the production capacity in terms of units will vary depending on the type of products produced by the production facilities.

(b) We mainly produce networking products, which include routers, Ethernet switches, LAN cards, Wi-Fi modules and Access Points. Non-networking products only accounted for approximately 1.9%, 2.0% and 6.5% of our production capacity for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively, given we outsourced the production of action cameras to third party.

(c) The production capacity is based on (i) the maximum number of points that can be printed divided by; and (ii) the average number of points used for each unit of product.

(i) The maximum number of points is the aggregate of the number of points that can be produced by each of our six production lines for 22 hours per day and 24 days a month each year.

(ii) The average number of points for each unit of product is the aggregate of the following for each type of products:

Actual total number of points used for production of a particular type of products on an annual basis (for 2015 and 2016) and on a bi-annual basis (for the six months ended 30 June 2017)

$$\frac{\text{Actual production volume (in terms of units) of a particular type of products on an annual basis (for 2015 and 2016) and on a bi-annual basis (for the six months ended 30 June 2017)}}{\text{Actual production volume}} \times 100\%$$
- Utilisation rate is calculated in accordance with the following formula:

$$\frac{\text{Actual production volume}}{\text{Production capacity for the relevant year/period}} \times 100\%$$

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New production facilities in Vietnam

We have decided to construct our new production facilities in Vietnam due to (i) the high production demand during peak seasons which exceeded or approached our maximum production capacity during the Track Record Period; (ii) the anticipated increasing demand for routers and mobile hotspot in the market; (iii) our plan to increase our market penetration in emerging markets in Asia; and (iv) the expected lower cost of production in Vietnam.

The utilisation rate of our Shajing Production Facilities (based on the actual annual production volume for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017) was 68.9%, 75.8% and 57.5% for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively. There was a decrease in the utilisation rate for the six months ended 30 June 2017 as our production demand is generally higher in the second half of the year due to our temporary suspension of production during the Chinese New Year. For the years ended 31 December 2015 and 2016, the annual utilisation rate was higher in the second half of the year with an utilisation rate of approximately 95.3% and 125.6% in December of the respective periods. Although the annual utilisation rate did not reach the maximum, we had to outsource part of our production process, namely, the surface mounting process to independent processing factories in certain months of the Track Record Period, generally near the end or in the beginning of the year as a contingent measure as the production demand exceeded or approached our maximum production capacity. The subcontracting service fees from these outsourcing work amounted to approximately HK\$2.3 million, nil and HK\$1.9 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, accounting for approximately 0.5%, nil and 0.9% of our total cost of sales for the same periods, respectively.

Furthermore, our Directors consider that there would be an increasing demand for 4G LTE routers in the market. According to the Frost & Sullivan Report, the demand for 4G LTE routers is anticipated to drive the network equipment manufacturing market continuously. It is also estimated that the amount of 4G LTE users is expected to grow due to the widespread adoption of 4G LTE technology in developing areas including India and other countries in Southeast Asia, etc. We started to supply to a new customer (“**Customer X**”) in May 2017 and entered into an agreement with another new customer (“**Customer G**”) in September 2016 regarding the supply of 4G LTE routers. Customer G started to place orders with us during the six months ended 30 June 2017. For the six months ended 30 June 2017, our revenue generated from Customer X and Customer G amounted to approximately HK\$1.2 million and HK\$14.5 million, respectively, accounting for approximately 0.5% and 5.9% of our total revenue for the same period. After the Track Record Period and up to the Latest Practicable Date, new purchase orders received from Customer X amounted to approximately HK\$14.1 million.

Set out below are the salient terms of our purchase and supply agreement entered into with Customer G on 21 September 2016 (the “**Customer G Purchase and Supply Agreement**”):

Term:	An initial term of two years, which is automatically renewable for successive terms of one year thereafter unless notice of termination is given by either party at least 60 days prior to the termination date of the initial term or any renewal term.
Sale of products:	Products are sold on an order-by-order basis. We shall not sell the products that are manufactured by our Group and sold to Customer G pursuant to the Customer G Purchase and Supply Agreement (which mainly included 4G LTE routers during the Track Record Period) to any other party without Customer G’s prior written consent.

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Payment:	Payment is due 60 days after the shipment date of the products, and may be revised to 90 days following Customer G's timely payments for the first five invoices.
Delivery:	We will ship the products to the designated port or as otherwise mutually agreed. Customer G shall have the right to inspect the products and notify us in writing whether some or all of the products are rejected within 10 days after delivery.
Warranty:	For each order we shall provide Customer G extra products of a specified percentage of the order quantity for free for replacement purpose. We shall repair or replace defective products within 30 calendar days after receiving the defective products from Customer G.
Intellectual property rights:	Customer G shall own and retain all intellectual property and proprietary rights in all innovations developed by us on our own for the products or arising from the specifications provided by Customer G.
Termination:	Either party may terminate the agreement by giving the other at least 120 days' prior written notice.

Apart from Customer X and Customer G, we had also entered into an agreement with Customer H in June 2016 in relation to the supply of 4 ports 802.11 ac protocol routers. For the six months ended 30 June 2016 and 2017, our revenue generated from Customer H amounted to approximately HK\$0.1 million and HK\$12.5 million, which accounted for approximately 0.1% and 5.1% of our total revenue for the same periods. After the Track Record Period and up to the Latest Practicable Date, new purchase orders received from Customer H amounted to approximately HK\$19.2 million.

Set out below are the salient terms of our purchase and supply agreement entered into with Customer H on 1 June 2016:

Term:	An initial term of two years and is automatically renewable for successive terms of one year.
Sale of products:	Products are sold on an order-by-order basis. Prior to placing a purchase order by Customer H, we shall provide pre-production samples of the product to Customer H.
Payment:	Payment shall be made no later than 90 days after the receipt of a bill of lading and correct invoice from us.
Delivery:	FOB Shenzhen or FOB Hong Kong Customer H or its customers shall have the right to inspect the products within 45 days from delivery of the products.
Warranty:	We provide a warranty of three years for hardware products and an additional 36 months after expiry of the three-year warranty period for software.

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Intellectual property rights:	Upon payment of non-recurring engineering costs by Customer H, we shall assign all intellectual property rights in the products to Customer H and all such intellectual property rights shall be solely owned by Customer H.
Termination:	Customer H may terminate the agreement by giving us 90 days' written notice.

In view of the above, our Directors consider that it is crucial for us to plan ahead to expand our production capacity so as to meet future development needs as well as capitalising the potential ad hoc demand from customers during the periods where the utilisation rate of our Shajing Production Facilities reaches its peak.

Apart from that, the new production facilities in Vietnam can complement our plan to increase our market penetration in emerging markets in Asia with a focus on Vietnam, Thailand and Philippines. Historically, we derived considerable revenue from the Asia region (other than Korea and the PRC). According to the Frost & Sullivan Report, it is expected that there will be rapid growth in the telecommunication equipment manufacturing market in Vietnam, Thailand and Philippines. The size of the telecommunication equipment manufacturing market in Vietnam is expected to increase from approximately US\$1.4 billion in 2017 to approximately US\$3.3 billion in 2021, representing a CAGR of approximately 24.0%. The size of the telecommunication equipment manufacturing market in Thailand is expected to increase from approximately US\$2.1 billion in 2017 to approximately US\$4.7 billion in 2021, representing a CAGR of approximately 22.3%. The size of the telecommunication equipment manufacturing market in Philippines is expected to increase from approximately US\$2.6 billion in 2017 to approximately US\$5.7 billion in 2021, representing a CAGR of approximately 21.7%. Although 802.11ac protocol is gradually replacing the 802.11 b/g/n protocol in the markets with more advanced network infrastructure, 802.11 b/g/n protocol is still prevalent in Vietnam, Thailand and Philippines where the development of the network equipment market is slower than other more technologically advanced countries. It is expected that there will be continuing demand for 802.11 b/g/n protocols routers in these markets in the coming years. According to the Frost & Sullivan Report, the 802.11 b/g/n protocols routers market in Vietnam is expected to increase from approximately US\$14.4 million in 2017 to approximately US\$20.7 million in 2021, representing a CAGR of approximately 9.5%. The 802.11 b/g/n protocols routers market in Thailand is expected to increase from approximately US\$25.5 million in 2017 to approximately US\$36.0 million in 2021, representing a CAGR of approximately 9.0%. The 802.11 b/g/n protocols routers market in Philippines is expected to increase from approximately US\$14.7 million in 2017 to approximately US\$20.8 million in 2021, representing a CAGR of approximately 9.1%.

In order to capture the rapid growth in these markets, apart from our existing distribution network in Philippines, we also entered into a distribution agreement with Customer F in July 2016 in relation to the distribution of our Branded Products in Thailand, which maintained business relationship with us as at the Latest Practicable Date. Customer F was one of our five largest customers for the year ended 31 December 2016 and one of our six largest customers for the six months ended 30 June 2017, the revenue from which represented approximately 2.3% and 2.7% of our total revenue in the corresponding periods, respectively. During the Track Record Period, the revenue from sales in Thailand and Philippines increased from approximately HK\$1.3 million in 2015 to approximately HK\$14.5 million in 2016, representing an increase of approximately 10.2 times and from approximately HK\$2.4 million for the six months ended 30 June 2016 to approximately HK\$7.4 million for the six months ended 30 June 2017, representing an increase of approximately 2.1 times. In 2017, we endeavoured to further penetrate into the Vietnam market by engaging three more distributors and our sales revenue increased from

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approximately HK\$1.0 million for the six months ended 30 June 2016 to approximately HK\$12.3 million for the six months ended 2017, representing an increase of approximately 11.3 times. As at the Latest Practicable Date, our Company has received orders of approximately US\$190,000 from our customers in Thailand and Philippines for 2018 and our Company has not received orders for products from our customers in Vietnam for 2018. During the six months ended 30 June 2017, there were steady monthly sales of up to approximately HK\$5.0 million from Vietnam, Thailand and Philippines. Therefore, our Directors believe that there would be stable sales from these markets on a continuing basis. To support our plan to penetrate into emerging markets in Asia, we leased a new office in Taiwan in July 2017 and recruited three additional sales staff with an aim to expand our sales and operation in Southeast Asia.

In light of the anticipated demands for networking products from emerging markets and given the global manufacturing centre shifts from the PRC to emerging markets in Asia, Zioncom Vietnam was established in Vietnam in March 2015 in order to strengthen our local presence in the emerging markets in Asia. As further elaborated in “— Production — New production facilities in Vietnam — Integration of the new production facilities with our Group’s existing operations” in this section, we plan to manufacture 802.11 b/g/n protocols *TOTOLINK* routers at the Lot A Facilities to cater for the needs of these emerging markets. We intend to utilise our new production facilities in Vietnam to capture the opportunities in this existing segment of the market which we were not able to fully explore in the past due to the relatively high manufacturing costs in the PRC and the relatively low margin of these products. By manufacturing in Vietnam, we are well positioned to capture opportunities in the Southeast Asian market geographically as our logistic costs can be lowered by sourcing more raw materials in Southeast Asia and transporting our products to the emerging markets nearby, such as our targeted markets in Vietnam, Thailand and Philippines, and we can benefit from tax incentives which are available solely to domestically produced telecommunications equipment.

Other than strengthening our presence in the emerging markets in Asia, we believe that our expansion plan in Vietnam can lower our production cost per unit as the production cost in Vietnam is expected to be generally lower than that in the PRC. According to the Frost & Sullivan Report, the average monthly wage in the PRC in 2016 was US\$833.9 while that in Vietnam was US\$216.1. On the basis that the cost of materials remains unchanged, and taking into account the forecasted cost of sales and production units in 2018 as well as the index of the estimated average monthly wage and the average power fee in the PRC and Vietnam respectively, it is estimated that the average unit production cost of manufacturing 802.11 b/g/n protocols routers and mid-to-low-end 4G LTE routers at the Lot A Facilities would be approximately 9.7% lower than the estimated average unit production cost of manufacturing 802.11 b/g/n protocols routers and mid-to low-end 4G LTE routers at the Shajing Production Facilities in 2018. We believe that reduction in the cost of production can enhance our competitiveness in the market and lead to an increase in demand for our products as there could be more flexibility for us to set our product pricing in those markets.

Lease of land use right for the construction of new production facilities

In June 2015, we entered into a land use right lease agreement to lease the land use right of Lot A in Vietnam. Construction of a new factory in Vietnam on Lot A was completed in January 2017. We commenced trial production in late October 2017.

In April 2016, we entered into another land use right lease agreement pursuant to which we leased the land use right of Lot B in Vietnam for future development use. In January 2017, we obtained the certificate of land use right and ownership for Lot B. We plan to construct an additional factory on Lot B but we have yet to formulate a detailed development plan for Lot B.

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Machineries and equipment

In relation to the Lot A Facilities, we plan to incur approximately HK\$7.8 million for the acquisition of machineries for two new production lines. As at the Latest Practicable Date, we had paid and incurred all of such costs.

Two SMT production lines at the Shajing Production Facilities would also be transferred to the Lot A Facilities, thereby composing 2 sets of production lines. Two new SMT production lines have been acquired for replacement at the Shajing Production Facilities.

Estimated capacity and planned production

Our planned production for our Lot A Facilities is to first start with two sets of production lines. We plan to produce mainly networking products with 802.11 b/g/n protocols, at our Vietnam production facilities at the beginning which require fewer intricate processes and less advanced technology. Based on the assumption of the operation of our production lines for 22 hours a day and 25 days a month each year, our planned annual production capacity is approximately 3.6 million units of routers and the expected utilisation rate for the year ending 31 December 2018 is approximately 62.4% based on the assumptions that approximately 2.2 million units of 802.11 b/g/n protocols routers will be manufactured in the relevant year at the Lot A Facilities which focuses on manufacturing products with fewer intricate processes and less advanced technology. For the Shajing Production Facilities, on the assumption that our production lines would be operated for 22 hours a day and 25 days a month after completion of the automation system in the second half of 2018, our planned annual production capacity is approximately 8.9 million units, and the expected utilisation rate for the year ending 31 December 2018 (based on the average monthly utilisation rate of the year) is approximately 51.7% with the highest monthly utilisation rate being approximately 80.9%, based on the assumption that approximately 4.6 million units of networking and non-networking products will be manufactured in the relevant year at the Shajing Production Facilities. For the pattern of our monthly utilisation rate at the Shajing Production Facilities, please see “— Production — New production facilities in Vietnam” in this section. Assuming that all of our products to be produced in 2018 will be produced in Shajing Production Facilities only, the expected utilisation rate for the year ending 31 December 2018 (based on average monthly utilisation rate of the year) would be approximately 76.9%, with the monthly utilisation rate of three months exceeding 90% and one month exceeding 120%.

Despite the trend of 802.11 b/g/n protocols routers being gradually replaced by 802.11 ac protocol routers in the markets with more advanced network infrastructure, there is a continuing demand for 802.11 b/g/n protocols routers in both technologically advanced countries and emerging markets in Asia taking into account that:

- (i) According to Frost & Sullivan, although 802.11 b/g/n protocols routers would gradually be replaced by 802.11 ac protocol routers, there is still continuing demand for 802.11 b/g/n protocols routers in technologically advanced countries, such as the PRC, South Korea, Japan, North America and Western Europe. In the PRC, it is expected that the market size of 802.11 b/g/n protocol routers in 2017 would be approximately US\$825.0 million and is expected to have a market size of approximately US\$547.6 million in 2021. In South Korea, it is expected that the market size of 802.11 b/g/n protocol routers in 2017 would be approximately US\$43.8 million and is expected to have a market size of approximately US\$35.1 million in 2021. This is also substantiated by the fact that Korea accounted for a large part of our sales of 802.11 b/g/n protocols routers during the Track Record Period. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the sales of 4 ports 802.11 b/g/n protocols

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routers to EFM amounted to approximately HK\$152.0 million, HK\$105.8 million and HK\$36.7 million, respectively, indicating that there is a continuing demand for 802.11 b/g/n protocols routers in technologically advanced countries; and

- (ii) there is a growing demand for 802.11 b/g/n protocols routers in emerging markets, such as Vietnam, Thailand and Philippines. According to the Frost & Sullivan Report, the 802.11 b/g/n protocols consumer routers market in Vietnam is expected to increase from approximately US\$14.4 million in 2017 to approximately US\$20.7 million in 2021, representing a CAGR of approximately 9.5%. The 802.11 b/g/n protocols consumer routers market in Thailand is expected to increase from approximately US\$25.5 million in 2017 to approximately US\$36.0 million in 2021, representing a CAGR of approximately 9.0%. The 802.11 b/g/n protocols consumer routers market in Philippines is expected to increase from approximately US\$14.7 million in 2017 to approximately US\$20.8 million in 2021, representing a CAGR of approximately 9.1%. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our sales of 4 ports 802.11 b/g/n protocols routers to these markets amounted to approximately HK\$25.7 million, HK\$9.5 million and HK\$7.4 million, respectively. Our overall sales to these markets had also increased considerably during the Track Record Period. The sales revenue in Thailand and Philippines increased from approximately HK\$1.3 million in 2015 to approximately HK\$14.5 million in 2016, representing an increase of approximately 10.2 times and from approximately HK\$2.4 million for the six months ended 30 June 2016 to approximately HK\$7.4 million for the six months ended 30 June 2017, representing an increase of approximately 2.1 times. Our sales revenue in Vietnam increased from approximately HK\$1.0 million for the six months ended 30 June 2016 to approximately HK\$12.3 million for the six months ended 2017, representing an increase of approximately 11.3 times.

According to Frost & Sullivan, there is also a growing demand for networking products (mainly consisting of routers, network equipment switch/hub and embedded equipment) in South Korea and the PRC based on the growth of the network equipment manufacturing market, as the network equipment manufacturing market size is computed based on the manufacturers' sales in South Korea and the PRC and reflects the demand for networking products in these countries. In the PRC, it is estimated that the market size of network equipment manufacturing industry would increase from approximately US\$15,495.4 million in 2017 to approximately US\$26,550.7 million in 2021, representing a CAGR of approximately 14.4%. The manufacturing market size of consumer router in China is also expected to grow at a CAGR of approximately 10.4% from 2017 to 2021 and reach approximately US\$2,560.1 million in 2021. In Korea, it is estimated that the market size of network equipment manufacturing industry would increase from approximately US\$857.9 million in 2017 to approximately US\$1,418.7 million in 2021, representing a CAGR of approximately 13.4%. The manufacturing market size of consumer router in Korea is also expected to grow at a CAGR of approximately 15.7% from 2017 to 2021 and reach approximately US\$206.1 million in 2021.

In view of the (i) continuing demand for 802.11 b/g/n protocols routers in technologically advanced countries; (ii) the growing demand for 802.11 b/g/n protocols routers in emerging markets; (iii) the considerable increase in our sales to Vietnam, Thailand and Philippines during the Track Record Period; and (iv) the growing demand for networking products in Korea and the PRC, our Directors believe that there would be sufficient demand from customers to support our Group's expansion plan in Vietnam.

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Integration of the new production facilities with our Group's existing operations

The production capacity of the Shajing Production Facilities would not be reduced with the introduction of the Lot A Facilities. It is our plan that the Shajing Production Facilities and Lot A Facilities would have different positioning and distinct production plans. Subject to the management's review of our business needs from time to time and customers' requests, it is our plan that products manufactured in the Shajing Production Facilities would be mainly be sold to Korea, Hong Kong and the PRC while the products manufactured in the Lot A Facilities would be primarily sold to the emerging markets in Asia, such as Vietnam, Thailand and Philippines. Given (i) the Vietnam factory is newly developed and will be at the initial stage of its operation; and (ii) the lower operating cost and cost of production in Vietnam, unless specifically requested by our customers that a particular type of products be manufactured in Vietnam (in which case we may accommodate their needs in order to capture business opportunities), it is planned that the Lot A Facilities would focus on the production of products that involve fewer intricate processes and less advanced technology, such as 802.11 b/g/n protocols routers and mid- to low-end 4G LTE routers.

Having considered (i) the rising cost of operating and production cost in the PRC; and (ii) our Shajing Production Facilities has accumulated production knowledge and possesses extensive production experience, we plan to utilise such advantages to position our Shajing Production Facilities as a more advanced production centre, specialising in the production of more advanced and sophisticated products. In order to maintain a considerable margin for our production in our Shajing Production Facilities and enhance the production ability, it is our plan to formulate our Shajing Production Facilities as an automation factory by phases. For details, please see "Future Plan and Use of Proceeds" in this prospectus.

As a result of the allocation of the production of mid-to low-end products, such as 802.11 b/g/n protocols routers and mid-to-low-end 4G LTE routers to the Vietnam factory, the spare production capacity of our Shajing Production Facilities would be utilised for the production of 802.11 ac protocol routers and high-end 4G LTE routers. As mentioned above, we have signed a framework agreement for the supply of 4G LTE routers and have received orders during the six months ended 30 June 2017. For details, please see "Production — New production facilities in Vietnam" in this prospectus. Our Directors foresee that there would be an increasing demand for such routers in the market since according to the Frost & Sullivan Report, the demand for 4G LTE routers is anticipated to drive the network equipment manufacturing market continuously. In the case where the demand for these products becomes high in the future, in addition to emerging markets in Asia, we may allocate the production of our Branded Products to Lot A Facilities as well so that capacity at the Shajing Production Facilities could be reserved for the production of high-end 4G LTE routers. Accordingly, Lot A Facilities would focus on Branded Products and mid-to low-end products while the Shajing Production Facilities would focus on high-end products.

Regulatory approval

From a company establishment perspective, Zioncom Vietnam has obtained all necessary licences, consents and approvals to carry out its registered scope of business in Vietnam to manufacture routers, switches, LAN cards and other electrical equipment, and exercise export rights, import rights, wholesale distribution rights and retail distribution rights. For production and operation at the Lot A Facilities, we will undertake additional regulatory compliance procedures with relevant authorities. The licences and approvals required mainly include the following:

- (a) Obtaining type approval certificates and registering type approval announcement for products produced by Zioncom Vietnam and registering samples of its type approval stamp, which should be done after production has commenced and before selling products in Vietnam;

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- (b) Notifying plans on trial operation of its waste treatment works to the Management Board of the Vietnam-Singapore Industrial Park; registering as a hazardous waste source owner and obtaining a register of hazardous waste source owner; arranging storage areas for hazardous waste and storing hazardous waste in packing or storage devices meeting requirements under law; signing contracts for transfer of hazardous waste to bodies licensed for treatment/management of hazardous waste and signing contracts for collection, transport and treatment of daily-living solid waste and/or industrial solid waste;
- (c) Complying with safety conditions on fire-fighting and prevention for the factory; having a fire-fighting and escape plan prepared and approved by the Police of Fire Prevention and Fighting of Binh Duong province; and
- (d) Complying with various requirements on occupational safety and hygiene.

As at the Latest Practicable Date, we have obtained all material requisite approvals and certificates for commencing production. Our Group has also retained VNA Legal as its legal adviser as to Vietnamese law with effect from Listing to ensure compliance with the local laws and regulations regarding its ongoing business operations in Vietnam. For the new markets that we plan to enter into, it is our policy that we would seek legal advice in respect of contract review and the legal requirements for conducting business there.

Estimated costs

Set out below are the capital expenditure for the Lot A Facilities:

	<u>HK\$'000</u>
Leasing of the land	4,969
Construction of the factory	28,229
Machinery	7,847
Motor vehicles	<u>1,529</u>
<i>Total</i>	<u><u>42,574</u></u>

As at the Latest Practicable Date, the cost incurred for the Lot A Facilities was financed by our internal resources and debt financing. All of the above capital expenditure has been paid and incurred and there is no further capital commitment as at the Latest Practicable Date. Our Directors expect that the establishment of the Lot A Facilities will not affect our Group's profitability and liquidity as construction has already been completed.

The annualised operating expenses for the Lot A Facilities are expected to be approximately HK\$16.0 million. These expenses include research and development expenses, selling and distribution expenses and administrative expenses, which are estimated with reference to the ratio of these expenses to our Group's revenue during the Track Record Period. It is estimated that the breakeven period (being the period of time from the commencement of operation of the Lot A Facilities to the month when the annualised operating revenue is at least equal to the annualised total operating expenses including cost of materials, employee expenses, utilities, and other variable and fixed manufacturing costs) will be approximately 3 months, and the investment payback period (being the period of time from the commencement of operation of the production facility to the month in which the accumulated operating revenue is at least equal to its construction costs and operating costs including any incurred capital expenditures and accumulated ongoing cost and operating expenses) would be approximately 60 months.

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The above estimated investment payback period has assumed that our Group maintains a stable performance and there is no material adverse change to the market conditions.

Management of the capacity growth

With the establishment of the Lot A Facilities, our Group also has plans in different aspects in order to manage the capacity growth.

Raw material and component supplies

Save for packaging materials, we aim to procure raw materials and components from the PRC or Hong Kong which will then be transported to Vietnam as the electronic components market in Vietnam is not well developed and we cannot readily source the necessary raw materials and components.

Staff recruitment

Eight managerial staff will be seconded from the PRC to Vietnam as they are familiar with the operations of the Shajing Production Facilities and could assist in the operation of the Lot A Facilities. This includes two staff from the business team and six staff from the production management team. In addition to the managerial staff, we plan to recruit around 200 local staff from Vietnam.

Quality control

We plan to adopt the same quality control policies as those which we currently adopt in the PRC. For details, please see “— Quality control and quality assurance” in this section.

Marketing plan

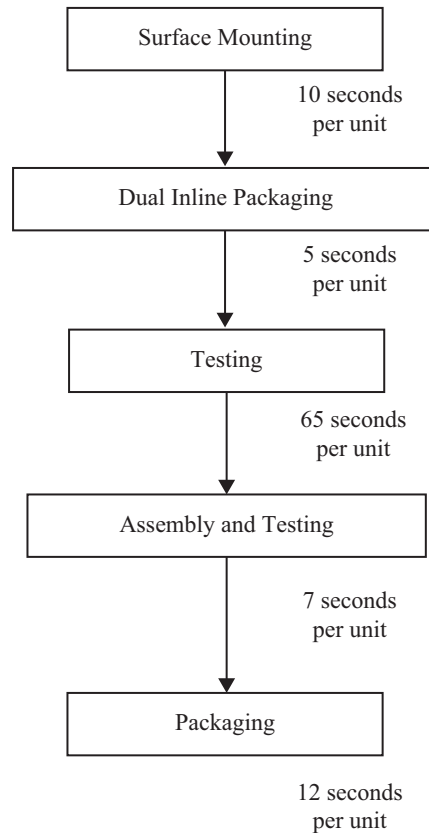
To increase our market penetration in emerging markets in Asia, we plan to apply part of our net proceeds from the Share Offer on marketing in emerging markets in Asia. This includes the recruitment of local sales personnel as well as organising marketing events.

Management of the new market

We plan to adopt our current management system and operational model in Vietnam given our familiarity with such system and model, and our Directors believe that they have proven to be stable and reliable in our long years of operational history.

Manufacturing process

The diagram below illustrates the general manufacturing process of our networking products and the approximate time required (excluding preparation time) for each step from surface mounting to packaging:



Generally, our manufacturing process can be broadly categorised into five steps:

1. *Surface Mounting*

As at 30 June 2017, we had six SMT production lines. As the first step in the manufacturing process, electronic components are mounted on the surface of PCBs utilising surface-mount technology. During this process, we will conduct inspection on the SMT equipment and operating procedures from time to time to ensure that the process is carried out properly. Sampling inspection will also be conducted on assembled PCBs to check if they meet our quality standard.

2. *Dual Inline Packaging*

As at 30 June 2017, we had nine DIP production lines. DIP is an electronic component package with a rectangular housing and two parallel rows of electrical connecting pins. The package is mounted to PCBs by inserting the pins through holes in the board and soldering them in place. During this process, we will check the temperature of the soldering furnace and the proportion of soldering iron and soldering paste used from time to time and conduct sampling inspection to ensure the quality of the assembled PCBs.

3. *Testing*

At this stage, we will conduct serial port test and equipment test. In relation to serial port test, we will send and receive data from the same serial port to verify that the port is operational. To perform this

test, the proper pins are temporarily connected to allow signals to be sent and received on the same port. After passing the serial port test, testing will also be performed on the equipment to ensure that it is functioning properly. Any abnormality uncovered during the tests will be fixed before proceeding to the next step.

4. *Assembly and testing*

As at 30 June 2017, we had eight assembly lines. The assembly process includes soldering antenna wires, assembling PCB, and labelling cases. After assembly, we will conduct a network throughput test for the data transmission speed. Any abnormality noted during the test will be fixed prior to proceeding to the next step.

5. *Packaging*

As at 30 June 2017, we had eight packaging lines. After passing the network throughput test, we will conduct a sampling inspection to ensure the products adhere to our internal standard before proceeding to packaging. Packaged products are then subject to overall quality control check to ensure that the packaging is satisfactory. After passing this quality control inspection, these products are delivered to our warehouse or further delivered to our customers.

Introducing automation system to our Shajing Production Facilities

With the increase in labour costs in China, we believe it is necessary to increase the level of automation at the Shajing Production Facilities. We therefore plan to introduce automation system to the Shajing Production Facilities by replacing a number of our production staff with various automation machineries. By doing so, certain steps of our production process will be completed by those machineries.

Set out below are types and numbers of machineries that we plan to purchase:

<u>Type</u>	<u>Number</u>
Solder paste inspection machine	6
Automatic insertion machine	12
Automatic testing machine	10
Manufacturing execution system	1

For the proposed timing of purchasing such machineries, please see “Future Plan and Use of Proceeds — Implementation plan” in this prospectus.

The above solder paste inspection machines (“**SPI**”), automatic insertion machines (“**AI**”) and automatic testing machine (“**ATM**”) will be used in our surface mounting, DIP, testing and assembly and testing processes respectively. Details in relation to the use of such machineries and the costs that can be saved on the basis of operating 22 hours a day and 25 days a month each year are set out below:

Solder paste inspection machines

SPI will be used in our surface mounting process. Solder paste is a material used in the manufacture of PCBs to connect surface mount components to pads on the board and the SPI offers an automated method for inspecting solder paste. Each SPI can save the use of four production staff. Inspecting solder paste manually currently requires four staff with an annual cost of approximately RMB0.5 million, as opposed to SPI which requires only two staff for each machine with an estimated annual cost of RMB0.3 million. It is estimated that with the use of each SPI, approximately RMB0.2 million can be saved annually.

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Automatic insertion machines

AI will be used in our DIP process. AI is a device used to insert the leads of electronic components through holes in PCBs. Every two AI can replace 20 production staff. Completing the insertion step manually requires 24 staff and costs approximately RMB1.5 million annually. With the adoption of two AI, only four staff is required for operation and the estimated cost is approximately RMB0.3 million annually. It is estimated that this can save our cost of approximately RMB1.2 million annually for every two AI in place.

Automatic testing machines

Two types of ATM will be introduced, one for our testing process and the other for our assembly and testing process. ATM is an apparatus that is capable of automatically testing and diagnosing faults in sophisticated electronic packaged parts including IC. For the testing process, we currently require 12 staff to perform this step manually at an annual cost of approximately RMB0.8 million, while with the use of ATM, only two staff is needed at an annual cost of approximately RMB0.2 million. Thus, it is estimated that an annual cost of approximately RMB0.5 million can be saved annually for each ATM adopted.

For the assembly and testing process, we currently require 16 staff to perform this step manually at an annual cost of approximately RMB1.0 million. With the use of ATM, only two staff is required at an annual cost of approximately RMB0.2 million. It is therefore estimated that an annual cost of approximately RMB0.8 million can be saved.

Manufacturing execution system

The manufacturing execution system (“MES”) is a system which organises and coordinates different resources effectively, such as the raw materials, components, equipment and staff, which enables us to meet the various needs of customers and deliver our products on time. It also collates data of production so as to help us to analyse the condition of our actual production.

With the introduction of MES, around 12 production staff and eight quality control staff can be replaced. On the basis that the salary of each staff is RMB4,500 per month, it is estimated that approximately RMB1.0 million can be saved annually.

By introducing automation system to the Shajing Production Facilities, apart from saving our cost of production as aforementioned, we believe that we can benefit in the following ways:

- (i) Our production capacity can be expanded to meet production needs.

During the Track Record Period, there were certain months where we had to outsource part of our production to independent processing factories as a contingent measure as the production demand exceeded or approached our maximum production capacity. With the introduction of the automation system, it is expected that our annual production capacity can be increased as we would be able to operate for longer hours in a day and more days in a month. This can help ease our production needs during peak seasons. After completion of our planned automation, it is expected that the annual production capacity of the Shajing Production Facilities would be increased to approximately 8.9 million units on the assumption of the operation of our production lines for 22 hours a day and 25 days a month each year.

- (ii) Our production will be less affected by manpower.

Our current production process is highly labour-intensive in nature. Our staff cost for the year ended 31 December 2016 was approximately HK\$49.2 million. With the automation system in

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place, fewer staff will be required and staff cost is expected to be reduced substantially to approximately HK\$19.2 million. Hence, the potential risks arising from our reliance on manpower for production, such as failure to procure sufficient labour to meet sudden surges in demand or general increase in the level of wages in the labour market can be greatly reduced. Furthermore, our operations do not have to be suspended temporarily during long public holidays like National Day and Chinese New Year due to lack of sufficient production staff. This would allow us to capture more business opportunities.

- (iii) The risk of having human errors in the production process can be minimised.

The use of machineries is more reliable than performing the production steps manually as the latter could be subject to human errors. The adoption of automation system can thus offer better quality control for our products.

As mentioned in “— Production — New production facilities in Vietnam” in this section, our Directors are of the view that there would be sufficient future demand for the increased production capacity of the Lot A Facilities in Vietnam and Shajing Production Facilities having considered that (i) there is an increasing demand for 4G LTE routers in the market; (ii) we received purchase orders from new customers, Customers X, G and H in relation to the supply of routers, who are expected to continue placing orders with us for the years ending 31 December 2017 and 2018; (iii) there is rapid growth in the telecommunications equipment manufacturing market in emerging markets in Asia, such as Vietnam, Thailand and Philippines and substantial increase in our sales to these three countries during the Track Record Period; and (iv) we can capture the market opportunities for 802.11 b/g/n protocols routers in these emerging markets which we were not able to capture in the past as we generally adopt a cost-plus policy for the pricing of our products and the lower cost of production in Vietnam would enable us to sell our products in the emerging markets at a lower selling price, thus increasing our competitiveness.

SOURCING AND PROCUREMENT

Raw materials and components

We use various raw materials and components throughout our manufacturing process. Our principal raw materials and components include router CPUs, ICs, PCBs and AC adaptors. We mainly procure our raw materials and components from suppliers based in Hong Kong, the PRC and Taiwan.

We procure raw materials and components based on the procurement plan derived by our procurement team taking into account factors such as the sales plan, changes in customers' orders, demand for new products and expected delivery time of materials. Our procurement team would also conduct a meeting to discuss with the relevant teams about the usage condition in the previous month and the sales plan in the following month before placing orders for raw materials and components. We usually provide a forecast of our purchase in the next three months to our major suppliers.

We generally maintain a minimum stock level of raw materials and components sufficient for one month's production. Depending on the production requirement, we may also stock more for certain raw materials and components. We review our production cost periodically in order to manage any fluctuations in prices of raw materials, components and labour cost.

During the Track Record Period, we did not experience any shortage of, or any major price fluctuations for, raw materials and components. For a sensitivity analysis regarding hypothetical fluctuations of our cost of raw materials and components from our cost of sales on our profit before taxation during the Track Record Period, please see “Financial Information — Factors affecting our results of operations and financial condition — Cost of materials” in this prospectus.

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Suppliers

Our major suppliers for the Track Record Period were all engaged in the manufacturing or trading of electronic components. Each of our five largest suppliers during the Track Record Period is an Independent Third Party. For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our business relationship with our five largest suppliers ranged from less than one year to nine years and we had established approximately eight years of business relationship with our largest supplier. Our Directors confirm that no issue regarding the legality of the source of supply of raw materials and components had arisen during the Track Record Period and up to the Latest Practicable Date.

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, purchases from our five largest suppliers amounted to approximately HK\$133.4 million, HK\$142.6 million and HK\$68.2 million, respectively, representing approximately 34.1%, 39.1% and 40.2% of our total purchases, respectively. For the same periods, purchases from our largest supplier amounted to approximately HK\$69.5 million, HK\$78.5 million and HK\$31.4 million, respectively, representing approximately 17.7%, 21.5% and 18.5% of our total purchases, respectively. Our Directors consider we are not overly reliant on any particular supplier.

None of our Directors, their respective close associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of our issued share capital) had any interest in any of our five largest suppliers for the Track Record Period.

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The following table sets forth details of our five largest suppliers for each year/period during the Track Record Period:

For the year ended 31 December 2015

Name of supplier	Profiles and background	Location of supplier	Major category of products purchased	Approximate number of years of business relationship	Approximate % of total purchase	Payment method	Payment terms
Supplier Group A <i>(Note 1)</i>	Mainly engaged in sales of electronic parts	Taiwan	Chipsets, main chips	8	17.7	Bills or telegraphic transfer	Up to 90 days after monthly statement
Supplier B	Mainly engaged in sales of electronic parts	Hong Kong	Main chips	9	5.1	Telegraphic transfer	30 days after monthly statement
Supplier Group C <i>(Note 3)</i>	Mainly engaged in sales of electronics components and related products	Hong Kong	Main chips, IC, flash	9	4.7	Bills or telegraphic transfer	10 days after delivery
Supplier D1	Mainly engaged in manufacturing of electronic connectors	PRC	Antenna	7	3.7	Bills or telegraphic transfer	Up to 90 days after monthly statement
Supplier E	Mainly engaged in manufacturing of circuit boards	PRC	PCB	4	2.9	Bills or telegraphic transfer	Up to 90 days after monthly statement
Total					34.1		

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For the year ended 31 December 2016

Name of supplier	Profiles and background	Location of supplier	Major category of products purchased	Approximate number of years of business relationship	Approximate % of total purchase	Payment method	Payment terms
Supplier Group A (Note 1)	Mainly engaged in sales of electronic parts	Taiwan	Chipsets, main chips	8	21.5	Bills or telegraphic transfer	Up to 90 days after monthly statement
Supplier D1/ Supplier D2 (Note 2)	Mainly engaged in manufacturing of electronic connectors, moulds, plastic products, plastic raw materials and electrical products	PRC	Antenna	7	5.2	Bills or telegraphic transfer	Up to 90 days after delivery
Supplier Group C (Note 3)	Mainly engaged in sales of electronics components and related products	Hong Kong	Main chips, IC, flash	9	5.0	Bills or telegraphic transfer	10 days after monthly statement
Supplier B	Mainly engaged in sales of electronic parts	Hong Kong	Main chips	9	4.1	Telegraphic transfer	30 days after monthly statement
Supplier E	Mainly engaged in manufacturing of circuit boards	PRC	PCB	4	3.3	Bills or telegraphic transfer	Up to 90 days after monthly statement
Total					39.1		

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For the six months ended 30 June 2017

Name of supplier	Profiles and background	Location of supplier	Major category of products purchased	Approximate number of years of business relationship	Approximate % of total purchase	Payment method	Payment terms
Supplier Group A (Note 1)	Mainly engaged in sales of electronic parts	Taiwan	Chipsets, main chips	8	18.5	Bills or telegraphic transfer	Up to 45 days after monthly statement
Supplier F1/ Supplier F2 (Note 4)	Mainly engaged in distribution of semiconductor, providing hardware solutions and supplying electrical components	Hong Kong	Chipsets	4	7.2	Telegraphic transfer	Up to 30 days after monthly statement
Supplier D1/ Supplier D2 (Note 2)	Mainly engaged in manufacturing of electronic connectors, moulds, plastic products, plastic raw materials and electrical products	PRC	Antenna, cases	7	5.6	Bills or telegraphic transfer	Up to 90 days after monthly statement
Supplier G	Mainly engaged in the design, development and marketing in ICs for the wireless semiconductor industry	U.S.	Chipsets	less than one year	4.9	Telegraphic transfer	30 days after monthly statement
Supplier E	Mainly engaged in manufacturing of circuit boards	PRC	PCB	4	4.0	Bills or telegraphic transfer	Up to 90 days after monthly statement
Total					40.2		

Notes:

- (1) Including transactions with subsidiaries of Supplier A which were incorporated in Hong Kong, Korea and Taiwan and are considered as a single supplier.
- (2) Including transactions with Supplier D1 and Supplier D2, which were incorporated in the PRC, both are under common control.
- (3) Including transactions with a subsidiary of Supplier C which was incorporated in Hong Kong and together with Supplier C, are considered as a single supplier.
- (4) Including transactions with Supplier F1 and Supplier F2, which were incorporated in Hong Kong, both are under common control.

Selection of suppliers

Our raw materials and components are supplied by suppliers that have satisfied our quality standard and are on our approved list based on internal assessment on the suppliers' respective track records and the quality of the raw materials and components provided. Our procurement team is responsible for collating information of potential suppliers and obtaining quotations from them. Based on the information obtained, we would shortlist potential suppliers and conduct site visits where they are suppliers of major raw materials and components. During the site visits, we would assess different aspects of the suppliers, such as their production scale, machineries and equipment, production processes, quality control and inventory management. In the event the suppliers are located overseas or where we cannot conduct site visits, we would require suppliers to provide us with documents such as capital proof, relevant testimonials, business licence and tax registration certificate, and quality assurance agreements. We also require our potential suppliers to provide us with samples. If the samples are fine, we will arrange for trial production of a small quantity. These suppliers will then be subject to a further internal assessment by our production and quality control teams based on the quality of such raw materials and components and the documents provided by the suppliers.

Suppliers engaged by us would be subject to our bi-annual assessment in different aspects, such as their product quality, punctuality of delivery, price, pre and after-sales services and handling of urgent orders. We also conduct an annual review where we will arrange site visits with our suppliers and address any specific issue with delivery noted in the past year. The results of such assessment and review will be taken into account in determining whether our relationship with such suppliers should be continued.

Supply agreements

We maintain a list of approved suppliers for our major raw materials and components. We generally enter into supply agreements with our suppliers in Hong Kong, the PRC and Taiwan for a fixed term of two years, or for an indefinite term unless terminated by the parties. Under the supply agreements, we have to place a purchase order to our suppliers for each purchase stating details, such as the name of product, model number, specifications, quantity, unit price and total price. There is no minimum purchase requirement in our supply agreements. Once we have placed purchase orders to our suppliers, they shall deliver the raw materials and components to us in accordance with the scheduled date and place. If there is any delay in delivery which affects our production, our suppliers are generally responsible for our losses such as the cost of man-hours of the downtime and the losses resulting from our delay in delivery of our products to our customers, or we are entitled to cancel orders which are affected by the delay. The agreement may be terminated by the affected party where there is any breach of the agreement and the breach cannot be rectified by the other party within the period specified by the affected party.

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During the Track Record Period, we did not experience any shortage or delay in the supply of raw materials and components that materially affected our operations and we do not anticipate any difficulties in this regard in the foreseeable future.

Raw materials and components supplied to us are generally subject to a warranty period of one to two years, during which we are entitled to replace any defective raw materials and components for free, or return them to our suppliers and seek compensation from them.

Credit and payment terms

We settle most of our purchases in US Dollars and RMB and mainly by way of telegraphic transfer and bill or acceptance note. In general, we are granted a credit period ranging from 30 days to 90 days by our suppliers to settle our payment after delivery.

QUALITY CONTROL AND QUALITY ASSURANCE

We believe that the quality of our products has been a key to our success, and is crucial to our future prospects.

We have obtained ISO9001 certification for our quality control system. We have implemented quality control procedures in each critical step of the production process to ensure the quality of our products meets the requirements and expectations of our customers. We require the raw materials and components we source and our products to be in compliance with the applicable quality standards for networking products. Our Directors confirm that, during the Track Record Period, we had complied with the product quality standards as required under the applicable laws and regulations in all material aspects, and did not experience any significant problem of quality defects or product returns from our customers.

Quality control department

As at 30 June 2017, our quality control department consisted of 50 members. Each of the staff with a supervisory role of our quality control department has received a diploma. We provide our quality control department employees with regular training and assessments regarding our quality control standards and procedures including quality data analysis, testing standards for new products, roles and responsibilities for conducting quality control. Our quality control procedures are divided into four main stages: (i) input quality control; (ii) product quality control; (iii) inventory quality control; and (iv) service quality control.

Input quality control

We inspect the raw materials and components that are used in our production process. Our quality control team inspects materials upon their arrival to determine whether they conform to the requirements as stated in our purchase orders and whether there are defects. Our quality control team would inform the procurement team of materials that fail our quality control measures, which would then return batches of materials concerned to the suppliers for exchange or refund. If we discover any quality issue for the materials during the production process, our procurement team would also liaise with the suppliers to arrange for exchange or refund.

Product quality control

We inspect our products for quality and functionality for compliance with national, industry and our own quality standards. We obtain certification for our products to ensure that they are in compliance with the safety and industrial standards as required by our customers in different jurisdictions. These standards include CE, RoHS and REACH for Europe, type approval, declaration of conformity and registration of

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product certification for Taiwan, VOC for Egypt, FCC for U.S., NTC for Philippines and CCC for PRC. We also obtain Wi-Fi certification from the Wi-Fi Alliance for our products.

We also conduct different tests during the production process to ensure the functionality of our products. Finished products will also be subject to inspection before being delivered to the warehouse. For details, please see “— Production — Manufacturing process”. Products that pass our sampling inspection will be sent to our warehouses.

For newly developed products, the prototypes would be subject to various tests, such as shock and vibration test, temperature test and salt spray test. Our quality control team would also perform reliability test and performance test on the finished products during trial production. Any abnormalities noted during the tests would be documented in a report, which would be sent to other teams concerned to follow up on the improvement measures.

Inventory quality control

We monitor the inventory that is stored in our warehouses. Inventories are stored in different environments depending on their nature. For instance, electronic components and work in progress are stored at a temperature of 10-30 degree Celsius with a relative humidity of 30% to 70%.

We also monitor the expiry date of inventories. Obsolete inventories that have expired will be gathered, labelled and submitted to the quality control team for inspection every quarter. Inventories that have passed the quality inspection will be stamped with the inspection date while those that have failed the quality inspection will be disposed.

Service quality control

When complaints are received from our customers, our FAE would first inspect the order number and delivery date concerned and collate data in relation to the abnormalities of our products. If our customers request for product return or replacement, we would look into the reasons for such request and make relevant records. Our quality control team, production engineering team, research and development team and other teams concerned would evaluate the complaint and result of the evaluation would be passed to the general management office for final decision making.

If our FAE confirms that the abnormalities of our products relate to production or the performance of our raw materials or components, our quality control team would convene a meeting with other relevant teams, such as the production engineering team and research and development team to analyse and review the problems and propose measures for improvement. If it is confirmed that the abnormalities relate to software problems, our FAE would pass the relevant information about the complaint to our software team for review and improvement measures.

Similar procedures apply when there is negative feedback of our products from the market. Our product management team would verify the accuracy of the allegation and furnish a report to our management regarding its findings. If problems with our products are identified and those products are not yet sold, we will further analyse and review the problems to look for improvement measures. Where those products are already sold, we would consider product recall.

INVENTORY MANAGEMENT

Our inventory comprises mainly (i) raw materials and components such as router CPUs, PCBs, ICs and AC adaptors; (ii) work in progress; and (iii) finished goods.

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Inventory turnover days

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, our average inventory turnover days were 67.3 days, 83.4 days and 90.7 days, respectively. The balance of our inventory as at 31 December 2015 and 2016 and 30 June 2017 represented for approximately 37.1%, 43.5% and 43.2% of our current assets, respectively. Please see “Financial Information — Description of certain items of combined statements of financial position — Inventories” in this prospectus for a detailed analysis on our inventory level.

Inventory of raw materials and components

We review and monitor our inventory level periodically and generally keep a minimal level of raw materials and components sufficient for one month’s production. Our policy is to keep a sufficient level of raw materials and components in accordance with our production plan for the coming one month.

Inventory of finished goods

As (i) we only manufacture products upon confirmation of orders from EFM or our other EMS and OEM customers, or upon receiving preliminary confirmations from our distributors of their intent to purchase our Branded Products, and deliver products to our customers and our distributors after completion of production; and (ii) we generally do not allow return of our goods from our customers or our distributors, we had not experienced any material issues during the Track Record Period with respect to accumulation of finished products.

Slow-moving inventory

We conduct stock take at least once every six months. For slow-moving inventory, we conduct a quarterly analysis to assess whether they can be used for production or are to be treated as obsolete. Where they are to be treated as obsolete, a breakdown of the proposed obsolete inventory has to be prepared and confirmed by our general management office. For details, please see “Financial Information — Description of certain items of combined statements of financial position — Inventories”.

LOGISTICAL ARRANGEMENTS

During the Track Record Period, our raw materials, components and finished products are stored primarily at our warehouses in our factory in Shajing Subdistrict, Shenzhen, PRC. We engage third-party logistics companies to deliver products to our customers in the PRC. For overseas customers, we normally deliver our products on FOB basis and we engage third-party logistics companies to deliver the products to the ports that our customers specify. These logistic companies bear the risks and losses associated with the delivery of our products.

MARKET AND COMPETITION

Industry

Please see “Industry Overview” in this prospectus for details regarding the industry in which we operate, such as industry maturity and size, market trends and prospects.

Key business drivers

As a manufacturer and developer of networking products, our key business drivers include, among others, increase in population and penetration rate to internet access, active development of the telecommunication and network equipment industry, technological advancement and government support. For further details regarding the key drivers of our business, please see “Industry Overview” in this prospectus.

Competitive landscape

We operate in the networking equipment manufacturing market with a focus in consumer router market. Based on the location of customers, our major markets are Korea and China, followed by other Asian countries and regions. Both of the Korean and Chinese markets are highly concentrated with a dominant top brand, followed by other brands with significantly less market shares. According to the Frost & Sullivan Report, the top five brands in the retail consumer router market in Korea accounted for more than 90% of the market share in 2016. EFM's brand *ipTIME* was the leading brand of consumer routers in Korea accounting for approximately 73.2% of the market share in 2016. Based on revenue of retail consumer routers in Korea, the market share of each of the other top four brands is in single digit. This indicated the popularity and dominance of the Jointly Developed Products in the consumer router market in Korea. According to the Frost & Sullivan Report, the top 15 brands accounted for over 90% of the market share in China in 2016 and based on the retail revenue of consumer routers in China, the market share of top brand was approximately 59.9%. According to the Frost & Sullivan Report, our Group's *TOTOLINK* brand was ranked 15th, accounting for approximately 0.1% of the market share in 2016 based on revenue of consumer router in China. The consumer router market in mainland China is projected to be more competitive as many other vendors are also eager to enter into the telecommunications consumer router market with a view to establish their own hardware ecosystem. Vendors competing in the consumer router market comprise diversified vendors that have strong legacy in the telecommunications carrier sector as well as the enterprise sector, where they have been providing traditional routers and other network equipment.

Please see "Industry Overview" in this prospectus for further details regarding our competitors, market share and ranking.

INTELLECTUAL PROPERTY

Our operations depend on, to a large extent, our trademarks, patents, and other intellectual property rights, including website and domain name which are either licensed to us or owned by us. We have registered the *TOTOLINK* trademark in the U.S., E.U., Lebanon and Vietnam and have submitted applications for registration of such trademark in Thailand and Indonesia. The PRC *TOTOLINK* trademark in the PRC was transferred back to us from the Relevant Customer on 13 December 2016 and the trademark has been owned by us up to the Latest Practicable Date. On 31 March 2017, our Group has entered into a trademark licence agreement with the Relevant Customer pursuant to which we agreed to grant a licence to the Relevant Customer for the use of PRC *TOTOLINK* trademark in the PRC between 13 December 2016 and 12 December 2026 subject to a royalty fee. For more details, please refer to "— Sales, Marketing and Distribution — Distribution" and "— Our Business Model — Processing services" in this section. We have also registered the 吉翁 and zioncom¹ trademarks in Hong Kong. As at the Latest Practicable Date, we were the registered owner of eight computer software copyright, four designs and seven utility model patents that are relevant to the ordinary course of our business operations. For details of intellectual property rights which are material to our business and operations, please see "Statutory and General Information — B. Further Information about our Business — 2. Intellectual property rights of our Group" in Appendix IV to this prospectus.

We rely primarily on intellectual property laws and contractual arrangements with our employees and business partners to protect our intellectual property rights. Our senior employees and key research and development personnel are required to enter into confidentiality agreements requiring them to

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maintain strict confidentiality of all information relating to our intellectual property rights and trade secrets to protect our intellectual property rights.

We are not aware of any material infringement of our intellectual property rights during the Track Record Period and up to the Latest Practicable Date and we believe that we have taken all reasonable steps to prevent infringement of our intellectual property rights. During the Track Record Period, no material claims or disputes were brought against us in relation to any infringement of trademarks, patents or other intellectual property rights. As at the Latest Practicable Date, we were also not aware of any pending or threatened claim against us or any of our subsidiaries in relation to the infringement, including those arising from the design of our products, of any intellectual property rights of Independent Third Parties.

Please see “Risk Factors — We may encounter counterfeiting or other infringement of intellectual property rights by third parties or we may face other difficulties in protecting our intellectual property rights” in this prospectus.

EMPLOYEES

As at Latest Practicable Date, we had a total of 883 full-time employees, of which 802, 13, 66 and two of them were based in the PRC, Taiwan, Vietnam and Hong Kong, respectively. As part of our cost-saving strategy and to enhance flexibility in our operations, we also engage despatch workers through labour despatch agencies from time to time when additional staff is needed for production at the Shajing Production Facilities. The housing provident fund and social insurance contributions for these despatch workers are borne by the labour despatch agencies.

The following table shows a breakdown of our employees by function:

	As at Latest Practicable Date
	Number of employees
Management	6
Procurement, production and quality control	681
Sales and marketing	51
Research and development	96
Human resources, administration and finance	49
Total	883

Recruitment policies and employee relationship

We believe that we have maintained good relationships with our employees in general and our management policies, working environment, development opportunities and employee benefits have contributed to the maintenance of good employee relations and employee retention.

We generally recruit our employees through advertisements on online websites and recruitment bazaars. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any work stoppage, labour strike or other material labour disputes that have materially disrupted our operations and had not experienced any significant difficulty in recruiting or retaining qualified staff. We have not set up any trade union for our employees.

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Training

We provide different training 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.

Staff remuneration and benefits

We will review the performance of our staff periodically and consider the results of such review for staff's annual bonus, salary review and promotion appraisal. Our Directors believe that these staff benefits are in line with the industry level.

We have adopted the Share Option Scheme. For details, see "Statutory and General Information — D. Share Option Scheme" in Appendix IV to this prospectus.

According to the relevant PRC laws and regulations, we are required to make contributions to our employees' social insurance and housing provident fund. We consider that our insurance coverage is adequate for our operation and is in line with industry practice in the PRC. Our Directors confirm that we had not made, or been the subject of, any material insurance claim during the Track Record Period and up to the Latest Practicable Date.

PROPERTIES

Owned properties

As at the Latest Practicable Date, we owned three properties in the PRC. Set out below are details of such properties:

<u>Address</u>	<u>Approximate area (sq.m.)</u>	<u>Purpose</u>
1. Room 701, Block D, Building 4, Shenzhen Software Industry Base, Shenzhen, China	343.44	Office (research and development, administration)
2. Room 702, Block D, Building 4, Shenzhen Software Industry Base, Shenzhen, China	308.63	Office (research and development, administration)
3. Room 706, Block D, Building 4, Shenzhen Software Industry Base, Shenzhen, China	310	Office (research and development, administration)

We had obtained the building ownership certificates for all these properties. Our PRC Legal Advisers confirmed that we possess legal ownership of the properties.

Leased properties

As at the Latest Practicable Date, we rented ten material properties. Set out below are details of such properties:

<u>Address</u>	<u>Approximate Area (sq.m.)</u>	<u>Purpose</u>
<i>PRC</i>		
1. Blocks A1 & A2, B1 & B2, Lantian Technology Park, Henggangxia Xinqiao Town, Shajing Subdistrict, Bao'an District, Shenzhen, China	20,520	Production facilities and staff dormitory

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Address	Approximate Area (sq.m.)	Purpose
2. B207, B208, B209, B211, B212, B213, A405, A409 and A410 on 4/F of Building No. 3 and ancillary dormitory Block B of Xin Da Industrial Zone, Furong Road, Xinqiao, Shajing, Bao'an District, Shenzhen City	1,600	Production facilities and staff dormitory
3. 401, 402 of Building No. F3, Modern Creative Park, F518, 1065 Baoyuan Road, Xixiang Street, Bao'an District, Shenzhen City	192.1	Office
4. 1702, 1703 Weisa Yinghai, Green Central Plaza, No.1 Jinye Road, High and New Area, Xian City	173.24	Office
<i>Hong Kong</i>		
5. Unit 1 on 6th Floor of Fortune Commercial Building, No.362 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	348	Office
<i>Vietnam</i>		
6. Land Lot No.140, the Vietnam Singapore Industrial Park II-A, Tan Uyen Town, Binh Duong Province, Vietnam	13,000	Production facilities
7. Land Lot No.151, the Vietnam Singapore Industrial Park II-A, Tan Uyen Town, Binh Duong Province, Vietnam	12,000	Production facilities
8. Room 203, Helios Building, Street No. 3, Quang Trung Software Park, Tan Chanh Hiep Ward, District 12, Ho Chi Minh City, Vietnam	200	Office
9. Room 101, A2D11 Lot, Cau Giay New Urban Area, Dich Vong Hau Ward, Cau Giay District, Hanoi, Vietnam	29.9	Office
<i>Taiwan</i>		
10. 9F.-1 and 9F.-2, No. 872, Zhongzheng Rd., Zhonghe District, New Taipei City 235, Taiwan	714.2	Office

Defects of our leased properties

As advised by our PRC Legal Advisers, the relevant property owners of our leased properties in the PRC did not have valid title ownership certificates as at the Latest Practicable Date.

Xixiang and Xi'an properties

In relation to our office in Xixiang, the property is a historical illegal building and there is a potential risk that we may be vacated. However, as the property is for office use and the area is relatively

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small, we believe there exists no impediment for us to readily lease a similar property as alternative. As for our office in Xi'an, our PRC Legal Advisers advised that although the lessor has not yet obtained a property ownership certificate, there is a construction works planning permit for the property concerned and as such, the lease agreement is valid and legally enforceable. Our PRC Legal Advisers advised that there is no legal impediment for us to use the property in accordance with the lease agreement.

Shajing Production Facilities

We currently lease two properties for the Shajing Production Facilities from Independent Third Parties (“**Shajing Lessors**”). On 12 May 2016, we entered into a lease agreement in relation to the lease of Blocks A1 & A2, B1 & B2, Lantian Technology Park, Henggangxia, Xinqiao Town, Shajing Subdistrict, Bao'an District, Shenzhen, China (“**Shajing Property No. 1**”). On 1 February 2017, we entered into another lease agreement in relation to the lease of, among others, B207, B208, B209, B211, B212, B213, A405, A409 and A410 on 3/F and 4/F of Building No. 3 of Xin Da Industrial Zone, Furong Road, Xinqiao, Shajing, Bao'an District, Shenzhen City (“**Shajing Property No. 2**”) (lease agreements for Shajing Property No.1 and Shajing Property No.2 together, the “**Shajing Leases**”). Shajing Property No. 1 and Shajing Property No. 2 together form our Shajing Production Facilities. The Shajing Production Facilities are crucial to our operations.

So far as we are aware, the landlords of the Shajing Production Facilities (the “**Shajing Landlords**”) from whom the Shajing Lessors lease the relevant properties for a period of 15 years commencing from May 2007 did not possess the relevant property ownership certificates and construction works planning permits. Our PRC Legal Advisers have advised that Shajing Landlords have not obtained the relevant property ownership certificates and construction works planning permits and that there is a potential risk that the Shajing Production Facilities may be regarded as illegal buildings and may, therefore, be ordered by the relevant PRC governmental authorities to be demolished or confiscated. In such event, we may be required to vacate the premises and hence, we may not be able to continue to occupy and conduct our operations at the relevant leased properties. For associated risks, please see “Risk Factors — Risks relating to our business — Our leased properties in the PRC are subject to title encumbrances, and we may be required to vacate the properties” in this prospectus.

Our Directors estimate that the amount of additional rent that we would have paid during the Track Record Period would not be material, should the Shajing Production Facilities have proper title certificates after considering that the market rents of properties of similar size and in the same vicinity having proper title certificates are similar to the rents of the Shajing Production Facilities.

Our PRC Legal Advisers have advised as follows:

- (i) we will not be subject to any administrative penalty or risk of non-compliance with the applicable PRC laws and regulations as a result of Shajing Landlords' failure to obtain the relevant property ownership certificates and construction works planning permits; and
- (ii) based on the PRC Legal Advisers' enquiries with the appropriate PRC authority, there is no immediate plan or arrangement by the relevant PRC governmental authority to demolish or confiscate the Shajing Production Facilities.

Contingency arrangements for our production operations

For the purposes of minimising the risk of any disruption to our production operations, we have formulated a contingency plan as below. Except for the estimated costs of contingent relocation disclosed in “— Properties — Contingency arrangements for our production operations — (iii) Contingent relocation arrangement in respect of the Shajing Production Facilities — Estimated costs of contingent

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relocation”, we do not expect to incur any material loss from business interruption. Given that we have such contingency arrangements in place, our Directors confirm and the Sole Sponsor concurs that there will be no material impact on our operations in the event that we are forced to vacate the Shajing Production Facilities.

(i) Undertaking from the Shajing Lessors

We understand from the Shajing Lessors that the failure to obtain the relevant property ownership certificates and construction works planning permits in respect of the Shajing Production Facilities was due to failure to complete land use planning changes and building construction related procedures in the past. We have obtained an undertaking from the respective Shajing Lessors that (i) as at the date of the undertaking, they have not received any notice from the relevant PRC authority requiring demolition or confiscation of the Shajing Production Facilities; (ii) they will continue to lease the Shajing Production Facilities to us in accordance with the terms of the Shajing Leases, (iii) there has been no dispute over the title of the Shajing Production Facilities nor any third party has claimed for ownership in the Shajing Production Facilities; (iv) as long as we are operating legally, they will not apply to court or arbitration centre for a declaration that the Shajing Leases are invalid for any reasons; and (v) we will have the right of first refusal to lease the Shajing Production Facilities from them upon the expiry of the Shajing Leases based on the same terms of the Shajing Leases.

(ii) Contingent outsourcing arrangement

We have obtained a confirmation from a subcontractor, being an Independent Third Party engaged in electronic products manufacturing services and located in Shajing Subdistrict, Shenzhen, the PRC (“**Contingent Manufacturing Confirmation**”) pursuant to which the subcontractor has agreed to reserve at least five of its production lines to meet our sales demand for at least 1.5 months during our contingent relocation.

In choosing such subcontractor, we considered factors including proximity of its location to our Shenzhen head office, its manufacturing capabilities, its capacity to complete our orders on time and its ability to comply with our quality requirements.

Our PRC Legal Advisers have advised us that the Contingent Manufacturing Confirmation is legal, valid and enforceable under the laws of the PRC.

(iii) Contingent relocation arrangement in respect of the Shajing Production Facilities

Contingent relocation plan

We have established a contingent relocation plan pursuant to which we will relocate the staff, machinery and assets in the Shajing Production Facilities to the Contingent Relocation Facility should the need arise. The contingent relocation covers the following aspects: (i) details of the property identified; (ii) implementation procedures of the contingent relocation plan including effective period and specifics of each stage of contingent relocation; (iii) costs of the contingent relocation; and (iv) lists of staff, machinery and other assets to be relocated.

Contingent Relocation Facility

Details of the Contingent Relocation Facility are as follows:

- **Address:** Xiangshuihe Industrial Zone, Da Ya Wan Western District, Huizhou City, PRC
- **Proximity:** approximately 91 kilometres from the Shajing Production Facilities

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- **Size of the production facilities and staff dormitory:** 25,979.6 sq.m.
- **Permitted use:** industrial
- **Title holder:** the Relocation Facility Lessor (as defined hereinafter)

The Contingent Relocation Facility is larger in size than the Shajing Production Facilities and will have sufficient space to accommodate our existing staff and production and assembly lines in the Shajing Production Facilities. As advised by our PRC Legal Advisers, all necessary property title documents of the Contingent Relocation Facility have been obtained.

Implementation procedures

The contingent relocation procedures will take effect upon the relevant PRC government authorities taking action against the defect of the Shajing Production Facilities. Our Directors expect that the contingent relocation could be completed in 45 days. The contingent relocation procedures are designed having considered our annual production capacity, actual production volume and the highest monthly production demand for the year ended 31 December 2016. During the year ended 31 December 2016, our actual production volume was approximately 6.4 million units of networking products (the “**2016 Production Volume**”), which is around 75.8% of our annual production capacity, which was approximately 8.5 million units of networking product (the “**2016 Annual Production Capacity**”) for the year ended 31 December 2016. For the year ended 31 December 2016, our highest production demand fell in the fourth quarter, where the average monthly production demand was approximately 690,000 units of products (“**Monthly Production Demand**”). Having taken the 2016 Annual Production Capacity and the Monthly Production Demand into account, it is estimated that the production capacity affected during relocation would be approximately 170,000 units of product per week. In order to mitigate the impact on our production capacity during relocation, production planning will be adjusted five weeks prior to relocation and overtime work hours will be implemented.

The contingent relocation plan will be carried out in four stages. Set forth below are the details of contingent relocation procedures in each stage.

- **First stage:** Before renovation of the Contingent Relocation Facility, we will purchase machinery for two new production lines at the Contingent Relocation Facility. We will also complete the laying of water pipes, electricity grid and gas pipes at the Contingent Relocation Facility. We expect that the first stage should take around 30 days to complete.

The operation of the Shajing Production Facilities will not be affected at this stage. We will however, arrange our staff to work on overtime basis to meet our production needs during relocation.

- **Second stage:** We will commence the installation and calibration of the two new production lines at the Contingent Relocation Facility. As our current production lines can only satisfy our existing production demand, new orders taken in view of the expansion of our production lines at the Contingent Relocation Facility will be outsourced to a subcontractor, being an Independent Third Party approved by us, during relocation. Raw materials and components will be provided by us to the subcontractor for production. For details of the outsourcing arrangement, please see “—Properties — Contingency arrangements for our production operations — (ii) Contingent outsourcing arrangement” above.

Apart from that, our warehouse at the Shajing Production Facilities will be relocated. Raw materials and components that do not affect existing orders and those which will be used in our new production lines will be transferred to the Contingent Relocation Facility for trial

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production. Our first batch of engineers, technicians and production staff will also be relocated to the Contingent Relocation Facility to assist in the installation, calibration and pilot production of our new production lines. It is expected that this stage will take around seven days to complete.

During this stage, the Shajing Production Facilities will continue to operate. We will arrange our staff to work on overtime basis to meet our production needs during relocation.

- **Third stage:** After the planning for each zone of the Contingent Relocation Facility is completed, the existing production lines will cease operation. All machinery and assets at the Shajing Production Facilities will be relocated to and installed at the Contingent Relocation Facility. This process includes disassembly, packing, loading, delivering, unloading, installation and calibration of the machinery and assets.

The second batch of engineers, technicians, production staff and office staff will also be relocated to the Contingent Relocation Facility to assist in installation, calibration and pilot production of such machinery and assets. It is expected that this stage will take around five days to complete.

During this stage, the two new production lines will commence normal operation. If required, we will arrange our staff to work on overtime basis in order to meet our orders.

- **Fourth stage:** All production processes will proceed normally at the Contingent Relocation Facility. All useful items at the Shajing Production Facilities which are not prohibited to be removed under the Shajing Lease will be removed and relocated to the Contingent Relocation Facility.

We will also strengthen our recruitment efforts to compensate for the potential loss of staff due to relocation. Relevant arrangements in relation to social insurance and housing provident fund will also be handled accordingly.

At this stage, we will inform our customers and relevant suppliers of our Contingent Relocation Facility and if necessary, invite them to visit us. It is expected that this stage will take around two days to complete.

Lease Undertaking

We have obtained a written undertaking from Zhi En Electronic (Da Ya Wan) Co. Ltd.* (智恩電子(大亞灣)有限公司) (“**Relocation Facility Lessor**”) pursuant to which the Relocation Facility Lessor has undertaken that it will, within three months from the receipt of notice from Zioncom Shenzhen, lease the Contingent Relocation Facility to us and that it will indemnify us against any economic losses suffered by us if we are unable to relocate to the Contingent Relocation Facility in time for reasons due to it. The lease undertaking does not have an expiry date. As at the Latest Practicable Date, no consideration was paid to the Relocation Facility Lessor.

Our PRC Legal Advisers have advised us that the undertaking from the Relocation Facility Lessor is legal, valid and enforceable under the laws of the PRC.

As confirmed by the Relocation Facility Lessor, the Contingent Relocation Facility is currently partly vacant and the vacant area is approximately 6,000 sq.m.. In the event that the Contingent Relocation Facility cannot be entirely vacated within three months from the receipt of notice from Zioncom Shenzhen, our Directors consider that our production will not be affected given that (i) the vacant area is sufficient to accommodate our production lines for operation with warehousing to be

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relocated to a nearby location; and (ii) our Lot A Facilities in Vietnam has sufficient space for installation of two to three additional production lines.

To the best knowledge of our Directors, after due enquiries with property agencies, there are other alternative production facilities (other than the Contingent Relocation Facility) for lease of comparable size and rent for similar usage in Shenzhen, PRC. Our Directors confirm that we will conduct due diligence checks on the landlord and the property to ensure the leasing of such alternatives complies with the relevant PRC laws and regulations.

Estimated costs of contingent relocation

Our Directors estimate the total costs of relocation will be approximately RMB6.2 million, comprising approximately (i) RMB2.5 million for the refurbishment; (ii) RMB0.3 million for the relocating costs; (iii) RMB1.2 million for the procurement of new equipment; and (iv) RMB2.2 million for the staff overtime costs as we currently expect that we will require some of our staff to work two more days during the first, third, fifth and seventh week of the relocation and one more day during the second and fourth week of the relocation. All costs of relocation will be borne by us.

Our Directors confirm that the estimated additional costs to be incurred in relation to the relocation are immaterial and insignificant as compared to the production cost under normal operation of our Group.

As at 30 June 2017, the cost and the net book values of our property, plant and equipment located at the Shajing Production Facilities were approximately HK\$70.8 million and HK\$31.1 million, respectively. Our Directors consider that the plant and equipment in the Shajing Production Facilities can be easily relocated to the Contingent Relocation Facility and thus expect no write off of these plant and equipment.

Machinery and assets

We have compiled a detailed list of our current machinery and assets to be relocated and we will update such list from time to time to reflect the process of relocation.

Our Directors are of the view that the Contingent Relocation Facility is a suitable option for our relocation purpose and the possible relocation to the Contingent Relocation Facility will not cause material disruptions to our business operations and will not result in significant loss of revenue nor adversely affect our relationship with our customers due to: (i) our PRC Legal Advisers have advised that the land use right certificates, building ownership certificates and all other relevant licences for the proposed production by our Group have been obtained by the Relocation Facility Lessor and the Relocation Facility Lessor owns the legal title of the Contingent Relocation Facility and has the legal right to lease the Contingent Relocation Facility to us; (ii) the location of the Contingent Relocation Facility is close to the Shajing Production Facilities; (iii) our production capacity, operations and facilities (including factory and staff quarters) in the Shajing Production Facilities will be adequately accommodated having considered the size and permitted use of the Contingent Relocation Facility and having obtained the Contingent Manufacturing Confirmation; (iv) the relocation can be implemented and completed by stages in a timely and efficient manner; and (v) the reservation for the Contingent Relocation Facility is secured by an undertaking from the Relocation Facility Lessor meaning we have priority over other lessees to lease the Contingent Relocation Facility.

Internal control measures to ensure that we will not acquire or lease properties with title defects going forward

With effect from April 2017, when renewing our existing leases or entering into new leases, we will conduct enquiries with the relevant landlord to check if it has all relevant title documents and the rights to

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lease the relevant properties and if the relevant properties have any title defects, and will request for supporting documents. We will also consult our legal advisers before entering into new or renewed leases.

Leased land

As at the Latest Practicable Date, we leased two parcels of land of approximately 13,000 sq.m. and 12,000 sq.m. in Vietnam and completed construction of our new production facilities in January 2017 on the land parcel of 13,000 sq.m. We commenced trial production in late October 2017. For our expansion plans, please see “— Business strategies and future plans” in this section. As confirmed by our Vietnam Legal Advisers, Zioncom Vietnam has had valid title certificate for land use as at the Latest Practicable Date and has complied with all applicable laws in respect of the land in all material respects.

PROPERTY VALUATION

As at 30 June 2017, we had no single property with a carrying amount of 15% or more of our total assets. Accordingly, this prospectus is exempt from the requirements under the GEM Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance to include a property valuation report. Pursuant to Rule 8.01A of the GEM Listing Rules, a prospectus is exempt from the requirement if the carrying amounts of a listing applicant’s property activities and non-property activities are below 1.0% and 15.0%, respectively. A similar exemption applies under Section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

ENVIRONMENTAL AND SAFETY MATTERS

We are subject to PRC national and local laws and regulations on environmental protection. For details, please see “Regulatory Overview” in this prospectus.

In order to comply with applicable environmental regulations, we have established an environmental management system in our operations in accordance with ISO14001 and obtained ISO14001 certification. We have adopted environmental protection manuals to govern environmental related matters of our Group, including standard procedures and regulations for waste management, noise, sewage discharge, waste oil and exhaust fumes as well as general environmental monitoring and control. According to the legal search conducted by our PRC Legal Advisers, our Group was not on the list of enterprises which had violated environmental laws and regulations in the PRC.

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, we incurred environmental protection costs of approximately HK\$14,000, HK\$13,000 and HK\$9,000, respectively.

HEALTH AND SAFETY

We are also required to abide by work safety laws and regulations imposed by the relevant PRC government authorities and maintain a safe working environment. We have adopted and implemented occupational health and safety procedures and measures for our business operations, and we ensure that all our employees are aware of our safety procedures, protective equipment procedures and social and environmental responsibilities. These include guidelines for operational and safety control procedures, occupational health management procedures, equipment operation and maintenance procedures, emergency control procedures, and social and environmental responsibility.

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During the Track Record Period, there were no major accidents causing death or serious bodily injury in our business operations and there had not been any significant claim for personal or property damages or material compensation paid to our employees.

LEGAL PROCEEDINGS

On 14 June 2016, Mr. Lee took out a writ of summons against Zioncom HK and Mr. BK Kim (“**Case I**”) for, inter alia: (i) a declaration that Mr. BK Kim or his nominee held and holds all 2,000,000 shares of Zioncom HK (the “**Zioncom HK Shares**”) as a trustee for Mr. Lee; (ii) an order that the Zioncom HK Shares be transferred into the name of Mr. Lee forthwith; and (iii) damages. On the same day, Mr. Lee took out another proceeding against Zioncom HK and Mr. JY Kim (“**Case II**”, together with Case I, the “**Hong Kong Legal Actions**”) for, inter alia: (i) Zioncom HK to allow Mr. Lee inspection of the register of members and the index of the names of members of Zioncom HK (the “**Requested Documents**”) on payment of the prescribed fee and make copies therefrom; and (ii) further or alternatively, Mr. JY Kim to cause or procure Zioncom HK to allow Lee’s inspection of the Requested Documents on payment of the prescribed fee and make copies therefrom. On 19 July 2016, Mr. Lee was allowed to inspect the Requested Documents and all obligations of Zioncom HK and/or Mr. JY Kim under Case II were fulfilled. The writ of summons under Case I had never been served to Zioncom HK and/or Mr. BK Kim. On 19 September 2016, Mr. Lee wholly discontinued Case I by filing a notice of discontinuance to the High Court of Hong Kong. On 14 November 2016, Mr. Lee entered into deeds of settlement with each of Zioncom HK, Mr. BK Kim and Mr. JY Kim respectively for, among others, full and final settlement of the Hong Kong Legal Actions, pursuant to which Mr. Lee has waived and forgone any or all claims that Mr. Lee had or may have against Zioncom HK (including its shareholders, employees, directors and advisors), Mr. BK Kim and Mr. JY Kim. The Directors confirm that the declaration and claims made by Mr. Lee were groundless and Mr. Lee will not be able to make similar claims against the Directors or our Group as the Hong Kong Legal Actions have been fully settled. As such, (i) the Directors were of the view that the Hong Kong Legal Actions did not have any material impact on our Group or any adverse implication on the integrity of Mr. BK Kim; and (ii) as advised by Mr. Matthew Ho, our legal advisers as to the Hong Kong laws, the Hong Kong Legal Actions did not have any material impact on our Group. For details of the transfer of Mr. Lee’s shares in Zioncom HK, please refer to “History, Development and Reorganisation — Our Corporate Development — Transfer of Mr. Lee’s shares in Zioncom HK and Lincats” in this prospectus.

As at the Latest Practicable Date, neither any member of our Group nor any of our Directors was subject to any material claims, litigation or arbitration, and there were no material claims, litigation, arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business.

LICENCES, REGULATORY APPROVALS AND COMPLIANCE

Our Directors confirm that the PRC, Hong Kong, Taiwan and Vietnam are the main jurisdictions in relation to our operations. During the Track Record Period and up to the Latest Practicable Date, we did not experience any incident of non-compliance which is likely to materially and adversely affect our business, financial condition or results of operations. As at the Latest Practicable Date, we have obtained all material requisite licences, approvals and permits from relevant regulatory authorities for our operations in the PRC, Hong Kong, Taiwan and Vietnam.

Non-compliance

Save as disclosed below, we have complied with the laws and regulations applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date. The table below sets forth a summary of historical non-compliance incidents with applicable regulations during the Track Record Period.

No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance	
Zioncom HK							
Filing							
1	During the Track Record Period, Zioncom HK had on six occasions failed to file statutory forms timely or with correct details of particulars prescribed under the Companies Ordinance, such as late filing of change of residential address of directors, late filing of change of director, late filing of return of allotment, filing of incorrect address or passport numbers of directors in annual return. The filing of the relevant form or updated form occurred on 1 February 2016, 31 March 2016, 20 June 2016 and 26 October 2016, where the respective deadline for filing such forms was 12 September 2015, 29 March 2016, 19 June 2016 and 28 August 2016. Annual return 2015 with incorrect particulars was filed on	Our Directors were not familiar with relevant laws and therefore engaged certain company secretarial service providers for handling various filings under the Companies Ordinance, who failed to strictly observe the relevant requirements.	For failure to deliver return of allotment within one month after allotment of shares, under section 142(3) of the Companies Ordinance, the company and the responsible person are liable to a fine of HK\$25,000 and further fine of HK\$700 per day (for continuing offence).	As advised by the Hong Kong Legal Counsel, they are either (i) technical non-compliances where no real prejudice was suffered by Zioncom HK or its members or (ii) non-compliances as a result of mere inadvertence.	The non-compliance incidents have not occurred again after they were rectified.	In addition to the corporate company secretarial service of Sejong Corporate Services Co. Ltd. for Zioncom HK, our Company has also appointed company secretary and will appoint the Compliance Director as defined in “— Risk management, Internal Control and Corporate Governance Measures” in this section to ensure that our Group will comply with relevant requirements under the Companies Ordinance in all material aspects.	
			For failure to deliver to the Companies Registry for registration a notice of cessation of service of a director or any change in the particulars contained in the register of directors of a company, under section 645(6) of the Companies Ordinance, the company and the responsible person are liable to a fine of HK\$25,000 and a further fine of HK\$700 per day (for continuing offence).	As advised by the Hong Kong Legal Counsel, the chance of prosecution is remote and for the aforementioned reasons, these non-compliances are likely to be immaterial.	Going forward, our Company will adopt (i) a comprehensive checklist which sets out all filing requirements, including the information and/or forms to be filed to the Companies Registry or relevant authorities and also the deadline of the filing; and (ii) a checklist to record the details of Zioncom HK, such as incorporation date, date of last annual general meeting and date of audited accounts, which will be reviewed by external legal advisers to be engaged to ensure the completeness and accuracy in respect of all applicable laws and regulations. Such checklists will also be reviewed and updated by the Compliance Director (and reviewed by legal advisers (if necessary)) from time to time if there are any updates on the statutory requirement.		
					By end of each month, the Compliance Director, our company secretary and Sejong Corporate Services Co. Ltd. will review and discuss if there are any regular filings required to be made for the following month.		
					After receiving notice of changes of information of directors, our company secretary will check the checklist and report to the Compliance Director and		

No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
	<p>17 September 2015 and was rectified on 26 May 2016. Annual return 2016 with missing particulars on mortgages and charges was filed on 17 September 2016, but as Zioncom HK's charge was subsequently released in December 2016 and was no longer applicable, no amended annual return was filed.</p>		<p>If a person knowingly or recklessly makes a statement in the annual return that is misleading, false or deceptive in any material aspect, under section 895(2), the person commits an offence and is liable (a) on conviction on indictment to a fine of HK\$300,000 and to imprisonment for two years; or (b) on summary conviction to a fine of HK\$100,000 and to imprisonment for six months.</p>			<p>advise Sejong Corporate Services Co. Ltd. for the deadline of the filing.</p> <p>Sejong Corporate Services Co. Ltd. will assist in preparing the draft filing on a timely basis after receiving instructions from our company secretary and will circulate the draft filing at least five business days before the respective filing deadline. Our company secretary will be responsible for reviewing and checking the information of all filings with the supporting documents and submit to the Compliance Director and the Compliance Director will be responsible for the final approval of the filing and Sejong Corporate Services Co. Ltd. will file after obtaining the approval from the Compliance Director before the respective filing deadline.</p>
2	<p>Zioncom HK failed to file the employer's tax return in 2015 within the time limit prescribed by the Inland Revenue Department ("IRD").</p>	<p>This non-compliance incident was due to oversight of the prescribed time line by the staff designated to complete the employer's tax return.</p>	<p>Under section 51(1) of Inland Revenue Ordinance (Cap.112) ("IRO"), an assessor is entitled to give notice requiring a taxpayer to furnish tax return within a reasonable time limit stated therein.</p> <p>Under section 80(2)(d), any person who without reasonable excuse fails to comply with section 51(1) commits an offence and is liable on conviction to a fine at level 3 (i.e. \$10,000) and a further fine of treble the amount of tax undercharged. The assessor may also estimate the chargeable sum and issue an</p>	<p>As advised by the Hong Kong Legal Counsel, the chance that our Company and/or our Directors will be prosecuted for these non-compliances is slim; the nature of the non-compliances is also immaterial.</p>	<p>Zioncom HK has furnished the employer's tax return. The non-compliance incident has not occurred again after it was rectified.</p>	<p>In order to equip our staff with the latest development of the tax practice in our sphere of operation, we will organise regular trainings to staff members of our accounting and finance department who are responsible for tax filings and tax payments. We will also engage an independent tax adviser to (i) conduct an enhancement review and advise on our tax filing system; (ii) provide review on our tax returns before filing the same with tax authorities; and (iii) provide training to our finance manager and staff of our accounting and finance departments of our Group in respect of applicable tax laws and regulations.</p> <p>Shortly after the end of each year of assessment, the Compliance Director, the Chief Financial Officer, our finance manager and our assistant finance manager will hold a meeting with independent tax adviser to set out a detailed work plan with clear deadlines for tax reporting and filing. Our assistant finance manager will be responsible for calculating tax base and preparing tax returns. Such tax returns must be reviewed by the finance manager, and subsequently approved by our Chief Financial Officer.</p>

No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
1	<p>Zioncom HK has failed to obtain the radio dealer's licence ("Radio Dealer's Licence") pursuant to the Telecommunication Ordinance (Cap.106) ("TO") while trading network products and conducting business as a radio dealer since the commencement of the Track Record Period until obtaining such on 6 January 2016.</p>	<p>Our Directors were not familiar with the legal requirements at the relevant time.</p>	<p>Under section 8(1) of the TO, no person shall, <i>inter alia</i>, deal in the course of trade in apparatus or material for radio-communications in Hong Kong unless in accordance with a granted licence. A person who contravenes section 8(1) of TO shall be guilty of an offence and be liable (a) on summary conviction, to a fine of HK\$50,000 and imprisonment for two years; and (b) on conviction on indictment, to a fine of HK\$100,000 and imprisonment for five years.</p> <p>Under section 9 of the TO, no person shall</p>	<p>The non-compliances did not and are unlikely to give rise to any material financial or operational impact on Zioncom HK in the future.</p>	<p>Zioncom HK has obtained the Radio Dealer's Licence on 6 January 2016, which was renewed on 1 February 2017. The non-compliance incident has not occurred again after it was rectified.</p>	<p>The research and development manager will report to the Compliance Director at least two months before the launch of new products to the market. The Compliance Director will consider if any licence has to be obtained for manufacturing and/or selling of such products and seek legal advice if appropriate.</p> <p>The Compliance Director will review the products list annually to ascertain if we have obtained all necessary licence (if any) for manufacturing and/or selling of products and seek legal advice if appropriate. Zioncom HK has designated the assistant finance manager to review monthly on any renewals of licences which are necessary and will be responsible for applying for renewal of the licence before the expiry date each year. Assistant finance manager shall report to the Compliance Director the status of the renewal process on a weekly basis one month prior to the expiry date.</p>
			<p>assessment based on the estimation in the absence of information provided by the taxpayer under section 59(3) of the IRO.</p>			<p>All correspondence received by our Company from relevant tax authorities have to be forwarded to the Compliance Director, the Chief Financial Officer, our finance manager and assistant finance manager and the time limit of filing or response to the tax authorities will be bookmarked. Our finance manager will assist to or appoint independent tax adviser to prepare the draft filing or response on a timely basis and will circulate the draft filing at least five business days before the respective filing or response deadline. Chief Financial Officer will be responsible for reviewing and checking the information of all filings with the supporting documents and approval and submit to Compliance Director for double checking before the filing or submission.</p>

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No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
			import into or export from Hong Kong any radio-communications transmitting apparatus unless he is a holder of the Radio Dealer's Licence or in accordance with a permit granted by the Authority. Any person who contravenes section 9 of the TO shall be guilty of an offence and be liable on summary conviction to a fine of HK\$20,000 and imprisonment for 12 months.			
			As advised by the Hong Kong Legal Counsel, offence under section 9 of the TO is time-barred and Zioncom HK and its directors are unlikely to be prosecuted or penalised for import and export activities before 6 January 2016.			
			As advised by the Hong Kong Legal Counsel, Zioncom HK and its directors can be prosecuted for sale of network products but: (a) Zioncom HK is likely to be fined on a low side; and (b) the directors of Zioncom HK can raise a meritorious defence as there is no evidence that the directors have			

No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
			<p>consented to Zioncom HK operating the business without the licence and there is no evidence that they have been advised of the need to obtain the licence before 6 January 2016.</p>			

Human resources

1 Zioncom HK has failed to obtain an effective insurance policy in respect of its liability while employing its only employee (Mr. Lee Pui Chung (“**Mr. Lee PC**”), our finance manager) in June 2015, in contravention of section 40 of the Employees’ Compensation Ordinance (Cap.282) (“**ECO**”) until March 2016. Following the commencement of Mr. Lee PC’s employment in June 2015, Zioncom HK has also failed to give notice to IRD within three months under section 52(4) of IRO until May 2016, as well as to make contribution to the mandatory provident fund (“**MPF**”) for Mr. Lee PC under the Mandatory Provident Fund Scheme Ordinance (Cap. 485) (“**MPFSO**”) until April 2016.

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No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
			<p>employment. Under section 80(1) of the RTO states that any person who without reasonable excuse fails to comply with section 52(4) of the RTO commits an offence and is liable on conviction to a fine of HK\$10,000.</p> <p>Under MPFSO, a company that fails to make MPF contributions before the contribution days stipulated by the trustee may be liable for a fine of HK\$350,000 and imprisonment for three years.</p> <p>As advised by the Hong Kong Legal Counsel, Zioncom HK is potentially liable to be prosecuted under ECO. However, it is highly likely that the charge will only be laid summarily and a financial penalty is likely to be imposed. Insofar as the breaches under IRO and MPFSO are concerned, Zioncom HK is likely to be fined only.</p>			

No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
Zioncom Vietnam						
Corporate matters						
1	<p>From a company perspective and pursuant to the Enterprise Registration Certificate, the current registered charter capital (i.e. equity) of Zioncom Vietnam is VND122,933,000,000 equivalent to US\$5,500,000, of which VND22,700,000,000 equivalent to US\$1,000,000 (representing 18.47% of the charter capital) in the form of machinery and equipment representing the increased charter capital registered by Zioncom Vietnam and recorded by the licencing authority in the Enterprise Registration Certificate dated 29 March 2017 (“Increased Amount”) was not contributed in full on time as required by law.</p>	<p>The Increased Amount is to be contributed by way of machinery and equipment, which have not been delivered to Vietnam by the time of notification to the licencing authority.</p>	<p>Pursuant to Vietnamese laws, any increase of charter capital must be fully contributed before the company notifies the licencing authority of such increase in its charter capital. The owner of Zioncom Vietnam (i.e. Zioncom HK) is liable for all debts and other property obligations of Zioncom Vietnam to the extent of the amount of the unpaid charter capital of Zioncom Vietnam.</p> <p>In addition, failure to have the Increased Amount fully contributed by 24 March 2017 could be considered by the authorities as an act of untruthful or inaccurate declaration in Zioncom Vietnam’s enterprise registration dossier which may be subject to a fine from VND10,000,000 to VND15,000,000 (approximately US\$440 to US\$650) and a forced registration of change to reflect the actual amount</p>	<p>As advised by Vietnam Legal Advisers, given the Increased Amount was fully contributed on 8 December 2017, this non-compliance has been rectified and it is unlikely that any penalties would be applied.</p>	<p>Our Directors were only aware of the non-compliance incident in April 2017 after receiving legal advice from the Vietnam Legal Advisers. As soon as it came to our Directors’ knowledge, we made efforts to rectify such non-compliance by procuring machineries and equipment. Between May 2017 and July 2017, machineries and equipment in the amount of approximately US\$0.3 million had been delivered to Vietnam. We placed order for major machineries in the amount of approximately US\$0.6 million in October 2017 as it took time for us to confirm on the specifications and obtain quotations from the suppliers for these major machineries. Such machineries were delivered to Vietnam in November 2017. The remaining machineries and equipment in the amount of approximately US\$20,000 were minor machineries, and were</p>	<p>Our Company has been advised by the Vietnam Legal Advisers of the relevant law and regulations and will engage a Vietnam law firm to ensure that it complies with local laws and regulations upon Listing.</p> <p>As at the Latest Practicable Date, our Group has signed an acceptance form, pursuant to which our Group has agreed to retain VNA Legal as its legal adviser as to Vietnamese law with effect from Listing.</p> <p>Our Company will also designate the Compliance Director to be responsible for legal and compliance matters in Vietnam, which involve liaising with the Vietnam Legal Advisers on relevant legal and regulatory requirements and developments in Vietnam.</p> <p>For details of the internal control policies in relation to the expansion to new markets, please see “—Risk management, Internal Control and Corporate Governance Measures” in this section.</p>

No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
	<p>However, the Increased Amount was not fully contributed until 8 December 2017.</p>		<p>of contributed charter capital and re-notification of untruthful/inaccurate declared information.</p>		<p>delivered to Vietnam by the week of 8 December 2017.</p> <p>As at the Latest Practicable Date, all the machinery and equipment have been delivered to Vietnam and the non-compliance is rectified.</p>	
2	<p>From 6 March 2017 to 18 May 2017, Mr. JY Kim was registered as the sole legal representative of Zioncom Vietnam while he was not residing in Vietnam.</p>	<p>Our Directors were not familiar with the legal requirements at the relevant time.</p>	<p>Pursuant to the Law on Enterprises of Vietnam, if the company has only one legal representative, such person “must reside in Vietnam”. Given this, Mr. JY Kim should have resided in Vietnam as the legal representative of Zioncom Vietnam for that period. Failure to comply with this requirement may subject Zioncom Vietnam to a fine from VND10,000,000 to VND15,000,000 (approximately from US\$440 to US\$650) and a forced registration of a person residing in Vietnam to be the/a legal representative of the company.</p>	<p>As advised by the Vietnam Legal Advisers, as Zioncom Vietnam for an additional legal representative who is residing in Vietnam (i.e. Mr. BK Kim) on 18 May 2017, the risk of any fine being imposed is remote. The non-compliance incident has not occurred again after being rectified.</p>	<p>As Zioncom Vietnam subsequently registered for an additional legal representative who is residing in Vietnam (i.e. Mr BK Kim) on 18 May 2017, the risk of any fine being imposed is remote. The non-compliance incident has not occurred again after being rectified.</p>	<p>Our Company has been advised by the Vietnam Legal Advisers of the relevant law and regulations and will engage a Vietnam law firm to ensure that it complies with local laws and regulations upon Listing.</p> <p>As at Latest Practicable Date, our Group has signed an acceptance form, pursuant to which our Group has agreed to retain VNA Legal as its legal adviser as to Vietnamese law with effect from Listing.</p> <p>Our Company will also designate the Compliance Director to be responsible for legal and compliance matters in Vietnam, which involve liaising with the Vietnam Legal Advisers on relevant legal and regulatory requirements and developments in Vietnam.</p> <p>For details of the internal control policies in relation to the expansion to new markets, please see “— Risk management, Internal Control and Corporate Governance Measures” in this section.</p>
Propertics						
1	<p>Zioncom Vietnam obtained necessary permits and approvals</p>	<p>Our Directors were not familiar with the relevant laws.</p>	<p>Failure to obtain approval for amendment to the Construction</p>	<p>As advised by the Vietnam Legal Advisers, the non-compliance is an</p>	<p>The Amended Construction Permit, which was amended to</p>	<p>Our Company has been advised by the Vietnam Legal Advisers of the relevant law and regulations and will engage a Vietnam law firm to ensure that it complies with local laws and regulations upon Listing.</p>

No.	Non-compliance incident	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
	for construction of the Lot A Facilities including the Environmental Approval, the Firefighting Certificates, the Construction Permit and the Amended Construction Permit, being all required permits/approvals for the construction. The construction was completed and commissioned on 23 January 2017. The Amended Construction Permit, which was amended to change various construction items, was obtained on 18 January 2017.		Permit could be subject to administrative penalties for breach of the Construction Permit, which is subject to a fine from VND30,000,000 to VND50,000,000 (approximately from US\$1,300 to US\$2,200). Risk of any administrative penalties being applied in this instance would appear minimal given that on 23 January 2017, the Management Board of Vietnam – Singapore Industrial Park (“ VSIP MB ”) after inspecting the construction work at site concluded in the minutes of inspection of construction works that the construction work is essentially in accordance with the Construction Permit and the Amended Construction Permit.	immaterial non-compliance.	change various construction items, was obtained on 18 January 2017 after the construction was completed. The non-compliance incident has not occurred again after being rectified.	As at the Latest Practicable Date, our Group has signed an acceptance form, pursuant to which our Group has agreed to retain VNA Legal as its legal adviser as to Vietnamese law with effect from Listing. Our Company will also designate the Compliance Director to be responsible for legal and compliance matters in Vietnam, which involve liaising with the Vietnam Legal Advisers on relevant legal and regulatory requirements developments in Vietnam. For details of the internal control policies in relation to the expansion to new markets, please see “— Risk management, Internal Control and Corporate Governance Measures” in this section.
	Technically, any approval for amendment to the Construction Permit (i.e. the Amended Construction Permit) should have been obtained prior to implementing the amendment.					
	Finance					
1	Zioncom Vietnam has borrowed the amount of VND800,000,000 (approximately US\$35,500) from Shinhan Bank Vietnam for a term of 3 years from 10 May 2016 for	Our Directors were not familiar with the relevant laws.	From a strict legal perspective, failure to comply with the investment registration certificate or failure to increase the total investment capital to cover the loan may be	As advised by Vietnam Legal Advisers, they do not believe that this previous non-compliance is a current issue or that any fines would now be imposed and therefore consider this an	Zioncom Vietnam has rectified this breach by increasing its total investment capital to US\$15,000,000 to give a capacity of US\$9,500,000 for loans in 17 May 2017. The	Our Company has been advised by the Vietnam Legal Advisers of the relevant law and regulations and will engage a Vietnam law firm to ensure that it complies with local laws and regulations upon Listing. As at the Latest Practicable Date, our Group has signed an acceptance form, pursuant to which our Group has agreed to retain VNA Legal as its legal adviser as to Vietnamese law with effect from Listing.

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	<p>buying a car and has mortgaged the car to the bank to secure the loan. At the time of this loan, there was no capacity within Zioncom Vietnam's total investment capital to borrow money pursuant to its investment registration certificate dated 14 March 2016 (i.e. because total investment capital comprises capital contribution and loan capital but Zioncom Vietnam's capital contribution at that time equalled to total investment capital, which means there was no capacity for loan capital).</p>	<p>Reason for non-compliance</p>	<p>subject to a fine from VND20,000,000 to VND40,000,000 (approximately US\$80 to US\$1,760).</p>	<p>immaterial non-compliance.</p>	<p>non-compliance incident has not occurred again after being rectified.</p>	<p>Our Company will also designate the Compliance Director to be responsible for legal and compliance matters in Vietnam, which involves liaising with the Vietnam Legal Advisers on relevant legal and regulatory requirements and developments in Vietnam. For details of the internal control policies in relation to the expansion to new markets, please see "— Risk management, Internal Control and Corporate Governance Measures" in this section.</p>
<p>Human resources</p>						
1	<p>A. For several former employees of Zioncom Vietnam, there were various legal non-compliances, including (i) one former employee signed two definite term labour contracts and both have a probation period, which is contrary</p>	<p>Our Directors were not familiar with the relevant laws.</p>	<p>(i) may be subject to a fine from VND4,000,000 to VND10,000,000 (approximately US\$176 to US\$440) and a forced payment of 100% of salary for such job to the employees; (ii) may be subject to a fine from VND1,000,000 to</p>	<p>Given that the contracts with former employees have been terminated, we do not believe these non-compliances to be material. For the non-compliances relating to the current employees of Zioncom Vietnam, it is advised by the Vietnam Legal Advisers that:</p> <p>(i) as the employees have</p>	<p>The relevant contracts with former employees were terminated. The non-compliance incident has not occurred again after being rectified. For the non-compliances relating to the current employees of Zioncom Vietnam: (i) the two foreign employees have obtained work permit;</p>	<p>Our Company has been advised by the Vietnam Legal Advisers of the relevant law and regulations and will engage a Vietnam law firm to ensure that it complies with local laws and regulations upon Listing. As at the Latest Practicable Date, our Group has signed an acceptance form, pursuant to which our Group has agreed to retain VNA Legal as its legal adviser as to Vietnamese law with effect from Listing. Our Company will adopt internal policies and guidelines to (i) include a comprehensive checklist on human resources administration matters including the procedures for recruiting new staff, termination of staff, obtaining work permits and regular administrative and</p>

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	<p>to Vietnamese labour laws which allow only one time of probation; (ii) two former employees had a probation period before signing seasonal labour contracts (which are contracts with duration of less than 12 months) which is not permitted by Vietnamese labour laws; (iii) one former employee signed three seasonal labour contracts (which are contracts with duration of less than 12 months) which is not permitted by Vietnamese labour laws; and (iv) one former foreigner worked for Zioncom Vietnam before obtaining a work permit and his labour contract had a term which did not match with the term of</p>		<p>VND2,000,000 (approximately US\$44 to US\$88) and a forced payment of 100% of salary for such job to the employees; (ii) may be subject to a fine from VND2,000,000 to VND4,000,000 (approximately US\$88 to US\$176); (iv) may be subject to a fine from VND60,000,000 to VND90,000,000 (approximately US\$2,600 to US\$3,840) and be suspended for operation from one to three months.</p> <p>B.</p> <p>(i) Failure to obtain a work permit or a confirmation letter from the relevant labour authority could result in the foreign employees being deported from Vietnam.</p>	<p>subsequently obtained a work permit, this issue should not be material; (ii) such non-compliance is an immaterial non-compliance; and (iii) such non-compliance is an immaterial non-compliance.</p>	<p>(ii) Zioncom Vietnam has rectified this issue by signing an indefinite term labour contract to replace the third definite term labour contract; and (iii) On 21 September 2017, Zioncom Vietnam submitted its new salary scale to the VSIP MB. If such salary scale is made in accordance with law and Zioncom Vietnam did not receive any written notice from the VSIP MB for amending this, Zioncom Vietnam will be deemed to have complied with this requirement for registration of the salary scale. Furthermore, the labour contracts have been amended in accordance with the new salary scale.</p> <p>Our Company does not expect that the above non-compliance incidents would occur again after they are rectified.</p>	<p>regulatory matters including all filing of documents and deadlines of such filing, and this checklist will be reviewed by the Compliance Director from time to time and legal advice will be sought from the Vietnam legal Advisers where appropriate; (ii) adopt a standard employment contract template to be reviewed by Vietnam Legal Advisers which shall comply with Vietnamese labour laws and salary scale; and (iii) designate the Compliance Director to carry out regular checking on the compliance with relevant laws and regulations with the assistance of the Vietnam Legal Advisers. Our Company will also provide training sessions on the latest human resources regulatory requirements for our senior management and relevant staff by the Compliance Director or the Vietnam Legal Advisers from time to time.</p>

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B.	his subsequently issued work permit, which is contrary with Vietnamese labour laws.	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
B.	In relation to the current employees of Zioncom Vietnam:	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
(i)	Two foreign employees signed a labour contract approximately five to six months prior to being granted with a work permit.	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance
(ii)	For one of its Vietnamese employees, Zioncom Vietnam has signed three definite term labour contracts. Pursuant to Vietnamese labour laws, an employer and employee can only sign a maximum of two definite term labour contracts and the third contract must be for an indefinite term. Given this, the third definite term labour contract would be	Reason for non-compliance	Laws and Regulations concerning the penalty and potential consequence(s)	Whether the non-compliance incident has any material impact	Rectification actions and potential impact on our Group	Measures to prevent future breach and ensure ongoing compliance

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	deemed to be an indefinite term labour contract and any termination thereof must follow provisions on termination for indefinite term labour contracts under Vietnamese law.					
(iii)	Salaries and allowances provided in current labour contracts of current employees are not consistent with the salary scale submitted to the VSIP MB on 22 March 2017 as various types of allowances provided in the salary scale have not been included in the labour contracts and certain allowances provided in the labour contracts do not match with the allowances in the salary scale.					

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2	Historically, various social insurance, health insurance and unemployment insurance contributions for employees may not have been fully declared and paid as required by law and the payment has been made for its employees since June 2016.	The historical non-compliance was mainly due to the fact that there was no competent person in charge when it was newly established and our Directors were neither familiar with the relevant laws.	Pursuant to law, Zioncom Vietnam is required to pay a percentage of employee salary as employer contributions to social, health and unemployment insurance, withhold employee contributions to the same, and pay such contributions to the relevant authorities. Failure to declare and pay could result in various administrative penalties and potential liability to employees.	As advised by Vietnam Legal Advisers, given the number of employees involved and on the assumption that the amounts of under-declaration/payment advised by Zioncom Vietnam are correct, then any potential penalties and liabilities would appear to be of a limited nature and this issue would therefore be an immaterial non-compliance.	Zioncom Vietnam has advised the total historical under-declarations/payments amount to VND83,183,750 (approximately US\$3,660), which cannot be paid through the electronic system of the relevant government authority. However, considering the amount involved is immaterial, our Company considers that the potential impact on our Group is minimal.	Our Company has been advised by the Vietnam Legal Advisers of the relevant law and regulations and will engage a Vietnam law firm to ensure that it complies with local laws and regulations upon Listing. As at the Latest Practicable Date, our Group has signed an acceptance form, pursuant to which our Group has agreed to retain VNA Legal as its legal adviser as to Vietnamese law with effect from Listing.
3	Historically, various personal income tax contributions for certain employees may not have been fully declared and paid as required by law and the payment has been made for its employees since June 2016.	The historical non-compliance was mainly due to the fact that there was no competent person in charge when it was newly established and our Directors were not familiar with the relevant laws.	Pursuant to law, Zioncom Vietnam is required to declare employee income to the tax authority, withhold relevant personal income tax from employees applicable to such income and pay such personal income tax on behalf of the employees	As advised by Vietnam Legal Advisers, given the number of employees involved and on the assumption that the amounts of under-declaration/payment advised by Zioncom Vietnam are correct, then any potential penalties would appear	Zioncom Vietnam has advised the total under-declarations/payments amount to VND23,930,314 (approximately US\$1,050), which cannot be paid through the electronic system of the relevant government authority. However,	Our Company has been advised by the Vietnam Legal Advisers of the relevant law and regulations and will engage a Vietnam law firm to ensure that it complies with local laws and regulations upon Listing. As at the Latest Practicable Date, our Group has signed an acceptance form, pursuant to which our Group has agreed to retain VNA Legal as its legal adviser as to Vietnamese law with effect from Listing. Our Company will establish policies and guidelines to (i) include guidelines on calculation of personal income

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1	<p>According to the Commodity Inspection Act (商品檢驗法), the networking products imported and sold by Zioncom Taiwan are subject to mandatory inspection by the Bureau of Standards, Metrology and Inspection (“BSMI”). The inspection method for this kind of products is “declaration of conformity” (符合性聲明), and the importer, as the obligatory applicant, is required to obtain a test report from a recognised inspection</p>	<p>Our Directors were not familiar with the relevant laws and our Directors thought the declaration and investigation were for products instead of for the distributor.</p>	<p>to the tax authority. Failure to declare and pay personal income tax could result in various administrative penalties and potentially criminal liability.</p>	<p>to be of a limited nature and this issue would therefore be an immaterial non-compliance.</p>	<p>considering the amount involved is immaterial, our Company considers that the potential impact on our Group is minimal. The non-compliance incident has not occurred again.</p>	<p>tax and a comprehensive checklist in relation to tax filing and payment, including all filing of documents, declaration of employee income to tax authority, payment of income tax on behalf of the employees and deadline of such declaration or payment, such checklist will be reviewed by the Compliance Director from time to time and legal advice will be sought from the Vietnam legal Advisers where appropriate; (ii) designate experienced human resources staff in Zioncom Vietnam to handle matters relating to personal income tax; (iii) designate the finance department to monitor and review the calculation and contributions made and verify the number of employees and the basis of contribution before making payment; and (iv) designate the Compliance Director to carry out regular checking on the compliance with relevant laws and regulations with the assistance of the Vietnam Legal Advisers.</p>
	<p>Zioncom Taiwan</p>					
	<p>Licencing</p>	<p>As advised by Taiwan Legal Advisers, the non-compliance incident may not be a systemic non-compliance because (i) after Zioncom Taiwan conducted declaration of conformity inspection and issued certificates for all its products subject to declaration of conformity investigation as well as replaced the stickers on the products imported during the vacant period, there does not exist repeated and/or continuous non-compliance of the Commodity Inspection products which are not provided with Zioncom</p>			<p>Zioncom Taiwan has completed the declaration of conformity inspection, obtained relevant inspection certificates, and replaced the stickers on all the products delivered to distributors and/or consignees during the vacant period by 26 April 2017. The non-compliance incident has not occurred again after being rectified.</p>	<p>Our Group has implemented procedures where our engineer of product management team will ascertain whether any requisite testing is required before exporting to Taiwan. If testing is required, we will contact a recognised inspection laboratory to issue the test report and submit test report to BSMI for the application of declaration of conformity before exporting to Taiwan. Moreover, our Company has been advised by the Taiwan Legal Advisers of the relevant law and regulations and will engage a Taiwan law firm to ensure that it complies with local laws and regulations upon Listing. As at the Latest Practicable Date, our Group has entered into a retainer agreement with Lee and Li, pursuant to which our Group has agreed to retain Lee and Li as its legal adviser as to Taiwanese laws with effect from Listing.</p>

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	laboratory addressed to it and to issue a declaration to represent that such product conforms to applicable laws and regulations and warrant that it shall be liable for non-conformity.		Taiwan's declaration of conformity certificate or to proceed with the required inspection, and/ or (ii) prohibit Zioncom Taiwan from importing and selling those products, within a certain period of time. If Zioncom Taiwan fails to recall the products or proceed with the inspection as ordered within the period of time requested by BSMI, it would be subject to a fine of NT\$100,000 to NT\$1,000,000 and such fine may be levied successively. If Zioncom Taiwan disobeys the prohibition on importation or sale, it would be subject to a fine of NT\$250,000 to NT\$2,500,000 and such fine may be levied successively. BSMI may also confiscate, destroy or adopt other measures if Zioncom Taiwan still does not comply with the requests of BSMI after the fine.	Act as the above non-compliance incident by Zioncom Taiwan and to Taiwan Legal Advisers' knowledge without independent verification, Zioncom Taiwan currently operates its business in compliance the Commodity Inspection Act; and (ii) the above non-compliance incident would not have material financial or operational impact on Zioncom Taiwan because the chance that Zioncom Taiwan's violation of the Commodity Inspection Act would be discovered and fined by BSMI is low for the aforesaid reasons and the possible fine of NT\$200,000 (equivalent to approximately US\$6,627) (if any) might not be significant for Zioncom Taiwan.		
	Mandatory inspection required by BSMI for the networking products imported to and sold in Taiwan was previously handled by the distributor of Zioncom in Taiwan, who ceased to be the distributor of Zioncom on 31 December 2015 after Zioncom Taiwan was incorporated. On 12 October 2015, Zioncom Taiwan entered into an authorisation agreement with the distributor, who authorised Zioncom Taiwan to use the declaration of conformity certificates for certain products which were issued under its name. As Zioncom Taiwan did not conduct its own inspection on the products imported by it and obtain its own inspection certificate for importing and selling those products in Taiwan					

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	and using its distributor's, Zioncom Taiwan did not comply with the requirements of the Commodity Inspection Act during the period that it imported products in Taiwan and used the declaration of conformity certificates issued by the distributor (the "vacant period").					
	Zioncom Shenzhen					
	Human resources					
1	Since the commencement of the Track Record Period, Zioncom Shenzhen and its branches failed to make full contribution to (i) the social insurance fund; and (ii) the housing provident fund.	During the relevant period, contributions for social insurance and housing provident fund contributions were handled by our human resources department and our staff at the human resources department did not have a comprehensive understanding of the legal requirements in relation to social insurance and housing provident fund.	According to article 86 of The Social Insurance Law of the PRC* (《社会保险法》), the social insurance authorities are entitled to order the employer to pay the outstanding social insurance within a prescribed time limit and impose a late charge of 0.05%, if the employer fails to do so within the prescribed time limit, a fine ranging from one to three times of the outstanding amount of social insurance may be imposed.	The historical non-compliance of Zioncom Shenzhen and its branches failing to make social insurance contributions and housing provident fund contributions in full will not have a material and adverse impact on the financial condition and business of Zioncom Shenzhen and its branches and is an immaterial non-compliance.	Zioncom Shenzhen and its branches have made social insurance contributions and housing provident fund contributions in accordance with the statutory requirements for all competent employees. As such the potential impact on our Group is minimal.	Our Company will formulate enhanced internal control measures to (i) include guidelines on calculation of social insurance and housing provident fund, including review and update the employment records monthly to ensure our Company makes social insurance and housing provident fund contribution for all employees; (ii) training sessions on the legal and regulatory requirements of social insurance and housing provident fund contribution will be provided by PRC legal advisers to our senior management and the relevant staff who are responsible for handling matters relating to social insurance and housing provident fund from time to time, and an annual update on the latest legal and regulatory requirements will also be provided by the PRC legal advisers; (iii) designate the Compliance Director to review payment schedule of social insurance contribution by the end of each year with the assistance of the PRC legal advisers where appropriate; (iv) require the designated staff who are responsible for handling social insurance and housing provident fund to circulate the calculation and relevant documents at least three business days before the payment deadline; (v) designate the finance manager to monitor and review the calculation and contributions made and verify the number of employees and the basis of contribution at least one business day before the payment deadline; and (vi) designate the Compliance

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	<p>Social Insurance Fund Management Centre* (西安高新區社會保險基金管理中心); and (ii) five foreign employees for whom, as advised by the PRC Legal Advisers, it is not mandatory to make housing provident fund contributions under the PRC laws. The non-compliance incident has not recurred after it is rectified.</p>		<p>Fund Administration Centre would order Zioncom Shenzhen and its branches to pay the outstanding social insurance contribution, or impose fines.</p>			<p>Director to monitor the timely payment for social insurance and housing provident fund contribution and carry out regular checking on the compliance with relevant laws and regulations. Such policies and checklists will be reviewed and updated by the Compliance Director (and reviewed by legal advisers (if appropriate)) from time to time if there are any updates on the relevant laws and regulations.</p>
			<p>According to article 38 of the Housing Provident Fund Administration Rules*(《住房公積金管理條例》), the housing provident administration centre is entitled to order payment within a time limit in event of failure to contribute to housing provident fund within prescribed time or failure to contribute the full amount. The relevant housing provident fund authorities may apply for a court order requiring employers to make payment in event of the employer's failure to comply with the housing provident administration centre's order.</p>			
			<p>As advised by the PRC Legal Advisers, the risk is not high that Shenzhen Housing Provident Fund Administration Centre and Xi'an Housing Provident Fund Administration Centre would enforce and order Zioncom Shenzhen and</p>			

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2	<p>Zioncom Shenzhen and its branches failed to make social insurance contribution for February, April, June and July 2017 in time and was subject to a surcharge of approximately RMB6,500.</p>	<p>Our Company paid the social insurance premium several days later than it usually did with the belief that the payment was within the due date prescribed by certain measures regulating the payment and collection of social insurance contribution.</p>	<p>its branches to pay the outstanding housing provident contributions.</p> <p>According to article 86 of The Social Insurance Law of the PRC* (《社会保险法》), the social insurance authorities are entitled to order the employer to pay the outstanding social insurance within a prescribed time limit and impose a late charge of 0.05%, if the employer fails to do so within the prescribed time limit, a fine ranging from one to three times of the outstanding amount of social insurance may be imposed.</p>	<p>As advised by the PRC Legal Advisers, the surcharge imposed due to the late payment of social insurance contribution is not a kind of administrative penalty under The Social Insurance Law of the PRC. As Zioncom Shenzhen had paid the social insurance premium and surcharges in accordance with the legal requirements. This is a standalone non-compliance and our Company does not expect that the non-compliance incident would occur again after it is rectified.</p> <p>Shenzhen had paid the social insurance premium and surcharges in accordance with the legal requirements, the non-compliance incident is immaterial.</p>	<p>Zioncom Shenzhen had paid the social insurance premium and surcharges in accordance with the legal requirements. This is a standalone non-compliance and our Company does not expect that the non-compliance incident would occur again after it is rectified.</p>	<p>By the end of each year, the Compliance Director shall be designated to review payment schedule for social insurance contribution with the assistance of the PRC legal adviser where appropriate. The designated staff shall circulate the calculation and relevant documents at least three business days before the payment deadline. The finance manager then shall review the calculation and verify the number of employees and the basis of contribution at least one business day before the payment deadline. The Compliance Director will monitor the timely payment for the social insurance contribution.</p>
3	<p>On 24 November 2015, Zioncom Shenzhen signed a labour cooperation (intern) agreement with Shenzhen Xuanhan Labour Service Co., Ltd. (hereinafter referred to as “dispatch company”), which stipulated that the Zioncom Shenzhen accepted the dispatch company to send interns to the factory of Zioncom Shenzhen, the wage per hour is RMB14.5, working</p>	<p>The management were not familiar with the legal requirements.</p>	<p>According to Article 4 of the Interim Provisions on Labour Dispatch (《劳务派遣暂行规定》) (promulgated on 24 January 2014 and implemented on 1 March 2014), an employer shall strictly control the number of dispatched workers it employed, which shall not exceed 10% of the total number of employees.</p> <p>According to Article 5 of the Interim Provisions on Labour Dispatch and</p>	<p>As advised by the PRC Legal Advisers, the irregularity has ceased and will not recur. Therefore it is an immaterial non-compliance and Zioncom Shenzhen will not be penalised for the historical non-compliance.</p>	<p>The aforementioned contract violates the relevant provisions on labour dispatch. However, the contract has been terminated on 1 February 2016. As advised by the PRC Legal Advisers, as the non-compliance has been rectified, Zioncom Shenzhen will not be penalised.</p>	<p>Going forward, other than the standard template of labour contract to be reviewed by the PRC legal advisers, all other form of agreements in relation to the engagement of human resources (including labour cooperation agreement) have to be reviewed by the Compliance Director before execution and legal advice will be sought where appropriate.</p>

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	<p>hours per month was expected to exceed 250 hours, and the total number of intern was expected to be 120. The aforementioned contract violates the labour dispatch laws and regulations. However, the contract has been terminated on 1 February 2016.</p>		<p>Article 58 of the Labour Contract Law of the People's Republic of China (2012 version), the labour contracts between a worker dispatch service provider and the workers to be dispatched shall be fixed-term labour contract with a term of not less than two years.</p>			
			<p>According to Article 20 of the Interim Provisions on Labour Dispatch and Article 92 of the Labour Contract Law of the People's Republic of China, an employer that violates any provision of this law on labour dispatch shall be ordered by the labour administrative department to make corrections within a prescribed time; and if the entity or employer fails to do so within the prescribed time, a fine ranging from RMB 5,000 to RMB 10,000 per employee shall be imposed.</p>			
Licensing						
1	<p>Zioncom Shenzhen has failed to obtain the radio transmission equipment type approval from the relevant legal requirements.</p>	<p>The relevant staff were not familiar with the relevant legal requirements.</p>	<p>According to the Radio Regulation of the PRC (2016 Revision)* (《中華人民共和國無線電管理</p>	<p>As advised by the PRC Legal Advisers, considering that (i) the majority of the</p>	<p>Zioncom Shenzhen and its branches have ceased to produce and ceased to sell the abovementioned</p>	<p>The research and development manager will report to the Compliance Director at least two months before the launch of new products to the market. Compliance Director will seek legal advice or make enquiry to the</p>

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	<p>radio regulatory authority of the PRC and has failed to submit for filing to the radio regulatory authority of the PRC for the sales of certain radio transmission equipment in the year ended 31 December 2016. Such revenue generated from direct sale of such equipment within PRC was minimal.</p>	<p>Reason for non-compliance</p>	<p>《条例(2016修订)》, the radio regulatory authority is entitled to order a company or its branch that manufactures and/or sells radio transmission equipment in the PRC for rectification, and to impose a fine ranging from RMB 50,000 to RMB 200,000 for the production of the certain radio transmission equipment products to be sold in the PRC, or a fine ranging from RMB 200,000 to RMB 1 million if the company refused to rectify, with such unapproved radio transmission equipment products models being subject to confiscation. For the illegal sales of the radio transmission equipment in the PRC, the authority is entitled to confiscate such radio transmission equipment and the related illegal income, and impose a fine of up to 10% of the revenue resulting from the illegal sales of such equipment or a fine ranging from 10% to 30% of the revenue resulting from the illegal sales of such equipment</p>	<p>abovementioned products were sold overseas and therefore no type approval is required for those products which had a relatively minimal revenue contribution; (ii) the non-compliance incident will not occur as Zioncom Shenzhen and its branches have ceased to sell the aforementioned products in the PRC and will obtain type approval and apply for registration with the national radio regulatory authority for future sales if needed; (iii) that our Controlling Shareholders have undertaken to indemnify our Group for any economic losses that may arise from the abovementioned non-compliance in relation to failure to obtain type approval and apply for registration, the abovementioned non-compliance will not create any material impact on the proposed Listing and is therefore immaterial.</p>	<p>products to be sold in the PRC by Zioncom Shenzhen itself, and have ceased to sell those products within the PRC. Zioncom Shenzhen has promised to obtain the radio transmission equipment type approval and to submit for filing to the radio regulatory authority of the PRC if our Company decides to produce and sell those products in the PRC in the future. Our Controlling Shareholders have undertaken in favour of our Group to indemnify us if Zioncom Shenzhen and its branches suffered any administrative penalty and losses due to the above non-compliance. As such the potential impact on our Group is minimal.</p>	<p>relevant government authorities to see if any licence has to be obtained for manufacturing and/or selling of such products. The Compliance Director will also review the products list annually to ensure that we have obtained all necessary licence (if any) for manufacturing and/or selling of products and seek legal advice where appropriate. We will engage the PRC legal advisers to provide updates on new laws and regulations relevant to our business, and legal advice will be sought where appropriate in order to comply with the relevant laws and regulations.</p>

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Corporate matters						
1	<p>On 13 May 2011 and 31 May 2012, Zioncom HK signed the contracts with Huicheng Science and Technology Development Co., Ltd, which stipulated that Zioncom HK would buy two high speed modular attachment machine equipments of Panasonic (Name CM602) from Huicheng Science and Technology Development Co., Ltd.. Zioncom HK had signed two financial leasing equipment contracts with The Hongkong and Shanghai Banking Corporation (“HSBC”) in regard to these Panasonic equipments, and Zioncom HK used these Panasonic equipments as capital contribution. These financial leasing equipment contracts were scheduled to be implemented completely before 22 July 2016 and 11 September 2017. Zioncom HK used those equipments it did not own as the capital contribution of the</p>	<p>The management were not familiar with the legal requirements.</p>	<p>if the company refused to rectify.</p> <p>According to the first paragraph of article 28 of the PRC Company Law which was valid at that time when the equipment contribution occurred, the shareholders shall pay their respective subscribed capital contributions in accordance with the articles of association on time, if the capital contributions are made in non-monetary properties, the appropriate transfer procedures for the property rights therein shall be followed according to law.</p> <p>According to the Article 200 of the PRC Company Law, shareholders who made false capital contribution or fail to make cash or non-cash contribution in accordance with the schedule shall be ordered by the company registration authorities to make correction and a fine ranging from 5% to 15% of the amount of</p>	<p>As advised by the PRC Legal Advisers, the risk of Zioncom Shenzhen being penalised for the defect in capital contribution is relatively low, and such defect shall not have any adverse effect on the continuity of our business or impede the proposed Listing and therefore the non-compliance incident is immaterial.</p>	<p>As at 15 April 2016, Zioncom HK has fully repaid the corresponding payments made in the contract for financing lease equipment, thus has obtained the ownership of such equipment, and HSBC has no right to claim ownership of such equipment.</p>	<p>For contracts which are (i) conducted within the ordinary course of business but with contract sum over US\$500,000 (or equivalent value in other currencies) and/or over one year contract term; or (ii) conducted out of the ordinary course of business or in relation to financing or fund-raising, such contracts have to be reviewed by the Compliance Director and the Chief Financial Officer, who will seek legal advice if appropriate.</p>

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	Zioncom Shenzhen, violated the provision of our Company Law of the PRC (中華人民共和國公司法) (the “ PRC Company Law ”).		false capital contribution will be imposed.			
2	Since the establishment of Zioncom Shenzhen, its shareholder Zioncom HK has made 11 contributions of non-cash properties, eight of which has not been evaluated.	The management were not familiar with the legal requirements.	According to the article 10 of the Implementation of Several Issues Concerning Law Application in the Administration of Foreign-invested Company Examination, Approval and Registration (關於外商投資的公司審批登記管理法律適用若干問題的執行意見) (Promulgated and implemented on 24 April 2006), the contribution form of the shareholder of the foreign-invested company shall be in line with Article 27 of the PRC Company Law, Article 14 of the Administrative Regulations on Company Registration, and the Administrative Regulations on the Registration of Company Registered Capital. Before the State Administration for Industry and Commerce issues provisions, jointly with other relevant departments, on the	As advised by the PRC Legal Advisers, considering that the value of the properties used for non-cash property capital contribution has not been overstated and the registered capital of Zioncom Shenzhen is sufficient, the risk of Zioncom Shenzhen being penalised due to the defect in non-cash property capital contribution is relatively small. Besides, our Controlling Shareholders have undertaken to indemnify our Group for any economic losses arising from the aforementioned non-compliance. Therefore, the defect in capital contribution will not impede the proposed Listing and is an immaterial non-compliance incident.	Although part of the equipments contributed by Zioncom HK to the Zioncom Shenzhen were not evaluated or appraised at the date of such contribution, Zioncom Shenzhen has entrusted Beijing Asia Pacific Lianhua asset evaluation Co., Ltd. to retrospectively evaluate the abovementioned equipments and Beijing Asia Pacific Lianhua Asset Evaluation Co., Ltd. has completed the evaluation on 28 March 2017 and confirmed that the equipments were not overvalued. Therefore, the non-compliance has been rectified and the PRC Legal Advisers advised that it will not have a substantial impact on the operation of Zioncom Shenzhen.	For each subsequent capital contributions, the Compliance Director will obtain proper legal advice from the PRC legal advisers to make sure that our Company will comply with relevant laws and regulations.

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			<p>contribution of other properties other than cash, tangible goods, intellectual properties, and land use rights, any other properties than that stipulated in Article 14 of the Administrative Regulations on Company Registration, used as the capital contribution, shall be evaluated and verified, and shall not be overvalued or undervalued. Upon capital contribution, a capital verification organisation established in accordance with the law shall conduct a capital verification and issue a certificate of capital verification.</p>			
3	<p>Zioncom HK has entered into a banking facility letter with DBS Bank on 8 April 2015, pursuant to which Zioncom Shenzhen agreed to provide guarantee for such bank facility. Such guarantee has been released on 3 May 2016.</p> <p>Zioncom HK has entered into certain banking facilities letters with HSBC on 29 August 2014 and 15 July 2015, pursuant to which Zioncom Shenzhen</p>	<p>The management were not familiar with the legal requirements.</p>	<p>According to Article 9 of the Provisions on Foreign Exchange Administration of Cross-border Guarantee (跨境擔保外匯管理規定), where the guarantor is a non-banking financial institution or an enterprise (hereinafter referred to as the “Non-banking Institution”), it shall register the conclusion of the contract on overseas lending secured by domestic guarantee</p>	<p>As advised by the PRC Legal Advisers, the irregularity has ceased and will not recur and therefore it is an immaterial non-compliance incident and will not constitute an impediment to the proposed Listing.</p>	<p>Such guarantee has been terminated by way of confirmation by DBS Bank on 3 May 2016 and by entering into new banking facility letter with HSBC on 12 April 2016. Besides, no cross-border payment actually occurred. The failure to make foreign exchange registration regarding the guarantee for overseas enterprise has no actual influence on foreign exchange administration. Shenzhen Branch of</p>	<p>For contracts which are (i) conducted within the ordinary course of business but with contract sum over US\$500,000 (or equivalent value in other currencies) and/or over one year contract term; or (ii) which are conducted out of the ordinary course of business or in relation to financing or fund-raising, such contracts have to be reviewed by the Compliance Director and the Chief Financial Officer, who will seek legal advice if appropriate.</p>

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	<p>agreed to provide guarantee for such bank facilities. Zioncom HK has entered new banking facility letter with HSBC on 12 April 2016, which such guarantee was released subsequently.</p>		<p>with the local Foreign Exchange Bureau within 15 working days after the conclusion of the guarantee contract. In the event of changes to the principal clauses of the guarantee contract, the guarantor shall go through the formalities for registering the changes on overseas lending secured by domestic guarantee.</p>		<p>State Administration Bureau of Foreign Exchange, as the competent authority, has replied through telephone that Zioncom Shenzhen was not required to resubmit the application for registration regarding to the guarantee for the foreign enterprise if Zioncom Shenzhen has terminated the guarantee, and that no penalty will be imposed on Zioncom Shenzhen under this situation. Further, Shenzhen branch of the People's Bank of China and Shenzhen Branch of State Administration Bureau of Foreign Exchange have issued a certificate to Zioncom Shenzhen on 18 January 2017, which confirmed that no penalty record was found concerning the foreign exchange of Zioncom Shenzhen.</p>	
			<p>According to Article 31 of the Provisions on Foreign Exchange Administration of Cross-border Guarantee, those that fail to conduct cross-border guarantee business in accordance with these Provisions and other relevant provisions shall be punished by Foreign Exchange Bureaus in accordance with the Regulations of the People's Republic of China on Foreign Exchange Administration.</p>			
			<p>According to Article 48 of the Regulation of the People's Republic of China on Foreign Exchange Administration, a foreign exchange administrative</p>			

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4	<p>On 11 November 2016, the Supervision and Administration Team on Fire Protection of Shenzhen Branch Bureau of Public Security Bureau issued an administrative penalty decision in respect of the inspection conducted on 17 October 2016, according to which, the fire supervisor found the Xinqiao factory, a branch of Zirconcom Shenzhen, has some illegal acts such as the allocation of fire protection facilities were not in line with the related laws, and thus gave Xinqiao factory a warning penalty.</p>	<p>The management were not familiar with the legal requirements.</p>	<p>organ shall order correction and impose a warning, and may impose a fine of not more than RMB300,000 in the case of an institution or RMB50,000 in the case of an individual.</p> <p>According to the Fire Prevention and Control of Shenzhen Special Economic Zone (深圳經濟特區消防條例), companies shall set up fire protection facilities, equipment and fire safety marks in accordance with the national standards and industry standards, and regularly organise inspection and maintenance to ensure that such facilities, equipment and fire safety marks are good and effective. In the event that the fire control facilities and devices or fire safety mark configuration fail to meet national standards or industry standards or are kept in bad condition or are ineffective, the company will be ordered to rectify and be given a warning. If it is not rectified</p>	<p>As advised by the PRC Legal Advisers, Xinqiao factory has rectified the breach of fire-fighting regulations which therefore will not constitute a material non-compliance and will not create a material impediment to the proposed Listing. The non-compliance is not in a repeating or recurring nature and therefore is an immaterial non-compliance.</p>	<p>The Supervision and Administration Team on Fire Protection of Bao'an Branch Bureau of Shenzhen Public Security Bureau issued two Fire protection Supervision Inspection Records on 27 October 2016 and 22 November 2016 respectively, which confirmed that Xinqiao factory had rectified the illegal acts founded on 11 November 2016 and the factory was re-examined as qualified.</p>	<p>Going forward, our Company will adopt a comprehensive checklist to be reviewed by the Compliance Director which sets out all requirements, including but not limited to fire, security and environmental protection requirements for our factories, which will be updated and reviewed by the Compliance Director from time to time, and legal advice will be sought where appropriate. The supervisors of the factories will be responsible for conducting internal review and inspection on compliance with reference to the checklist quarterly and submit the completed checklist to the Compliance Director. If exceptions are noted, the supervisors of the factories have to rectify and report to the Compliance Director on the result of rectification. The Compliance Director will also conduct on-site inspection at least twice a year to ensure the compliance of such.</p>

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5	<p>According to Huanggang Customs' Administrative Penalty Decision made on 4 March 2015, on 12 February 2015, Zioncom Shenzhen declared that the origin of 5012 integrated circuit of Brand AMBARELLA is "the United States", however, the actual origin is "Taiwan", and Zioncom Shenzhen was thus fined RMB1,000 as the origin and declaration description did not match.</p>	<p>The relevant information was provided by the supplier which our staff failed to double check due to short lead time required for the relevant order.</p>	<p>Immediately, a fine ranging from RMB 5,000 to RMB 50,000 shall be imposed, if the circumstances are serious, a fine ranging from RMB 50,000 n to RMB100,000 shall be imposed.</p>	<p>As advised by the PRC Legal Advisers, considering that the amount of the fine is relatively small so as its impact to the net profit of our Company for the relevant year, the non-compliance did not constitute a material non-compliance and would not result in any material impediment to the proposed Listing. The non-compliance is not in a repeating or recurring nature and therefore is an immaterial non-compliance.</p>	<p>According to the receipt of fine provided by Zioncom Shenzhen, Zioncom Shenzhen has paid the above fine on 4 March 2015. Considering the amount of the fine is small, the payment of the fine amount has little effect on our Company's current net profit.</p>	<p>For all export of products, the staff of external affairs department has to counter check all information in the declaration description and the production manager has to approve before submitting the declaration and no products can be exported without the approval of the supervisors of the factories.</p> <p>For all import of materials or components, where applicable, the external affairs department has to obtain the draft declaration description before despatch by the suppliers. The staff of our external affairs department has to double check the information of all draft declaration description and the suppliers can only despatch the materials or components with the approval of our external affairs department.</p>

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			<p>arrival, and final place of destination of the import and export goods or other items fail to be declared as they should be or declared falsely, thus affects the accuracy of the customs statistics, a warning shall be given or a fine ranging from RMB 1,000 to RMB 10,000 shall be imposed, and the illegal gains shall be confiscated.</p>			

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All of the non-compliance incidents in Hong Kong, the PRC and Taiwan as mentioned above that are capable of being rectified and expressed to have been rectified were rectified by August 2017, other than the failure to make social insurance contribution for one employee because the relevant authority, Xi'an High-tech zone Social Insurance Fund Management Centre, did not accept payment from our Group due to the closure of its system as a result of its annual audit until November 2017. As at the Latest Practicable Date, all of the above non-compliance incidents that are capable of being rectified and expressed to have been rectified, including those in Vietnam, had been rectified. As advised by our legal advisers above, the risk of giving rise to civil or criminal liability is minimal and the financial penalty or legal consequences are insignificant should we be liable for the non-compliance incidents. Our Directors therefore believe that these incidents would not have any material adverse impact on our business, operations and financial condition. We have engaged an internal control consultant to review the effectiveness of internal controls associated with major business processes of our Group, identify deficiencies and improvement opportunities, furnish recommendations on remedial actions and review the implementation status of these remedial actions. Based on the findings and recommendations of the work performed by the internal control consultant, our Directors are of the view that our Group's internal control measures are adequate and effective.

Given that (i) the non-compliance incidents were unintentional and mainly due to the management's unfamiliarity with the legal and regulatory requirements; (ii) where applicable, the non-compliance incidents have been rectified; and (iii) our Company has established policies, as suggested by the internal control consultant of our Company, for designated persons to implement or monitor the implementation of internal control measures to prevent the re-occurrence of these non-compliance matters in the future, our Directors are of the view, and the Sole Sponsor concurs, that our Group's internal control measures are adequate and effective. The Sole Sponsor considers that although there have been a significant number of non-compliance instances, this does not indicate that our Directors do not possess the standard of competence to act as directors of a listed company. Our Group has grown organically over the years, led by a lean executive team who is involved in many aspects of our Group's operations. However, given the size of the executive team, they were not able to oversee all aspects personally and ensure compliance with all laws and regulations as our Group expanded across different jurisdictions. In addition, none of our Directors are legally trained, and our Group operates in certain jurisdictions such as the PRC and Vietnam which have complex laws and regulations. Given the scale of our Group historically and their status as a private group, we have not had an in-house legal and compliance function. Our Group has instead outsourced certain compliance functions to third party service providers, where considered necessary, or relied on employees which may not have had sufficient legal expertise or knowledge. The Sole Sponsor considers that the non-compliance incidents resulted from the lack of legal support to assist our Directors who were unfamiliar with the applicable laws and regulations, and an insufficiently robust internal control system historically.

As part of the listing preparation process, the Sole Sponsor and the internal control consultant have worked with our Directors to improve on the internal controls systems. Our Company has adopted the measures as set out in “— Risk Management, Internal Control and Corporate Governance Measures — Internal Control and corporate governance” in this section, including (i) the appointment of an additional independent non-executive Director with legal background who will lead the Compliance Committee to oversee the compliance function; and (ii) the appointment of a Compliance Director with legal background within three months from the Listing Date.

Having considered that (i) the non-compliance incidents were unintentional and mainly due to management's unfamiliarity with the legal and regulatory requirements rather than having character and integrity problems or implication of conflict of interest; (ii) where applicable, the non-compliance incidents

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have been rectified; (iii) save as disclosed in this prospectus, we have complied in all material respects with all applicable laws, rules and regulations during the Track Record Period and up to the Latest Practicable Date whereby our Directors confirmed that they possess the relevant competence and experience in managing the overall business operations of our Group in a compliant manner; (iv) the strengthened internal control measures adopted by our Group which are considered by us to be adequate and effective; (v) the non-compliance incidents were individually and collectively not material, and did not and will not have any significant financial and operational impact on our Group; (vi) the establishment of the Compliance Committee and the engagement of the Compliance Director, the details of which are set out in “— Risk management, Internal Control and Corporate Governance Measures” of this section; (vii) the qualifications and experience of the new independent non-executive Directors (Mr. Kim Kwang Hyun, Mr. Oh Sung Jin, Mr. Yiu Kwing Sum and Mr. Ko Ming Tung, Edward) should be able to provide guidance and supervision on our Group’s compliance matters; and (viii) our Directors attended a training session in April 2017 in relation to their obligations and duties as directors of a listed company from a Hong Kong law perspective, in particular with respect to the GEM Listing Rules and other securities laws and regulations, the Sole Sponsor considers that the above non-compliances would not affect the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules and the suitability of our Company under 11.06 of the GEM Listing Rules for listing.

RISK MANAGEMENT, INTERNAL CONTROL AND CORPORATE GOVERNANCE MEASURES

Internal control and corporate governance

In order to continuously improve our corporate governance, we intend to adopt or have adopted the following measures:

- (i) our Directors and senior management attended training sessions on applicable laws and regulations, including the GEM Listing Rules, provided by our legal advisers prior to Listing. We will continue to arrange various trainings to be provided by the legal advisers engaged by us from time to time and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations;
- (ii) Mr. JY Kim as our executive Director and chief financial officer, will be responsible for financial, internal control and compliance matters of our Group. Our Directors believe that our Company will be able to draw on his expertise and experience with respect to compliance with applicable legal and financial reporting requirements. Please see “Directors, Senior Management and Employees” in this prospectus for more detailed biographical information of Mr. JY Kim;
- (iii) our Group established the Compliance Committee comprising five members, namely Mr. JY Kim, an executive Director, Mr. Ko Ming Tung, Edward, an independent non-executive Director with legal experience who will chair the Compliance Committee, Mr. Kim Kwang Hyun, Mr. Oh Sung Jin and Mr. Yiu Kwing Sum, our independent non-executive Directors, to manage and oversee the compliance of applicable laws and regulations of our Group. Four out of five members of the Compliance Committee are independent non-executive Directors. The members of the Compliance Committee, individually or as a whole, have unrestricted access to the legal advice given by the legal advisers of our Group. The role of the Compliance Committee includes the following:
 - to oversee the legal compliance aspect of the internal control system and the execution of compliance manual which summarise all internal control measures and policies of our Group;

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- to monitor the status of our legal compliance aspect of the internal control system by reviewing the monthly report submitted by our Compliance Director and any other specific matters raised by the Compliance Director;
- to supervise the implementation and monitoring of our policy and procedures in relation to legal compliance by our Compliance Director, review the monthly report submitted by our Compliance Director and discuss the compliance matters in the Compliance Committee meeting to be held on a quarterly basis with our Compliance Director;
- to approve any update or amendment to the internal control system and compliance manual in respect of legal compliance as a result of the changes of relevant laws and regulations or enhancement of internal control system based on investigation of and appropriate measures taken for rectifying any non-compliance incidents
- to review and where appropriate, recommend training to the directors, senior management and relevant employees for upholding legal compliance of our Group's operation;
- to receive and handle any actual or suspected non-compliance matters reported by our Compliance Director and employees of our Group and engage external professional advisers to assist in the preparation of reports and recommendations in respect of such actual or suspected non-compliance matters; and
- to review the effectiveness of our Group's ongoing measures to prevent future non-compliance incidents annually and provide updates on the applicable laws and regulations related to our Group's business operations with the assistance of our Compliance Director and external professionals including legal advisers, compliance adviser, and internal control consultant from time to time.

The Company will report on the work and meetings of the Compliance Committee in its interim and annual reports.

- (iv) our Group has undertaken to recruit a compliance director (the "**Compliance Director**") within three months from the Listing Date who will be a Hong Kong qualified solicitor with at least three years of relevant experience working as an in-house lawyer or similar experience. Our Compliance Director will be responsible for our Group's overall legal and compliance matters and the implementation of our Group's internal control procedures to ensure its compliance with the GEM Listing Rules as well as other applicable laws and regulations.

Our Compliance Director will have access to external professionals retained by our Group from time to time, including the compliance adviser, legal advisers and auditors. After Listing, the Compliance Director, together with our relevant staff, will regularly communicate with our compliance adviser about our Group's latest corporate issues to ensure that we are in compliance with GEM Listing Rules as well as other applicable laws and regulations. Our Compliance Director will act as the principal channel of communication between members of our Group and our Company in relation to compliance matters of our Group and will submit monthly report to the Compliance Committee, setting out, among others, the summary of compliance status of all members of our Group, the work done by our Compliance Director, the non-compliance incidents identified (if any), the legal advice sought from external legal advisers (if any), and rectification action status of non-compliance incidents. Our Compliance Director will report to the Compliance Committee during the Compliance Committee meeting to be held on a quarterly basis.

Upon receipt of any queries or reports on compliance matters, our Compliance Director will look into the matter and, if appropriate or for any compliance issue in doubt or concern, our Compliance

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Director will seek advice, guidance and recommendations from the external professionals, including compliance adviser, legal advisers (if necessary) and promptly report such issue to the Compliance Committee and our Board and handle the issue in a timely manner;

- (v) prior to setting up operations in a new market, our Compliance Director will be responsible for looking into the relevant legal and regulatory requirements and external legal advisers will also be engaged in order to obtain a thorough understanding of the legal and regulatory requirements of that market. Our Compliance Director will then report to the Compliance Committee to ensure that our new operations will be set up in a compliant manner;
- (vi) our Group has also formed an Audit Committee comprising four independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the Audit Committees are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors. We plan to continue strengthening our risk management policies, by ensuring regular management review of relevant corporate governance measures and the implementation by each subsidiary and the corresponding departments; and
- (vii) pursuant to Rule 6A.19 of the GEM Listing Rules, we have appointed Lego Corporate Finance Limited as our compliance adviser with effect from the date of Listing to advise us on compliance matters in accordance with GEM Listing Rules.

We will engage external legal advisers to advise us on laws and regulations after Listing.

Our Directors are of the view, and the Sole Sponsor concurs that, (i) the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules; and (ii) our Directors are willing and able to manage and operate our Group's business in a law-abiding manner and that they are suitable to act as directors of a listed company based on the following:

- (i) the occurrence of the non-compliance incidents was solely due to the unfamiliarity with the relevant laws and regulations or misinterpretation of the relevant rules and standards by respective responsible employees or handling staff of our Group, and their past inadvertent oversight, as well as weaknesses in our internal controls system. The GEM Listing Rules do acknowledge that the directors are entitled to delegate their authorities, subject to proper supervision. The Sole Sponsor considers that our Directors have exercised proper supervision on a day to day basis, as is demonstrated by our Group being in compliance with the laws and regulations in all material aspects. Supervision does not involve checking each determination made by the delegate, and our Directors are entitled to reasonably rely on the work of its third-party service providers, legal advisers and the employees. Our Directors have no intention to breach laws and regulations and neither did the non-compliance incidents involve dishonesty or fraud on the part on our Directors nor impugn their integrity or competence;
- (ii) our Directors focus on the overall business planning and strategic development of our Group: Mr. BK Kim is responsible for overall business strategy and direction; Mr. JY Kim is responsible for financial planning; Mr. Koo is responsible for sales and Mr. Xiao is responsible for manufacturing and research and development. As there was previously no in-house legal and compliance function, legal and compliance matters were either outsourced to third party service providers or legal advisers (if considered necessary) or supervised and handled by personnel in various departments (for example, licensing of products would be

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handled by the product management team of our research and development department). The relevant responsible Director would supervise the responsible personnel, but none of the Directors was specifically designated for overall compliance matters. This arrangement is common and understandable, given the members of our Group were all private companies before the Listing. The knowledge and experience of each of the executive Directors equip them well for the respective responsibilities designated to them which they are primarily responsible. None of them has any legal background, while the non-compliances relate to very specific legal requirements. As such, our Directors had not been aware of the breaches at the relevant time. As soon as our Directors were made aware of the occurrence of the non-compliance incidents, our Directors exercised their duties of care and diligence and promptly proceeded to rectify the non-compliance incidents to the extent where they are capable of being rectified and enhance the internal policies and procedures in order to ensure that the interests of our Group and its shareholders are safeguarded;

- (iii) although there were no formal policies or control procedures in relation to obtaining legal advice in the past, our Directors would seek legal advice with respect to corporate actions when they were in doubt on the legal implications or unfamiliar with the laws and regulations or when considered necessary. For example, our Group consulted various legal advisers on aspects such as licensing and business contract review on its own initiative instead of after being advised by parties involved in the Listing, which was prominently for its operation but not for the Listing purpose. It demonstrated the Directors have a due regard for compliance with laws and regulations. Our Directors have proactively engaged an external internal control consultant to recommend effective remedial measures and as a result of these measures which were initiated and implemented by our Directors, our Company has properly rectified the issues concerned to the satisfaction of internal control consultants, without material legal consequences or financial and operational impact on our Group. Our Directors have taken further steps by the addition of our Compliance Director as an additional level of supervision at the operational level, as well as the additional independent non-executive Director with legal background to lead the Compliance Committee to undertake general supervisory and monitoring responsibility for overall compliance matters which demonstrated their determination to manage our Group's business in a law-abiding manner;
- (iv) the non-compliances were mostly in relation to specific and granular requirements at an operational level. It would not be reasonable to expect a Director to personally know all the laws and regulations in relation to product licensing or company laws and regulations in all jurisdictions. A Director is entitled to reasonably rely on employees or service providers to whom he has reasonably delegated functions or based on his past experience which did not lead to any knowledge of non-compliances. Our Group is compliant with all material laws and regulations which apply to its operations, other than the said non-compliances which relate to very specific legal requirements. Given our Group has grown organically over the years and our Group operates in certain jurisdictions such as the PRC and Vietnam which have complex laws and regulations, and if our Directors did not have due regard for compliance with laws and regulations, more and more material non-compliances, instead of the administrative and granular non-compliances, would have been identified. For instance, Zioncom Taiwan was established during the Track Record Period. Other than a single non-compliance incident, Zioncom Taiwan has complied with relevant laws and regulations, including but not limited to the compliance in relation to its incorporation and establishment. For details of the complex laws and regulations applicable to our Group, please refer to "Regulatory Overview" in this

BUSINESS

prospectus. Our Group's previous legal and compliance mechanism, while not perfect, did operate to ensure substantial compliance with laws and regulations. As such, there may not be direct correlation between the non-compliances and the competence of our Directors, and therefore the non-compliances shall not be taken as conclusive evidence regarding the competence of our Directors as a director of a listed company;

- (v) with the occurrence of non-compliance incidents, our Directors attach great importance to compliance matters and are mindful and alert to any issues that might result in any non-compliance, and various measures have been implemented to prevent the recurrence of non-compliance as disclosed in the column headed "Measures to prevent future breach and ensure ongoing compliance" in the table detailing the non-compliance incidents above as well as "— Risk Management, Internal Control and Corporate Governance Measures" of this section; and
- (vi) with the training sessions provided to our Directors, our Directors are fully aware of the requirements and obligations as directors of a listed issuer pursuant to the GEM Listing Rules and have undertaken to observe and comply with all the relevant laws and regulations.

Risk management

Our management has designed and implemented risk management policies to address various potential risks in relation to our operations, including operational risk, financial risk and credit risk. We have implemented quality control procedures in each critical step of the production process to ensure the quality of our products meets the requirements and expectations of our customers. For further details of our quality control procedures, please see "— Quality control and quality assurance" in this section. We have also adopted and implemented occupational health and safety procedures and measures for our business to ensure that our employees are aware of our safety procedures. For further details of our health and safety procedures, please see "— Health and Safety" in this section. In order to reduce financial and credit risks involved in our business operations, we have adopted and implemented internal policies to conduct background checks on our potential customers such as investigate the potential customer's ability for payment and their credit worthiness prior to entering into agreements with them. We also maintain a policy of short-term export insurance with the CECIC to mitigate substantial risks credit risks. For details of our policy regarding export credit insurance, please see "— Insurance" in this prospectus. For details of our market risk and credit risk, please see note 6 to the Accountants' Report set forth in Appendix I to this prospectus.

Foreign exchange risk control

Our Group mainly operates in Hong Kong and the PRC, and is exposed to risks arising from fluctuation of currencies, primarily relating to USD and RMB. Along with our expansion into Vietnam, we might also be exposed to currency risks relating VND in the near future. We are therefore exposed to foreign exchange risk.

Our Group has established an internal control policy for managing our Group's business activities that involves, among other things (i) compiling of historical foreign exchange rates from banks by the finance department of our Group for the management's reference; (ii) determining the amount of foreign currency needs for the settlement of trade payables and settlement made by customers; (iii) closely monitoring the exchange rate fluctuations by collating the prevailing market information from different sources including newspapers and finance magazines by the finance manager of our Group; and (iv) setting requirement to seek the approval from the Board before the execution of large amount of foreign exchange transactions by the finance department of our Group.

BUSINESS

INSURANCE

We currently maintain general insurance policies covering our losses against fire, damage to property, plants and equipment, inventory and motor vehicles in our production facilities and offices, and third party liability arising from traffic accidents. In order to reduce credit risks involved in our business operations, we also maintain a policy of short-term export credit insurance with the CECIC, which covers various credit risks such as buyers' bankruptcy, inability to settle payment and refusal to accept our finished products. We would usually obtain such export credit insurance coverage for export sales with credit terms.

Our Group does not maintain product liability insurance arising from the manufacture and sale of our products and our major customers did not request us to maintain product liability insurance. We consider our insurance coverage to be sufficient and adequate for our business operations. For further details of the risk relating to our insurance coverage, please see "Risk Factors — Our insurance coverage may not completely cover the risks related to our business and operations" in this prospectus.

During the Track Record Period, the total insurance premiums we had paid amounted to approximately HK\$1.0 million, HK\$0.5 million and HK\$0.5 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

Our Directors believe that our existing insurance policies are in line with the industry norm. During the Track Record Period, we did not experience any material insurance claims nor did we receive any material claim from EFM, our distributors, our OEM customers and other EMS customers and end users relating to any liability arising from or relating to the use of our products or service.

NO SIGNIFICANT INTERRUPTION

There have been no interruption in our business that may have or have had a significant effect on our financial position in the twelve months preceding the date of this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The table below shows certain information in respect of members of our Board and senior management:

SUMMARISED INFORMATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

Directors

Our Board consists of eight Directors, of whom four are executive Directors and four are independent non-executive Directors. The following table sets forth certain information concerning our Directors:

Name	Age	Existing position	Roles and responsibilities	Date of joining our Group	Date of appointment as Director	Relationship with other Directors and/or senior management
Mr. Kim Byung Kwon (金炳權先生)	55	Chairman and executive Director	Responsible for major decision making of our Group including deciding the business strategy and overall direction of our Group	29 December 1999	29 January 2016	None
Mr. Kim Jun Yeob (金俊燁先生)	48	Executive Director, chief financial officer and compliance officer	Responsible for financial planning and overseeing the daily operation of our finance department, member of our Remuneration Committee and Compliance Committee	10 March 2008	29 January 2016	None
Mr. Koo Ja Chun (具滋千先生)	45	Executive Director, chief executive officer and head of sales department	Responsible for overall management and generating sales forecast and sales analysis as well as overseeing the daily operation of our sales department, member of our Nomination Committee	6 February 2004	29 January 2016	None
Mr. Xiao Jingen (肖金根先生)	41	Executive Director, head of production department and head of research and development department	Responsible for production planning and overseeing the daily operation of our production department and our research and development department	22 December 2002	29 January 2016	None

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Existing position	Roles and responsibilities	Date of joining our Group	Date of appointment as Director	Relationship with other Directors and/or senior management
Mr. Kim Kwang Hyun (金廣鉉先生)	49	Independent Non-executive Director	Chairman of our Nomination Committee, member of our Audit Committee, Remuneration Committee and our Compliance Committee	18 December 2017	18 December 2017	None
Mr. Oh Sung Jin (吳成鎮先生)	45	Independent Non-executive Director	Chairman of our Remuneration Committee, member of our Audit Committee, Nomination Committee and our Compliance Committee	18 December 2017	18 December 2017	None
Mr. Yiu Kwing Sum (姚炯深先生)	45	Independent Non-executive Director	Chairman of our Audit Committee and member of our Compliance Committee	18 December 2017	18 December 2017	None
Mr. Ko Ming Tung, Edward (高明東先生)	57	Independent Non-executive Director	Chairman of our Compliance Committee and member of our Audit Committee	18 December 2017	18 December 2017	None

Senior management

The below table sets forth members of our senior management other than our executive Directors:

Name	Age	Existing position	Roles and responsibilities	Date of joining our Group	Relationship with other Directors and/or senior management
Mr. Lee Pui Chung (李沛聰先生)	31	Finance manager and company secretary	Carrying out financial plans and reporting to our chief financial officer, and responsible for company secretary functions of our Group	23 June 2015	None
Mr. Liu Zhijun (劉志軍先生)	47	Research and development manager	Responsible for the research and development of our products	8 September 2010	None

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

BOARD OF DIRECTORS

Our Board is responsible for and has general powers for the management and conduct of our business.

Executive Directors

Mr. Kim Byung Kwon (金炳權先生), aged 55, is our chairman and executive Director. Mr. BK Kim is responsible for major decision making including deciding the business strategy and overall direction of our Group. Mr. BK Kim has over 13 years of experience in the networking equipment industry. He first started to engage in the industry when he set up Zioncom HK in 1999. Mr. BK Kim is also the founder of our Group and now assumes the role of a director of Zioncom HK and a legal representative of Zioncom Vietnam. Mr. BK Kim has devoted himself to the management of our operation since our establishment. Mr. BK Kim graduated from Daeil High School in Korea in February 1981.

Mr. Kim Jun Yeob (金俊燁先生), aged 48, is our executive Director and chief financial officer. Mr. JY Kim joined our Group in March 2008 and is responsible for the financial planning of our Group and oversees the daily operation of our finance department. Mr. JY Kim has over 23 years of experience in finance administration. Prior to joining our 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. JY 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. JY Kim graduated from Inha University (仁荷大學*) in Incheon, Korea with a Bachelor of Arts degree in business administration in February 1994.

Mr. Koo Ja Chun (具滋千先生), aged 45, is our executive Director, chief executive officer and head of sales department of our Group. Mr. Koo is responsible for our overall management, generating sales forecast and sales analysis, and overseeing the daily operation of our sales department. Mr. Koo has over 12 years of experience in the networking equipment industry through the principal roles he assumed with our Group, including directorship in Zioncom HK and service as the legal representative of Zioncom Shenzhen. Mr. Koo joined our Group as a director of Zioncom HK on 6 February 2004. Mr. Koo graduated from Dongguk University (東國大學*) in Seoul, Korea with a Bachelor of Business Administration in Management in February 2003.

Mr. Xiao Jingan (肖金根先生), aged 41, is our executive Director. Mr. Xiao is the head of our manufacturing department and also the head of our research and development department. Mr. Xiao joined our Group in December 2002 and is responsible for production planning, overseeing our production department and research and development department of our 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.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Independent non-executive Directors

Mr. Kim Kwang Hyun, aged 49, is appointed as an independent non-executive Director on 18 December 2017. Mr. Kim Kwang Hyun has over 20 years of experience in the information and technology. Other than his role as our independent non-executive Director, Mr. Kim Kwang Hyun is now an associate adjunct professor of Kyungnam College of Information & Technology where he has been working since March 2003. Prior to joining our Group, Mr. Kim Kwang Hyun worked in Hanjin Information Systems & Telecommunication Co., Ltd., a system integration company in Korea, from November 1994 to September 1997, where his last position was in integrated support team of the technology development division. From September 1997 to May 2000, Mr. Kim Kwang Hyun worked as an assistant manager in Hansol Telecom Co., Ltd., a member of a conglomerate in Korea engaged in various businesses including paper making, construction, telecommunication and logistics, where he was mainly responsible for network design. From May 2000 to January 2003, Mr. Kim Kwang Hyun worked as a team leader in service business division in Dacom IN Co., Ltd., a company that is principally engaged in providing telecommunication services. Mr. Kim Kwang Hyun graduated from the Department of Information Engineering of Hansung University with a bachelor degree in Engineering in February 1998. He graduated from the Graduate School of Information Sciences of Soongsil University with a master degree in Engineering in February 2002. In February 2009, Mr. Kim Kwang Hyun received a doctor degree in Engineering from the Department of Information Engineering of Pukyong National University.

Mr. Oh Sung Jin (吳成鎮先生), aged 45, is appointed as an independent non-executive Director on 18 December 2017. Mr. Oh has over 10 years of experience in the architecture. Other than his role as our independent non-executive Director, Mr. Oh is now an associate adjunct professor in the department of Interior Design of Kyungnam College of Information & Technology where he has been working since March 2005. Prior to joining our Group, Mr. Oh worked as an assistant manager in 260 Total Architects Co., Ltd. from January 2002 to June 2004, where he was mainly involved in planning and designing of several construction projects. From July 2004 to February 2005, Mr. Oh worked as a manager in Cube Architectural Engineering Co., Ltd., where he was mainly engaged in architectural design. Mr. Oh graduated from the Architecture Department of Kookmin University with a bachelor degree in Engineering in February 2000. In February 2002, he received a master degree in Architecture from Kookmin University. In February 2015, Mr. Oh received a Ph.D in Architecture from the Department of Architecture of Kookmin University.

Mr. Yiu Kwing Sum (姚焯深先生), aged 45, is appointed as an independent non-executive Director on 18 December 2017. Mr. Yiu has over 10 years of experience in accountancy. Other than his role as our independent non-executive Director, Mr. Yiu is a director of the following companies primarily engaged in providing accounting services. Mr. Yiu has served as a director of Objective CPA Limited, an accounting firm in Hong Kong since October 2005. Mr. Yiu has also served as a director of FAHY Holdings Limited, a company which was engaged in providing accounting, auditing, tax, secretarial and other services, since November 2008. In May 2013, Mr. Yiu founded FAHY Group Limited, and he has been a director since its incorporation. Mr. Yiu received his bachelor degree of arts in Accounting & Finance from University of Glamorgan in June 1996. Mr. Yiu has been an associate member of Association of International Accountants since 18 November 2011 and an associate member of HKICPA since 5 May 2009.

Mr. Ko Ming Tung, Edward (高明東先生), aged 57, is appointed as an independent non-executive Director on 18 December 2017. 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

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 26 years.

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

Save as disclosed in this section and “Substantial Shareholders” in this prospectus, each of our Directors has confirmed that (i) he has no other interests in our Shares within the meaning of Part XV of the SFO, (ii) he has not held any directorship in any other public companies that securities of which are listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus, and (iii) there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 17.50(2)(a) to (v) of the GEM Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with his appointment as a Director.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business.

Mr. Lee Pui Chung (李沛聰先生), aged 31, is our finance manager and is responsible for carrying our financial plans of our Group and reporting to our chief financial officer. Mr. Lee has over eight years of experience in audit and accounting. Prior to joining our Group, Mr. Lee worked in Chan Chee Cheng & Co., a local CPA firm, as an audit intermediary from September 2008 to December 2010. Mr. Lee worked as a semi-senior auditor in the audit department of Crowe Horwath (HK) CPA Limited, a full-service CPA member firm of Crowe Horwath International, from December 2010 to December 2011. Mr. Lee worked in the audit and assurance services department of RSM Hong Kong (previously known as RSM Nelson Wheeler, the Hong Kong member firm of RSM International) from December 2011 to June 2015 and his last position served was senior I auditor. Mr. Lee graduated from City University of Hong Kong with a degree of Bachelor of Business Administration (Honours) in Accountancy on 12 November 2008. Mr. Lee has been a member of HKICPA since 31 October 2012.

Mr. Liu Zhijun (劉志軍先生), aged 47, is our research and development manager and is responsible for research and development of our products. Mr. Liu has over nine years of experience in research, development and design of electronic and networking products. Prior to joining our Group, Mr. Liu worked in Shenzhen Fengyun Industry Co., Ltd.* (深圳市風雲實業有限公司), a company primarily engaged in supplying routers, switches and transmitters, as head of production technology from July 1997 to June 2001, engineering manager from July 2001 to January 2005 and development manager from February 2005 to June 2008, where he was mainly responsible for management of production, production engineering technology, product engineering installation, after-sale services and research and development of products. 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.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMPANY SECRETARY

Mr. Lee Pui Chung (李沛聰先生) was appointed as the company secretary of our Company on 31 May 2016. Mr. Lee is also a member of our senior management as a finance manager of our Group. For his biography, please see “— Senior Management” in this section.

COMPLIANCE OFFICER

Mr. Kim Jun Yeob (金俊燁先生), our executive Director, is as the compliance officer (pursuant to Rule 5.19 of the GEM Listing Rules) of our Company. Please see “— Board of Directors — Executive Directors” in this section for details about Mr. JY Kim’s qualification and experience.

BOARD COMMITTEES

We have established an Audit Committee, a Remuneration Committee, a Nomination Committee and a Compliance Committee and delegated various responsibilities to these committees, which assist our Board in discharging its duties and overseeing particular aspects of our Group’s activities. The committees operate in accordance with their respective terms of reference established by our Board.

Audit Committee

We have established our Audit Committee with effect from the Listing, in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and paragraphs C.3.3 and C.3.7 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 of the GEM Listing Rules (the “**Corporate Governance Code**”). Amongst other things, the primary duties of our Audit Committee are to review and supervise our financial reporting process and internal control system and to provide advice and comments to our Board.

Our Audit Committee consists of four members, namely Mr. Yiu Kwing Sum, Mr. Kim Kwang Hyun, Mr. Oh Sung Jin and Mr. Ko Ming Tung, Edward, all being independent non-executive Directors. The chairman of our audit committee is Mr. Yiu Kwing Sum.

Remuneration Committee

We have established our Remuneration Committee with effect from the Listing, in compliance with Rule 5.34 of the GEM Listing Rules and paragraph B.1.2 of the Corporate Governance Code. Amongst other things, the primary duties of our Remuneration Committee is to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and the senior management personnel of our Group.

Our Remuneration Committee consists of three members, namely Mr. Oh Sung Jin, Mr. Kim Kwang Hyun and Mr. Kim Jun Yeob. Mr. Oh Sung Jin has been appointed as the chairman of our remuneration committee.

Nomination Committee

We have established our Nomination Committee with effect from the Listing, in compliance with paragraphs A.5.1 and A.5.2 of the Corporate Governance Code. Amongst other things, the primary duty of our Nomination Committee is to make recommendations to our Board regarding the candidate for directorship.

Our Nomination Committee consists of three members, namely Mr. Kim Kwang Hyun, Mr. Oh Sung Jin and Mr. Koo Ja Chun. Mr. Kim Kwang Hyun has been appointed as the chairman of our Nomination Committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Compliance Committee

We have established our Compliance Committee with effect from the Listing. The primary duties of our Compliance Committee include overseeing the legal compliance aspect of the internal control system and the execution of compliance manual which summarises all internal control measures and policies of our Group; monitoring the status of our legal compliance aspect of the internal control system by reviewing the monthly report submitted by the Compliance Director and any other specific matters raised by the Compliance Director; supervising the implementation and monitoring of our policy and procedures in relation to legal compliance by our Compliance Director; reviewing the monthly report submitted by the Compliance Director and discussing the compliance matters in the Compliance Committee meeting to be held on a quarterly basis with the Compliance Director; approving any update or amendment to the internal control system and compliance manual in respect of legal compliance as a result of the changes of relevant laws and regulations or enhancement of internal control system based on investigation of, and appropriate measures taken for rectifying, any non-compliance incidents; where appropriate, recommending training to the Directors, senior management and relevant employees for upholding legal compliance of our Group's operation; receiving and handling any actual or suspected non-compliance matters reported by the Compliance Director and employees of our Group and engaging external professional advisers to assist in the preparation of reports and recommendations in respect of such actual or suspected non-compliance matters; and reviewing the effectiveness of our Group's ongoing measures to prevent future non-compliance incidents annually and provide updates on the applicable laws and regulations related to our Group's business operations with the assistance of the Compliance Director and external professionals including legal advisers, compliance adviser, and internal control consultant from time to time.

The Compliance Committee consists of five members, namely Mr. Ko Ming Tung, Edward, Mr. Kim Jun Yeob, Mr. Kim Kwang Hyun, Mr. Oh Sung Jin and Mr. Yiu Kwing Sum. Mr. Ko Ming Tung, Edward has been appointed as the chairman of the Compliance Committee.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the aggregate amount of remuneration, including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors were HK\$5.2 million, HK\$3.7 million and HK\$2.2 million, respectively. Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonuses, payable to our Directors for the year ending 31 December 2017 to be approximately HK\$4.1 million.

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the aggregate amount of remuneration, including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our senior management were HK\$0.4 million, HK\$0.6 million and HK\$0.3 million, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 was approximately HK\$5.7 million, HK\$4.0 million and HK\$2.6 million, respectively.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. Further, none of our Directors waived any remuneration during the same period.

During the Track Record Period, none of our Directors waived any emoluments. Save as disclosed above, no other payments have been paid or are payable in respect of the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 to the Directors or the five highest paid individuals of our Group.

Further details of the terms of the above service agreements are set out in “Statutory and General Information — C. Further information about our Directors and substantial Shareholders — 1. Directors — (b) Particulars of service contracts” in Appendix IV to this prospectus.

For further details of the remuneration of our Directors during the Track Record Period as well as the information on the five highest paid individuals, please see notes 13 and 14 of the Accountants’ Report set forth in Appendix I to this prospectus.

REMUNERATION POLICY

We generally determine the remuneration of our Directors, senior management and employees based on their duties, responsibilities and performance. Our Directors and senior management receive remuneration in the form of salaries, benefits in kind and/or discretionary bonuses. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

EMPLOYEES

For information on our employees, including staff remuneration and benefits provided by our Group, please see “Business — Employees” in this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted a Share Option Scheme on 18 December 2017 pursuant to which selected participants may be granted options to subscribe for Shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds any equity interest. Our Directors believe that the implementation of the Share Option Scheme enables our Group to recruit and retain high calibre executives and employees. The principal terms of the Share Option Scheme are summarised in “Statutory and General Information — D. Share Option Scheme” in Appendix IV to this prospectus.

COMPLIANCE ADVISER

We have appointed Lego Corporate Finance Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance advisers will advise us in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where our Group proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our Group’s business activities, development or results of operation deviate from any forecast, estimate or other information in this prospectus; and

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (4) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of the Shares or any other matters in accordance with Rule 17.11 of the GEM Listing Rules.

The term of the appointment of the compliance adviser will commence on the Listing Date and end on the date on which our Group complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders as a whole. Our Directors are aware that upon Listing, we are expected to comply with such code provisions. Any such deviation shall however be carefully considered, and the reasons for such deviation shall be given in our interim report and annual report in respect of the relevant period. Save as disclosed above, we will comply with the code provisions set out in the Corporate Governance Code after Listing.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be granted under the Share Option Scheme), the following persons will have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Capacity^(Note 3)	Number of Shares held immediately prior to the Share Offer and the Capitalisation Issue (L)^(Note 1)	Approximate percentage of shareholding	Number of Shares held immediately following completion of the Share Offer and the Capitalisation Issue (L)^(Notes 1 and 2)	Approximate percentage of shareholding^(Note 2)
Mr. BK Kim	Interest in a controlled corporation	858,000	100%	462,000,000	70.0%
Lincats	Beneficial interest	858,000	100%	462,000,000	70.0%

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Excluding any shares which may be allotted and issued pursuant to the exercise of the options that may be granted under the Share Option Scheme.
- (3) The entire share capital of Lincats is beneficially owned as to 81.8% by Mr. BK Kim, 9.1% by Mr. Koo, and 9.1% by Mr. JY Kim, respectively.

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Share Offer (excluding any Shares which may be granted under the Share Option Scheme), have an interest or short positions in any of our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company. Further, our Directors are not aware of any arrangement which may on a subsequent date result in a change of control of our Company.

CONTROLLING SHAREHOLDERS

Please see “Relationship with Our Controlling Shareholders” in this prospectus for information of our Controlling Shareholders.

Each of our Controlling Shareholders has also given undertakings in respect of the Shares to our Company and the Stock Exchange as required by Rules 13.16A(1) and 13.19 of the GEM Listing Rules, details of which are set out in “Underwriting — Undertakings pursuant to the GEM Listing Rules — Undertakings by our Controlling Shareholders” in this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account of the options which may be granted under the Share Option Scheme), our Company will be owned as to 70.0% by Lincats, which is owned as to 81.8% by Mr. BK Kim, 9.1% by Mr. JY Kim, and 9.1% by Mr. Koo. Each of Lincats and Mr. BK Kim will control over 30% of the issued share capital of our Company. As such, each of Lincats and Mr. BK Kim shall be regarded as a Controlling Shareholder under the GEM Listing Rules. For the background of Mr. BK Kim, please see “Directors, Senior Management and Employees — Directors” in this prospectus.

COMPETING INTERESTS

None of our Directors, our Controlling Shareholders and their respective close associates has interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with our business and would require disclosure under Rule 11.04 under the GEM Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Taking into consideration of the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders or their respective close associates after the Share Offer:

Management independence

Our management and operational decisions are made by our Board and a team of senior management. Our Board consists of eight Directors, comprising four executive Directors, and four independent non-executive Directors. Each of our Directors is aware of his fiduciary duties as a Director which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, our independent non-executive Directors will bring independent judgement to the decision making process of our Board. In addition, our Board is supported by a team of senior management who possess relevant management skills and industry knowledge and are responsible for taking charge of our daily operations, are independent from our Controlling Shareholders and their close associates. Please see “Directors, Senior Management and Employees” in this prospectus for details of their management experience. In this regard, our Directors are of the view that our Group can be managed independently notwithstanding that Mr. BK Kim, being our Controlling Shareholder, is our executive Director.

Operational independence

Our organisational structure is made up of a number of departments, comprising management, procurement, production and quality control, sales and marketing, research and development, human resources, administration and finance departments, each with specific areas of responsibilities in our operation. For details, please see “Business — Employees” in this prospectus. We have also established a set of internal control measures to facilitate the effective operation of our business. Despite the controlling interest held by our Controlling Shareholders, our Company has full rights to make all decisions on, and to carry out our own business operations independently.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Members of our Group respectively hold all material requisite licences necessary to carry out our business in respective jurisdictions. We have not shared our operational resources, such as premises, access to customers and suppliers, manufacturing, sales and general administration resources with our Controlling Shareholders and/or their respective close associates.

There has not been any business transaction between our Group and the Controlling Shareholders and/or their respective close associates during the Track Record Period.

Based on the above, our Directors are satisfied that we are able to operate independently from our Controlling Shareholders and their respective close associates.

Financial independence

We have our own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. We have made and will make financial decisions according to our own business needs. We have our own bank account, make our own tax registrations and have employed a sufficient number of financial accounting personnel. Our Directors believe that our Group is capable of obtaining finance from external sources without reliance on our Controlling Shareholders or their respective close associates. We are confident that after the Listing, our Group will be able to obtain credit facilities from financial institutions on a stand-alone basis. Our Directors confirm that, as at the Latest Practicable Date, our Controlling Shareholders or their respective close associates have not provided any loan to our Group. All guarantees provided by our Controlling Shareholders to our Company will be fully settled or released upon Listing. Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

NON-COMPETITION UNDERTAKING

To better safeguard our Group from any potential competition and conditional upon the Listing taking place, each of our Controlling Shareholders (collectively, the “**Covenantors**”) has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors jointly and severally, irrevocably and unconditionally undertakes and covenants with us that each of the Covenantors will not, and will procure its/his respective associates not to:

- (a) directly or indirectly carry on, participate or be interested or engaged in or acquire or hold any right or interest or operate or provide any form of assistance to any third party to conduct in any business which is or may be in competition, whether directly or indirectly, with the principal business of any member of our Group in the manufacturing and sale of networking products and the related businesses ancillary to any of the foregoing from time to time and any other new business which our Group may undertake from time to time after the Listing (the “**Restricted Business**”); and
- (b) take any direct or indirect action which constitutes an interference with or a disruption to business activities of any member of our Group including, but not limited to, solicitation of our customers, suppliers, directors or staff of any member of our Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, undertakes and covenants that if any new business opportunity, which is, or is likely to be in, direct or indirect, competition with the Restricted Business (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective close associates, it/he will direct the Restricted Business to us with such required information to enable us to evaluate the merits of the Business Opportunity.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Any decision of our Company as to whether or not to engage in the Restricted Business will have to be approved by our independent non-executive Directors. Where our independent non-executive Directors have reviewed the opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business and has declined such opportunity, the Covenantors (and/or his/its associate(s)) may subsequently invest, participate, engage in or operate the Restricted Business as long as the principal terms by which the Covenantors subsequently invest are not more favourable than those disclosed to our Company.

Where our Company decides and offers to invest, participate, be engaged in and/or operate any Restricted Business with any of the Covenantors and/or his/its associates, such Covenantor and/or his/its associates can invest, participate, be engaged in and/or operate such Restricted Business with our Company. Our Company will comply with the requirements of the GEM Listing Rules in case of such cooperation with the Covenantors and/or his/its associates.

Each of the Covenantors has further undertaken and covenanted that he/it will provide to us all information necessary for the enforcement of the above non-competition undertakings.

Each of the Covenantors also represents and warrants that apart from the disclosures made in this prospectus, neither he or it nor any of his/its associates is currently interested or engaging, directly or indirectly, in the Restricted Business otherwise than through our Group.

The obligation of the Covenantors will cease to have any effect on (a) the date on which the Listing is withdrawn; (b) the date on which that Covenantor ceases to be a controlling shareholder (as defined from time to time under the GEM Listing Rules) of our Company; or (c) the date on which the Covenantor ceases to control the composition of a majority of the Board, whichever occurs first.

CORPORATE GOVERNANCE MEASURES

We have adopted the following measures to manage the conflict of interests arising from competing business and to safeguard the interest of our Shareholders:

- (a) the Covenantors will promptly provide to us such information as we may from time to time reasonably request to ascertain the compliance/enforcement by the Covenantors with their obligations under the Deed of Non-Competition;
- (b) our independent non-executive Directors will review, on an annual basis, (i) the compliance with the Deed of Non-Competition by the Covenantors; and (ii) the options, pre-emptive rights or first rights of refusals (if any) provided by the Covenantors on their existing or future competing businesses;
- (c) the Covenantors undertake to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (d) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition either through our annual report or by way of announcements to the public;
- (e) the Covenantors undertake to abstain from voting and not to be counted towards the quorum at any general meeting of our Company if there is any actual or potential conflict of interests;
- (f) the Covenantors will make an annual declaration on compliance with their undertaking under the Deed of Non-Competition in our annual report and make disclosure on how the Deed of Non-Competition has been complied with and enforced, consistent with the principle of making voluntary disclosure in the corporate governance report set out in Appendix 15 of the GEM Listing Rules;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (g) the Covenantors will fully and effectually indemnify us against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of the Covenantors of any statement, warranty or undertaking made under the Deed of Non-Competition; and
- (h) we have appointed Lego Corporate Finance Limited as our compliance adviser which shall provide us with professional advice and guidance in respect of compliance with the GEM Listing Rules and applicable laws.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Share Offer and the Capitalisation Issue:

As at the date of this prospectus

	<i>HK\$</i>
Authorised share capital:	
<u>50,000,000,000 Shares</u> Shares of HK\$0.01 each	<u>500,000,000</u>
Issued share capital:	
<u>858,000 Shares</u> Shares of HK\$0.01 each	<u>8,580</u>
Immediately after the completion of the Share Offer and the Capitalisation Issue	
<i>Authorised share capital:</i>	
<u>50,000,000,000 Shares</u>	<u>500,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid, upon completion of the Share Offer and the Capitalisation Issue:</i>	
858,000 Shares of HK\$0.01 each in issue as at the date of this prospectus	8,580
461,142,000 Shares to be issued pursuant to the Capitalisation Issue	4,611,420
<u>198,000,000</u> Shares to be issued pursuant to the Share Offer	<u>1,980,000</u>
<u>660,000,000</u> Total	<u>6,600,000</u>

Assumptions

The above table assumes that the Capitalisation Issue the Share Offer has become unconditional and our Shares are issued pursuant thereto. It does not take into account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

Ranking

The Offer Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus, and will qualify for all dividends or other distributions declared, paid or made on our Shares after the date of this prospectus except for the entitlement under the Capitalisation Issue.

Minimum public float

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum level of 25% of the issued share capital of our Company in the hands of the public.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on 18 December 2017. The principal terms of the Share Option Scheme are summarised in “Statutory and General Information — D. Share option scheme” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE GIVEN TO OUR DIRECTORS TO ISSUE NEW SHARES

Subject to the Share Offer becoming unconditional, a general unconditional mandate has been granted to our Directors to allot, issue and deal with unissued Shares with an aggregate number of Shares not exceeding:

- 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any shares which may be allotted and issued pursuant to the exercise of the options that may be granted under the Share Option Scheme); and
- the aggregate number of Shares repurchased by our Company under the authority referred to in “— General mandate given to our Directors to repurchase Shares” in this section.

The aggregate number of our Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of Shares under a rights issue, script dividend scheme or similar arrangement in accordance with our Articles, or pursuant to the exercise of options which may be granted under the Share Option Scheme or under the Share Offer or the Capitalisation Issue.

This general mandate will expire:

- at the conclusion of our Company’s next annual general meeting; or
- upon the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or its Articles to hold our next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under “Statutory and General Information — A. Further information about our Group — 3. Resolutions in writing of our Sole Shareholder passed on 18 December 2017” in Appendix IV to this prospectus.

GENERAL MANDATE GIVEN TO OUR DIRECTORS TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, a general unconditional mandate has been granted to our Directors to exercise all the powers of our Company to repurchase Shares with an aggregate number of not more than 10% of the aggregate number of Shares in issue immediately following completion of Share Offer and the Capitalisation Issue (excluding any shares which may be allotted and issued pursuant to the exercise of the options that may be granted under the Share Option Scheme).

This repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the GEM Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in “Statutory and General Information — A. Further information about our Group — 6. Repurchase by our Company of its own securities” in Appendix IV to this prospectus.

This repurchase mandate will expire:

- at the conclusion of our Company’s next annual general meeting; or

SHARE CAPITAL

- upon the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or its Articles to hold our next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth in “Statutory and General Information — A. Further information about our Group — 3. Resolutions in writing of our Sole Shareholder passed on 18 December 2017” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company.

The circumstances under which general meeting and class meeting are required are provided in the Articles. For further details, please refer to “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association” in Appendix III to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our combined financial statements, including the notes thereto, as set out in “Appendix I — Accountants’ Report” to this prospectus. The combined financial statements have been prepared in accordance with HKFRSs.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but not limited to, those discussed elsewhere in this prospectus, particularly in “Risk Factors” and “Forward-looking Statements”.

The following discussion and analysis also contain certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

OVERVIEW

We are a manufacturer 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. Our main products are routers, which provide for wired and wireless transmission of data to devices while maintaining wired connection with modems. We also manufacture and sell other 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 portable action cameras with wireless capabilities, power banks and USB hubs. For an overview of our business, please see “Business — Overview” in this prospectus.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 January 2016. Pursuant to the Reorganisation as explained in “History, Development and Reorganisation — Reorganisation” in this prospectus, the Company became the holding company of the companies now comprising our Group on 3 March 2017. The companies now comprising our Group were under the common control of Mr. BK Kim before and after the Reorganisation. Accordingly, our financial information 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 Track Record Period.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows include the results and cash flows of the companies now comprising our Group have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period or since their respective date of incorporation, where there is a shorter period. The combined statements of financial position of our Group as at 31 December 2015, 2016 and 30 June 2017 have been prepared to present the assets and liabilities of the companies now comprising our 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.

FINANCIAL INFORMATION

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been, and will continue to be, affected by a number of factors, including those set forth in “Risk Factors” of this prospectus and the following factors, some of which may not be within our control.

The economic condition of Korean market and the demand for our products

During the Track Record Period, Korea was the largest market of our products in terms of revenue. For each of the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, the revenue generated from the sales to customers located in Korea amounted to approximately HK\$359.9 million, HK\$363.4 million, HK\$166.4 million and HK\$165.6 million, representing approximately 66.9%, 70.9%, 72.0% and 67.2% of our total sales for the corresponding periods respectively. If we are not able to respond effectively to the needs and preferences of our customers or to offer our products at competitive prices or with appealing features to our customers in Korea, our business and financial performance could be adversely affected.

Further, if there is an economic downturn in Korea, whether due to social or political instability, natural disaster or otherwise, demands for wireless networking products from Korea may drastically decrease which may adversely affect our business and financial performance.

Cost of materials

Our ability to source a steady supply of materials and components at reasonable prices is one of the key factors affecting our results of operations. Our cost of materials amounted to approximately HK\$375.8 million, HK\$347.5 million, HK\$157.6 million and HK\$170.7 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, representing approximately 80.0%, 80.4%, 80.4% and 82.1% of our cost of sales for the corresponding periods respectively.

We source most of our raw materials and components from suppliers based in the PRC and Hong Kong and Taiwan. Our major raw materials and components used for our products include ICs, router CPUs, PCBs and AC adaptors. According to the Frost & Sullivan Report, the unit prices of PCBs, router CPUs and ICs decreased by approximately 2.4%, 0.7% and 1.4% from year ended 31 December 2015 to year ended 31 December 2016, respectively and are estimated to be in a downward trend for the future period. The unit price of AC adaptors remained stable during the years ended 31 December 2015 and 2016 and is estimated to moderately grow at a CAGR of approximately 1.4% during 2017 to 2021. If the price of our raw materials and components increases in the future, or that we may not be able to pass on any increase in costs to our customers, our business, operations, financial condition and results of operations may be adversely affected.

FINANCIAL INFORMATION

For demonstration purpose, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of materials from our cost of sales on our profit before taxation during the Track Record Period. Fluctuations in our cost of materials from our cost of sales are assumed to be 5% and 10% with reference to the decrease of our cost of materials by approximately 7.5% from the year ended 31 December 2015 to the year ended 31 December 2016 and the increase of our cost of materials by approximately 8.3% from the six months ended 30 June 2016 to the six months ended 30 June 2017.

Hypothetical fluctuations in cost of materials	<u>+/-5%</u>	<u>+/-10%</u>
Increase/decrease in profit before taxation	HK\$'000	HK\$'000
Year ended 31 December 2015	-/+18,792	-/+37,584
Year ended 31 December 2016	-/+17,374	-/+34,749
Six months ended 30 June 2016	-/+7,880	-/+15,760
Six months ended 30 June 2017	-/+8,536	-/+17,072

For each of the years ended 31 December 2015 and 2016 and for each of the six months ended 30 June 2016 and 2017, our gross profit amounted to approximately HK\$68.2 million, HK\$79.9 million, HK\$35.1 million and HK\$38.5 million, respectively. For the year ended 31 December 2015, it is estimated that with an increase in cost of materials of approximately 4.6% and all other variables held constant, our Group would achieve breakeven. For the year ended 31 December 2016, it is estimated that with an increase in cost of materials of approximately 4.8% and all other variables held constant, our Group would achieve breakeven. For the six months ended 30 June 2016, it is estimated that with an increase in cost of materials of approximately 3.0% and all other variables held constant, our Group would achieve breakeven. For the six months ended 30 June 2017, it is estimated that with an increase in cost of materials of approximately 2.1% and all other variables held constant, our Group would achieve breakeven.

Change in customer base and products mix

Our revenue is affected by our customer base. Our revenue generated from our five largest customers amounted to approximately 77.8%, 76.6%, 76.4% and 74.7% of our total revenue for the years ended 31 December 2015, 2016 and for the six months ended 30 June 2016 and 2017, respectively. Our sales depend on the orders from our top five customers, which are mainly consumer electronics product sellers or distributors located in Korea, the U.S., Vietnam, the PRC, Taiwan and Thailand. If any of these top customers substantially reduce their orders with us, it would have a material adverse impact on our business, results of operation and financial condition.

Besides, the average selling prices and gross profit margins of our products may vary from type to type. If there is any change to our major customer base, the types of products ordered from us can be different and we cannot guarantee that we are able to maintain the same or achieve a higher average selling price or gross profit margin for those products. In such a case or if our products mix are substantially changed, our business, results of operations and financial condition may be materially and adversely affected.

Credit risk

Credit periods granted to our customers vary. Our Group generally allows an average credit period of 30 to 180 days to our customers. As at 31 December 2015 and 2016 and 30 June 2017, our trade receivables which were past due but not impaired amounted to approximately HK\$22.3 million, HK\$16.4 million and HK\$29.1 million, representing approximately 34.9%, 27.3% and 45.3% of the total trade receivables as at the respective dates, out of which approximately HK\$2.9 million, HK\$0.8 million

FINANCIAL INFORMATION

and HK\$3.7 million, representing approximately 12.9%, 4.7% and 12.8% of the trade receivables past due but not impaired were past due more than 180 days, respectively. Although we purchase short-term export credit insurance for export sales with CECIC to mitigate substantial credit risks arising from occasions such as buyers' bankruptcy, inability to settle payment and refusal to accept our finished products, the insurance coverage is generally limited to 90% of the losses with upper limit for each claim and subject to approval by CECIC. During the Track Record Period, we had made claims on the export credit insurance and we had written off a few trade receivables due to, among others, the part of residual balances not compensated by the export credit insurance.

Our Group's profitability and cash flows are dependent to a large extent on the creditworthiness of our customers and their ability to settle the outstanding amount owed to our Group in accordance with the credit periods we have granted to them. There is no assurance that the creditworthiness and the financial position of our customers will remain healthy in the future. If any of our customers fails to settle the outstanding amount in full or in a timely manner and if our policy to mitigate the credit risks is not implemented properly or did not fully cover our credit risks or if we fail to assess the creditworthiness of our customers accurately, our financial condition and results of operations could be materially and adversely affected. For details of our policy regarding export credit insurance, please see "Business — Insurance" in this prospectus.

Currency risk

Currency risks arise from commercial transactions, recognised assets and liabilities denominated in a currency that is not the functional currency of our Group and net investments in foreign operations. Our Group mainly operates in Hong Kong and the PRC, and is exposed to risks arising from fluctuation of currencies, primarily relating to USD and RMB. Along with our expansion into Vietnam, we are also exposed to currency risks relating to VND. Generally, VND is not a freely convertible currency and the use of foreign currency and VND by a foreign invested company must be in accordance with regulations of the State Bank of Vietnam. For details of the risks relating to VND, please see "Risk Factors — The change of the foreign exchange regulations of Vietnam can materially affect our financial conditions and results of operations" in this prospectus.

Our Group currently does not have a currency hedging policy. However, our management has closely monitored our Group's exchange exposure and will consider hedging significant currency risk when there is a need. For details, please see "Business — Risk management, internal control and corporate governance measures — Foreign exchange risk control" in this prospectus.

Technology change

The market for our products is characterised by continuing technological development, evolving industry standards, increasing number of product certification, changing customers' needs, frequent new product introductions and enhancements and occasional changes in government policies and regulations. The introduction of products by our direct competitors or others embodying new technologies, the introduction and adoption of new product certification, the emergence of new industry standards, changes in customers' requirements or changes in government policies and regulations could render our existing products obsolete, unmarketable or less competitive.

If we fail to anticipate or adapt to changing technologies and customers' requirements in a timely manner, we may be unable to compete effectively in the market and our business and results of operations could be materially and adversely affected.

FINANCIAL INFORMATION

Taxation

Our profitability and financial performance is affected by the level of taxation that we pay on our profit and the preferential tax treatments to which we are entitled to. We are subject to various taxes in a number of jurisdictions where we operate, including the current statutory PRC enterprise income tax (“EIT”) at 25% as determined pursuant to the relevant PRC tax rules and regulations. One of our subsidiaries, Zioncom Shenzhen, was re-accredited as a High and New Technology Enterprise of the PRC and obtained the High and New Technology Enterprise Certificate in June 2015 for a period of three years from June 2015 to June 2018. Under the PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法) (the “PRC EIT Law”) and its relevant regulations, High and New Technology Enterprises are conferred with a preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the PRC EIT Law). Following the accreditation as a High and New Technology Enterprise, Zioncom Shenzhen and its branches in Xixiang and Xinqiao are conferred with a preferential income tax rate of 15%, and we are required to submit our financial statements together with details of our research and development activities and other technological innovation activities to the local tax authority and other relevant authorities for annual review to continue to enjoy the 15% preferential tax treatment. However, there is no assurance that Zioncom Shenzhen will always be able to pass the extension review. As advised by our PRC Legal Advisers, if we fail the annual review or the extension review and cannot obtain approval from the local tax authority to renew our accreditation as a High and New Technology Enterprise, we will not be entitled to enjoy the preferential tax treatment, as well as other benefits conferred under the accreditation. In such case, Zioncom Shenzhen will be subject to an EIT at 25%. For demonstration purpose, the EIT that Zioncom Shenzhen was subject to would increase by approximately HK\$1.8 million and HK\$1.2 million for the year ended 31 December 2016 and the six months ended 30 June 2017 if it were not accredited as a High and New Technology Enterprise of the PRC during the relevant period.

Zioncom Vietnam would be subject to certain corporate income tax (“CIT”) incentives in Vietnam, whereby its income from production activities would be exempted from CIT for two years and be subject to a reduction of CIT by 50% for another four years, calculated from the first year in which it has a taxable income.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies adopted by our Group are set forth in details in note 4 to the Accountants’ Report set forth in Appendix I to this prospectus.

Critical accounting policies and estimates refer to those accounting policies and estimates that entail significant uncertainty and judgement and could yield materially different results under different conditions and/or assumptions. The preparation of the financial information is in conformity with HKFRSs and our management is required to make adjustments, estimates and assumptions. The methods and approach that we use in determining these items are based on our experience and other factors that we consider relevant. The estimates and underlying assumptions are reviewed on an ongoing basis as they may have a significant impact on the operational results as reported in the consolidated financial statement of our Group included in this prospectus. The critical accounting judgments and key sources of estimation uncertainty are set forth in detail in note 5 to the Accountants’ Report set forth in Appendix I to this prospectus.

The following paragraphs summarise the critical accounting policies and estimates that we believe are important to the presentation of our Group’s combined financial statements.

FINANCIAL INFORMATION

Revenue recognition

During the Track Record Period, our Group generated revenue mainly from (i) the sale of networking and non-networking products to our direct customers, distributors and consignees; and (ii) the provision of the processing services.

Our Group generally recognised revenue from the sale of networking and non-networking products upon delivery of our products to our customers with their acceptance of our products.

Our Group generally recognised revenue from consignment sales when goods are sold by the consignee to a third party.

Our Group generally recognised revenue from processing services when the service is provided to our customers.

Our Group generally recognised investment income when our Group's right to receive payment has been established.

Please see note 4 to the Accountants' Report set forth in Appendix I to this prospectus for our accounting policy relating to revenue recognition.

Property, plant and equipment

Property, plant and equipment of our Group mainly represented our land and building, furniture, fixtures and office equipment, machinery and equipment, motor vehicles, leasehold improvement, leasehold land and construction in progress, which are stated at cost less subsequent accumulated impairment losses, if any.

Construction in progress of our Group mainly represented our factory in Vietnam which was in the course of construction during the Track Record Period which is carried at cost less any recognised impairment loss.

Please see note 4 to the Accountants' Report set forth in Appendix I to this prospectus for our accounting policy relating to property, plant and equipment.

Inventories

Our inventories are stated at the lower of cost or net realisable value. Cost of inventories 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.

Please see note 4 to the Accountants' Report set forth in Appendix I to this prospectus for our accounting policy relating to inventories.

Impairment of property, plant and equipment

At the end of each reporting period, our Group reviews our property, plant and equipment for indications of impairment. If any such indication exists, we may make impairment based on management's assignment of pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset to project future cash flows from the assets. Please see note 5 to the Accountants' Report set forth in Appendix I to this prospectus for our accounting policy relating to impairment of property, plant and equipment.

Impairment of trade receivables

Our Group considered the credit history of our customers and current market condition when determining whether there is objective evidence of impairment loss. Our Group measured the amount of

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impairment loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the original effective interest rate of the financial asset. Our management reassesses the adequacy of impairment on a regular basis. A material impairment loss may arise where the actual cash flows are less than expected. Please see note 5 to the Accountants' Report set forth in Appendix I to this prospectus for our accounting policy relating to impairment of trade receivables.

Depreciation

Our property, plant and equipment are depreciated over the estimated useful lives of the assets on a straight-line basis after taking into account the estimated residual value. The estimated useful lives of the assets are reviewed regularly by our Group in order to determine the depreciation expense to be recorded during the reporting period. The estimated useful lives of the assets are based on the historical experience with similar assets of our Group and taking into account the anticipated technological changes. The depreciation expenses for future periods is adjusted when there are significant changes from previous estimates. Please see note 5 to the Accountants' Report set forth in Appendix I to this prospectus for our accounting policy relating to depreciation.

Net realisable value of inventories

Our Group recognises write-down on inventories based on an assessment of the net realisable value of inventories. Write-down is applicable to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. Judgement and estimates on the conditions and usefulness of the inventories are required to identify the slow-moving stock and obsolete inventories. Please see note 5 to the Accountants' Report set forth in Appendix I to this prospectus for our accounting policy relating to impairment of inventories.

SELECTED FINANCIAL STATEMENT INFORMATION

The following table sets forth selected items of our combined statements of profit or loss and other comprehensive income for the years/periods indicated:

	<u>Year ended 31 December</u>		<u>Six months ended 30 June</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
			<i>(Unaudited)</i>	
Revenue	537,703	512,192	231,121	246,422
Cost of sales	(469,539)	(432,250)	(196,019)	(207,902)
Gross profit	68,164	79,942	35,102	38,520
Other income	10,416	6,309	1,721	5,518
Selling and distribution expenses	(12,034)	(8,494)	(3,914)	(5,941)
Administrative expenses	(31,985)	(41,394)	(18,877)	(23,989)
Research and development expenses	(15,746)	(18,012)	(8,374)	(9,803)
Profit from operations	18,815	18,351	5,658	4,305
Finance costs	(1,674)	(1,558)	(966)	(662)
Profit before taxation	17,141	16,793	4,692	3,643
Taxation	(6,695)	(2,925)	(1,384)	(1,944)
Profit for the year/period	<u>10,446</u>	<u>13,868</u>	<u>3,308</u>	<u>1,699</u>

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DESCRIPTION AND MANAGEMENT DISCUSSION AND ANALYSIS OF SELECTED ITEMS OF OUR COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following is the description and management discussion and analysis on the principal items on our combined statements of profit or loss and other comprehensive income for the years ended 31 December 2015 and 2016 and for the six months ended 30 June 2016 and 2017.

Revenue

During the Track Record Period, we generated revenue mainly from (i) the sale of networking and non-networking products; and (ii) the provision of processing services. Our revenue slightly decreased by approximately HK\$25.5 million, representing a decrease of approximately 4.7%, from approximately HK\$537.7 million for the year ended 31 December 2015 to approximately HK\$512.2 million for the year ended 31 December 2016. Our revenue increased by approximately HK\$15.3 million, representing an increase of approximately 6.6%, from approximately HK\$231.1 million for the six months ended 30 June 2016 to approximately HK\$246.4 million for the six months ended 30 June 2017.

Revenue by business model

The following table sets forth the breakdown of our revenue by business model during the years/ periods indicated:

	Year ended 31 December								Six months ended 30 June							
	2015				2016				2016				2017			
	Revenue	Percentage of total revenue	Sales Volume	Average selling price	Revenue	Percentage of total revenue	Sales Volume	Average selling price	Revenue	Percentage of total revenue	Sales volume	Average selling price	Revenue	Percentage of total revenue	Sales volume	Average selling price
HK\$'000	%	Units'000	HK\$	HK\$'000	%	Units'000	HK\$	HK\$'000	%	Units'000	HK\$	HK\$'000	%	Units'000	HK\$	
<i>(Unaudited)</i>																
Sale of products																
EMS products																
Jointly																
Developed Products	317,602	59.1	3,863	82.2	322,891	63.0	3,880	83.2	145,718	63.0	1,798	81.0	139,763	56.7	1,603	87.2
Other EMS products	101,016	18.8	1,171	86.3	67,373	13.2	679	99.2	35,278	15.3	342	103.2	35,881	14.6	263	136.4
Branded Products	77,941	14.5	871	89.5	86,214	16.8	1,102	78.2	36,920	16.0	448	82.4	51,742	21.0	682	75.9
OEM products	22,851	4.2	31	737.1	11,878	2.3	24	494.9	5,894	2.5	11	535.8	15,223	6.2	45	338.3
Sub-total	519,410	96.6	5,936	87.5	488,356	95.3	5,685	85.9	223,810	96.8	2,599	86.1	242,609	98.5	2,593	93.6
Processing services	18,293	3.4	N/A	N/A	23,836	4.7	N/A	N/A	7,311	3.2	N/A	N/A	3,813	1.5	N/A	N/A
Total	537,703	100.0	N/A	N/A	512,192	100.0	N/A	N/A	231,121	100.0	N/A	N/A	246,422	100.0	N/A	N/A

EMS products

Under the EMS business model, we manufacture products either with our inputs for the design and specifications or with our design inputs with specifications provided by our customers. During the Track Record Period, our EMS products mainly include Jointly Developed Products. For the years ended 31 December 2015 and 2016, our revenue from the sale of Jointly Developed Products remained relatively stable at approximately HK\$317.6 million and HK\$322.9 million, which accounted for approximately 59.1% and 63.0% of our total revenue, respectively, given that the average selling price of our Jointly Developed Products remained relatively stable at approximately HK\$82.2 and HK\$83.2 per unit for the years ended 31 December 2015 and 2016 respectively and that the sales volume of our Jointly Developed Products remained relatively stable at approximately 3.9 million units for the years ended 31 December 2015 and 2016. Our revenue from Jointly Developed Products decreased from approximately HK\$145.7 million for the six months ended 30 June 2016 to approximately HK\$139.8 million for the six months ended 30 June 2017. This was a result of the decrease in the sale of 802.11 b/g/n protocols routers by approximately HK\$10.3 million, which was partially offset by an

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increase in the sale of 802.11ac protocol routers by approximately HK\$3.6 million. Our Directors believe that such change of product mix was primarily due to the transition in Korean market to popularisation of more advanced 802.11ac protocol routers. According to the Frost & Sullivan Report, as technology evolves, 802.11ac protocol routers have been gradually replacing the market share of 802.11 b/g/n protocols routers in Korean market. Despite the slight decrease in revenue from our Jointly Developed Products, our total revenue increased for the six months ended 30 June 2017 compared with that for the six months ended 30 June 2016 primarily due to the increase in the revenue generated from our Branded Products. The average selling price of our Jointly Developed Products increased by approximately HK\$6.2, from approximately HK\$81.0 for the six months ended 30 June 2016 to approximately HK\$87.2 for the six months ended 30 June 2017, which was mainly attributable to the decrease in the sales of certain models of 4 ports 802.11 ac protocol routers with relatively lower average selling prices and the sale of a new model of 4 ports 802.11ac protocol routers to EFM, which had relatively more advanced features and hence a relatively higher average selling price.

Our revenue from the sale of other EMS products amounted to approximately HK\$101.0 million and HK\$67.4 million, which accounted for approximately 18.8% and 13.2% of our total revenue for the years ended 31 December 2015 and 2016, respectively. The sales volume of our other EMS products decreased from approximately 1.2 million units for the year ended 31 December 2015 to approximately 0.7 million units for the year ended 31 December 2016. Our revenue generated from other EMS products decreased by approximately HK\$33.6 million, representing a decrease of approximately 33.3%, which was mainly attributable to the decrease in sales to Customer B by approximately HK\$13.1 million and the decrease in sales to our other EMS customers in Brazil by approximately HK\$12.0 million which we believe was a result of the depreciation of Brazilian Real in the year ended 31 December 2016. We bidded for and reached a framework agreement with Customer B in July 2015 for supply of a certain model of our wireless routers in a total amount of approximately RMB13.5 million, pursuant to which a number of sales contracts would be entered into with specific amount and volume subsequently. We had a greater sales amount to Customer B for the year ended 31 December 2015 than for the year ended 31 December 2016 because we sold the majority of the products pursuant to the framework agreement in the year ended 31 December 2015.

The average selling price of our other EMS products increased from approximately HK\$86.3 for the year ended 31 December 2015 to approximately HK\$99.2 for the year ended 31 December 2016, which was mainly because (i) the decrease in the sales of other EMS products to our customers in Brazil while those products were of a lower average selling price in 2016; and (ii) there were more sales of advanced other EMS products with relatively higher average selling price in 2016.

Our revenue from the sale of other EMS products remained relatively stable at approximately HK\$35.3 million for the six months ended 30 June 2016 and approximately HK\$35.9 million for the six months ended 30 June 2017, which accounted for approximately 15.3% and 14.6% of our total revenue, respectively.

The average selling price of our other EMS products increased by approximately HK\$33.2, from approximately HK\$103.2 for the six months ended 30 June 2016 to approximately HK\$136.4 for the six months ended 30 June 2017, which was mainly attributable to the increase in the sales volume of 4 ports 802.11ac protocol routers sold to Customer H which were of comparatively higher average selling price than those of other types of other EMS products.

Branded Products

During the Track Record Period, we manufactured and sold our Branded Products under the brand *TOTOLINK*, which mainly included routers, LAN cards, Access Points, Ethernet switches and non-

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networking products. For the years ended 31 December 2015 and 2016, our revenue generated from the sale of Branded Products amounted to approximately HK\$77.9 million and HK\$86.2 million, which accounted for approximately 14.5% and 16.8% of our total revenue, respectively. The revenue generated from sale of our Branded Products increased by approximately HK\$8.3 million, representing an increase of approximately 10.6%, which was mainly attributable to expansion of our business in Taiwan. The sale of our Branded Products in Taiwan increased by approximately 108.3% from approximately HK\$10.1 million for the year ended 31 December 2015 to approximately HK\$21.1 million for the year ended 31 December 2016, which was primarily due to the increase in consignment sales by approximately HK\$9.2 million.

The average selling price of our Branded Products decreased from approximately HK\$89.5 for the year ended 31 December 2015 to approximately HK\$78.2 for the year ended 31 December 2016, which was mainly because of the change in mix of the volume of our products sold. For the year ended 31 December 2016, the sales volume of branded LAN cards have increased to more than a double of the sales volume of branded LAN cards for the year ended 31 December 2015 while the sales of our branded routers decreased during the same period. Since the average selling price of our branded routers were generally higher than other Branded Products and the average selling price of branded LAN cards were relatively lower than that of our branded routers, the change in the mix of the volume of our products sold led to a decrease in the overall average selling price of our Branded Products.

For the six months ended 30 June 2016 and 2017, revenue from the sale of our Branded Products amounted to approximately HK\$36.9 million and HK\$51.7 million, which accounted for approximately 16.0% and 21.0% of our total revenue, respectively. Our revenue from the sale of Branded Products increased by approximately HK\$14.8 million, representing an increase of approximately 40.1%, which was primarily due to the increase in the revenue from the sale of our branded Access Points, power banks and 4 ports routers by approximately HK\$6.9 million, HK\$3.4 million and HK\$2.9 million, respectively.

The average selling price of our Branded Products decreased by approximately HK\$6.5, from approximately HK\$82.4 for the six months ended 30 June 2016 to approximately HK\$75.9 for the six months ended 30 June 2017, which was mainly attributable to the increase in the sales volume of (i) branded Access Points; and (ii) 4 ports 802.11 b/g/n protocols routers to Vietnam, both of which were of lower average selling prices.

OEM products

Under the OEM business model, we manufacture products primarily based on our customers' design and specifications. During the Track Record Period and up to the Latest Practicable Date, our OEM products included action cameras and 4G LTE routers. To the best of our Directors' knowledge, our OEM customers during the Track Record Period were mainly brand owners. For the years ended 31 December 2015 and 2016, our revenue from the sale of OEM products amounted to approximately HK\$22.9 million and HK\$11.9 million, which accounted for approximately 4.2% and 2.3% of our total revenue, respectively. The revenue from sale of OEM products decreased by approximately HK\$11.0 million, representing a decrease of approximately 48.0%, which was mainly attributable to the decrease in both the volume and price of the products ordered by one of our OEM customers. The decrease in the average selling price of our OEM products was mainly due to the fact that the OEM products sold to that customer in the year ended 31 December 2015 were products with more functions, which led to a relatively higher average selling price in the year ended 31 December 2015.

For the six months ended 30 June 2016 and 2017, our revenue from the sale of OEM products amounted to approximately HK\$5.9 million and HK\$15.2 million, which accounted for approximately

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2.5% and 6.2% of our total revenue, respectively. Our revenue from the sale of OEM products increased by approximately HK\$9.3 million, representing an increase of approximately 158.3%, which was primarily due to the increase in the sale of one of our new products, 4G LTE routers, to a new customer, Customer G.

The average selling price of our OEM products decreased by approximately HK\$197.5, from approximately HK\$535.8 for the six months ended 30 June 2016 to approximately HK\$338.3 for the six months ended 30 June 2017, which was mainly attributable to (i) the decrease in the average selling price of action cameras due to decrease in sales of the action cameras with higher average selling price; and (ii) the increase in the sale of 4G LTE routers of which the average selling price was lower than that of action cameras.

Processing services

Our revenue generated from provision of processing services included sale of materials and fees for processing materials in accordance with the specifications of the Relevant Customer. For details, please see “Business — Our business model — Processing services” in this prospectus. Our revenue from provision of processing services amounted to approximately HK\$18.3 million and HK\$23.8 million, which accounted for approximately 3.4% and 4.7% of our total revenue for the years ended 31 December 2015 and 2016, respectively. The revenue from provision of processing services increased by approximately HK\$5.5 million, representing an increase of approximately 30.3%, which was mainly attributable to increase in volume of products processed for the Relevant Customer during the year ended 31 December 2016 as compared to the year ended 31 December 2015.

For the six months ended 30 June 2016 and 2017, our revenue from provision of processing services amounted to approximately HK\$7.3 million and HK\$3.8 million, which accounted for approximately 3.2 % and 1.5 % of our total revenue, respectively. Our revenue from provision of processing services decreased by approximately HK\$3.5 million, representing a decrease of approximately 47.8%, which was primarily due to the decrease in the procurement of raw materials by approximately HK\$3.1 million for the Relevant Customer who, to the best of the knowledge of the Directors, would normally purchase raw materials by itself if it is more cost-efficient. The Directors consider that the decrease in the amount of raw materials procured for the Relevant Customer during the six months ended 30 June 2017 compared with that for the six months ended 30 June 2016 was immaterial as it was ancillary to the provision of processing services.

Revenue by types of product

Our main products sold during the Track Record Period were networking products including routers and Ethernet switches.

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The following table sets forth a breakdown of our revenue generated from sale of products (other than processing service fee) by product types with their respective sales volume and average selling price during the periods indicated and each item is also expressed as a percentage of our total revenue from sale of products (other than processing service fee) for the periods indicated:

	Year ended 31 December								Six months ended 30 June							
	2015				2016				2016				2017			
	Percentage of total revenue from sale of products		Sales Volume	Average selling price	Percentage of total revenue from sale of products		Sales Volume	Average selling price	Percentage of total revenue from sale of products		Sales Volume	Average selling price	Percentage of total revenue from sale of products		Sales Volume	Average selling price
	Revenue	%	units'000	HK\$	Revenue	%	units'000	HK\$	Revenue	%	units'000	HK\$	Revenue	%	units'000	HK\$
Routers																
- 4 ports 802.11 ac protocol ...	119,489	23.0	700	170.7	139,269	28.5	832	167.4	60,426	27.0	370	163.3	74,934	30.9	434	172.7
- 4 ports 802.11 b/g/n protocols ...	240,610	46.3	3,054	78.8	183,215	37.5	2,527	72.5	91,345	40.8	1,215	75.2	70,732	29.2	1,007	70.2
- Other routers ⁽¹⁾ ...	15,911	3.1	34	468.0	19,764	4.0	34	581.3	8,791	3.9	15	586.1	32,380	13.3	143	226.4
Subtotal ...	376,010	72.4	3,788	99.3	342,248	70.0	3,393	100.9	160,562	71.7	1,600	100.4	178,046	73.4	1,584	112.4
Ethernet switches ...	40,440	7.8	625	64.7	46,657	9.6	690	67.6	20,750	9.3	318	65.3	19,626	8.1	277	70.9
Other networking products ⁽²⁾ ...	56,090	10.8	1,142	49.1	61,621	12.6	1,183	52.1	25,794	11.5	500	51.6	28,887	11.9	532	54.3
Non-networking products ⁽³⁾ ...	46,870	9.0	381	123.0	37,830	7.8	419	90.3	16,704	7.5	181	92.3	16,050	6.6	200	80.3
Total ...	519,410	100.0	5,936	87.5	488,356	100.0	5,685	85.9	223,810	100.0	2,599	86.1	242,609	100.0	2,593	93.6

Notes:

- (1) Other routers included 2, 8, 16 and 24 ports routers, VPN routers and 4G LTE routers.
- (2) Other networking products mainly included LAN cards, Wi-Fi modules and Access Points.
- (3) Non-networking products mainly included action cameras, hard disk cases, USB hubs and power banks.

Routers

Our revenue generated from sale of routers amounted to approximately HK\$376.0 million and HK\$342.2 million, which accounted for approximately 72.4% and 70.0% of our total revenue from sale of products (other than processing service fee) for the years ended 31 December 2015 and 2016, respectively. The revenue from sale of routers decreased by approximately HK\$33.8 million, representing a decrease of approximately 9.0% which was mainly attributable to the decrease in the sale of 4 ports 802.11 b/g/n protocols routers by approximately HK\$57.4 million, which was partially offset by an increase in the sale of 4 ports 802.11 ac protocol routers by approximately HK\$19.8 million. The decrease in the sales of 4 ports 802.11 b/g/n protocols routers was mainly because EFM, our largest customer during the Track Record Period and a major customer of this product located in Korea, decreased its order volume of 4 ports 802.11 b/g/n protocols routers during the year ended 31 December 2016. At the same time, EFM increased the volume of its purchases of 4 ports 802.11 ac protocol routers from us. We believe that this change of mix of routers we sold to EFM mainly resulted from the transition in Korean market to popularisation of more advanced 802.11 ac protocol routers. According to the Frost & Sullivan Report, there is a trend in the Korean market that 802.11 ac protocol routers are emerging and are expected to prevail in the router products in the future.

For the six months ended 30 June 2016 and 2017, our revenue generated from sale of routers amounted to approximately HK\$160.6 million and HK\$178.0 million, which accounted for approximately

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71.7% and 73.4% of our revenue from sale of products (other than processing service fees), respectively. Our revenue from sale of routers increased by approximately HK\$17.4 million, representing an increase of approximately 10.9%, which was mainly attributable to (i) the increase in other routers by approximately HK\$23.6 million due to (a) the revenue brought by 4G LTE routers, one of the new products, of approximately HK\$15.7 million; (b) the revenue from our 2 ports routers of approximately HK\$5.8 million; and (ii) the increase in the revenue from the sale of 4 ports 802.11 ac protocol routers by approximately HK\$14.5 million, being partially offset by the decrease in the revenue from the sale of 4 ports 802.11 b/g/n protocols routers by approximately HK\$20.6 million. The decrease in the revenue from the sale of 4 ports 802.11 b/g/n protocols routers was mainly due to the decrease in the sales volume of 4 ports 802.11 b/g/n protocols routers to Korean market. According to the Frost & Sullivan Report, as technology evolves, 802.11 ac protocol routers have been gradually replacing the market share of 802.11 b/g/n protocols routers in Korean market. However, we recorded increase in the sales volume of our branded 4 ports 802.11 b/g/n protocols routers to a number of countries, including Vietnam. The increase in the revenue from our 4 ports 802.11 ac protocol routers was mainly due to the increase in sales of 4 ports 802.11 ac protocol routers to a new customer, Customer H.

The average selling price of 4 ports 802.11 ac protocol routers remain relatively stable for the years ended 31 December 2015 and 2016. The average selling price of 4 ports 802.11 b/g/n protocols routers decreased from approximately HK\$78.8 for the year ended 31 December 2015 to approximately HK\$72.5 for the year ended 31 December 2016, which was mainly because the proportion of 4 ports 802.11 b/g/n protocols routers of relatively higher price purchased by EFM decreased in 2016.

The average selling price of our 4 ports 802.11 ac protocol routers increased by approximately HK\$9.4, from approximately HK\$163.3 for the six months ended 30 June 2016 to approximately HK\$172.7 for the six months ended 30 June 2017, which was mainly attributable to the increase in the sales of 802.11 ac protocol routers to a new customer, Customer H. The average selling price of our 4 ports 802.11 b/g/n protocols routers decreased by approximately HK\$5.0, from approximately HK\$75.2 for the six months ended 30 June 2016 to approximately HK\$70.2 for the six months ended 30 June 2017, which was mainly attributable to the increase in the sales of 4 ports 802.11 b/g/n protocols routers to Vietnam, which had relatively lower average selling prices.

During the Track Record Period, we also sold 2, 8, 16 and 24 ports routers, VPN routers and 4G LTE routers. Our revenue generated from the sale of other routers increased by approximately HK\$3.9 million, representing an increase of approximately 24.2% from approximately HK\$15.9 million for the year ended 31 December 2015 to approximately HK\$19.8 million for the year ended 31 December 2016. This was mainly due to an increase in sales of VPN routers to an other EMS customer by approximately HK\$2.8 million during the year ended 31 December 2016. Our revenue generated from the sale of other routers increased by approximately HK\$23.6 million, representing an increase of approximately 268.3%, from approximately HK\$8.8 million for the six months ended 30 June 2016 to HK\$32.4 million for the six months ended 30 June 2017. This is mainly because of (i) the addition of the revenue brought by one of the new products, 4G LTE routers by approximately HK\$15.7 million, (ii) the addition of the revenue brought by 2 ports routers by approximately HK\$5.8 million; and (iii) the increase in the sale of VPN routers by approximately HK\$2.4 million. Our revenue generated from our new products, 4G LTE routers amounted to nil, nil, nil and approximately HK\$15.7 million for the years ended 31 December 2015 and 2016 and for the six months ended 30 June 2016 and 2017, respectively.

The average selling price of our other routers increased from approximately HK\$468.0 for the year ended 31 December 2015 to approximately HK\$581.3 for the year ended 31 December 2016, which was mainly attributable to the increased sales and increased average selling price of VPN routers during the year ended 31 December 2016.

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The average selling price of our other routers decreased from approximately HK\$586.1 for the six months ended 30 June 2016 to approximately HK\$226.4 for the six months ended 30 June 2017, which was primarily due to the increased sales of 4G LTE routers and 2 ports routers, which had much lower average selling prices compared with that of VPN routers, while the latter comprised the largest component for the revenue of other routers for the six months ended 30 June 2016.

Ethernet switches

Our revenue generated from sale of Ethernet switches amounted to approximately HK\$40.4 million and HK\$46.7 million, which accounted for approximately 7.8% and 9.6% of our total revenue from sale of products (other than processing service fee) for the years ended 31 December 2015 and 2016, respectively. The revenue from sale of Ethernet switches increased by approximately HK\$6.3 million, representing an increase of approximately 15.4%, which was mainly attributable to the increase in sales volume of our 8 ports switch products to EFM and our branded 8 ports switch products.

Our revenue generated from sale of Ethernet switches remained relatively stable at approximately HK\$20.8 million and HK\$19.6 million, which accounted for approximately 9.3% and 8.1% of our total revenue from sale of products (other than processing service fees) for the six months ended 30 June 2016 and 2017, respectively.

Other networking products

Our revenue generated from sale of other networking products remained relatively stable, amounted to approximately HK\$56.1 million and HK\$61.6 million, which accounted for approximately 10.8% and 12.6% of our total revenue from sale of products (other than processing service fee) for the years ended 31 December 2015 and 2016, respectively.

Our revenue generated from sale of other networking products remained relatively stable at approximately HK\$25.8 million and HK\$28.9 million, which accounted for approximately 11.5% and 11.9% of our total revenue from sale of products (other than processing service fees) for the six months ended 30 June 2016 and 2017, respectively.

Non-networking products

Our non-networking products mainly included action cameras, hard disk cases, USB hubs, power banks and other accessory products. Our revenue generated from sale of non-networking products amounted to approximately HK\$46.9 million and HK\$37.8 million for the years ended 31 December 2015 and 2016, which accounted for approximately 9.0% and 7.8% of our total revenue from sale of products (other than processing service fee) for the years ended 31 December 2015 and 2016, respectively. Our revenue from non-networking products decreased by approximately HK\$9.1 million, representing a decrease of approximately 19.3%, which was mainly attributable to the decrease in sales of action cameras.

Our revenue generated from sale of non-networking products amounted to approximately HK\$16.7 million and HK\$16.0 million, which accounted for approximately 7.5% and 6.6% of our total revenue from sale of products (other than processing service fees) for the six months ended 30 June 2016 and 2017, respectively. The revenue from sale of non-networking products remained relatively stable for the six months ended 30 June 2016 and 2017, which was a combined result of the increase in the sales of our branded power banks and the decrease in the sales of action cameras.

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Revenue by sales channel

We generated our revenue mainly from sale of products to our direct customers, distributors and consignees. The following table sets forth a breakdown of our revenue from sale of products (other than processing service fee) generated by sales channels for the periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Percentage of total revenue from sale of		Percentage of total revenue from sale of		Percentage of total revenue from sale of		Percentage of total revenue from sale of	
	Revenue	products	Revenue	products	Revenue	products	Revenue	products
HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
<i>(Unaudited)</i>								
Direct sales . .	447,545	86.2	408,480	83.7	188,460	84.2	196,405	81.0
Distribution . .	71,672	13.7	70,449	14.4	31,881	14.2	39,695	16.3
Consignment .	193	0.1	9,427	1.9	3,469	1.6	6,509	2.7
Total	519,410	100.0	488,356	100.0	223,810	100.0	242,609	100.0

Our revenue derived from direct sales of our products amounted to approximately HK\$447.5 million and HK\$408.5 million for the years ended 31 December 2015 and 2016, respectively, which accounted for approximately 86.2% and 83.7% of the total revenue generated from sale of products (other than processing service fee), respectively. Our Branded Products would mostly be sold through distribution and to a lesser extent through consignment and the rest of all other products would be sold by direct sales. The decrease in revenue from direct sales was generally in line with the decrease in our aggregate revenue from the sale of other EMS products and OEM products.

Our revenue derived from direct sales of our products amounted to approximately HK\$188.5 million and HK\$196.4 million, which accounted for approximately 84.2% and 81.0% of our total revenue from sale of products (other than processing service fees) for the six months ended 30 June 2016 and 2017, respectively. Our revenue derived from direct sales increased by approximately HK\$7.9 million during the six months ended 30 June 2017 compared with that for the six months ended 30 June 2016, representing an increase of approximately 4.2%. The increase in our revenue from direct sales was mainly attributable to an increase in our revenue from the sale of our OEM products.

Our revenue derived from sales by distribution remained relatively stable, amounted to approximately HK\$71.7 million and HK\$70.4 million, which accounted for approximately 13.7% and 14.4% of the total revenue from sale of products (other than processing service fee) for the years ended 31 December 2015 and 2016, respectively.

Our revenue derived from sales by distribution amounted to approximately HK\$31.9 million and HK\$39.7 million, which accounted for approximately 14.2% and 16.3% of our total revenue from sale of products (other than processing service fees) for the six months ended 30 June 2016 and 2017, respectively. Our revenue derived from sales by distribution increased by approximately HK\$7.8 million during the six months ended 30 June 2017 compared with that for the six months ended 30 June 2016, representing an increase of approximately 24.5%. The increase in our revenue from sales by distribution during the respective periods was mainly attributable to the increase in the sales to Vietnam after appointment of three new distributors in Vietnam at the end of 2016 and in 2017 and increased sales to a distributor in Thailand.

Our revenue derived from sales by consignment amounted to approximately HK\$0.2 million and HK\$9.4 million, which accounted for approximately 0.1% and 1.9% of the total revenue from sale of

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products (other than processing service fee) for the years ended 31 December 2015 and 2016, respectively. The increase was mainly because of our effort in expanding our business in Taiwan through selling our Branded Products through consignments during the year ended 31 December 2016.

Our revenue derived from sales by consignment amounted to approximately HK\$3.5 million and HK\$6.5 million, which accounted for approximately 1.6% and 2.7% of our total revenue from sale of products (other than processing service fees) for the six months ended 30 June 2016 and 2017, respectively. Our revenue derived from sales by consignment increased by approximately HK\$3.0 million, representing an increase of approximately 87.6%. The increase in our revenue from sales by consignment during the respective periods was mainly because we only commenced business relationship with certain consignees in Taiwan in late 2015, for whom lower sales amount were recorded at the beginning of our cooperation during the six months ended 30 June 2016.

Revenue by geographical regions

During the Track Record Period, we sold our products to over 50 countries and regions. The following table sets forth the breakdown of our revenue by geographical regions where our customers located for the periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
					<i>(Unaudited)</i>			
Korea	359,897	66.9	363,388	70.9	166,390	72.0	165,642	67.2
Vietnam	28,674	5.3	4,042	0.8	997	0.4	12,302	5.0
PRC	63,723	11.9	49,663	9.7	20,982	9.1	8,972	3.6
Other Asia ⁽¹⁾	38,710	7.2	60,290	11.8	23,458	10.2	29,733	12.1
North								
America ⁽²⁾	1,782	0.3	2,994	0.6	1,182	0.5	15,303	6.2
Europe ⁽³⁾	14,532	2.7	14,622	2.9	9,049	3.9	8,090	3.3
South America ⁽⁴⁾ ..	23,041	4.3	9,303	1.8	4,360	1.9	4,173	1.7
Africa ⁽⁵⁾	7,032	1.3	7,879	1.5	4,692	2.0	2,156	0.9
Central								
America ⁽⁶⁾	310	0.1	9	-	9	-	51	-
Australia	2	-	2	-	2	-	-	-
Total	<u>537,703</u>	<u>100.0</u>	<u>512,192</u>	<u>100.0</u>	<u>231,121</u>	<u>100.0</u>	<u>246,422</u>	<u>100.0</u>

Notes:

- (1) Other Asia includes Hong Kong, Taiwan, Philippines, India, Thailand, Nepal, Pakistan, Israel, Singapore, Indonesia, the United Arab Emirates, Mongolia, Lebanon, Yemen, Iran, Iraq, Myanmar, Republic of Maldives, Saudi Arabia, Kazakhstan, Kuwait, Sri Lanka, Malaysia and Bangladesh.
- (2) North America includes U.S., Canada and Mexico.
- (3) Europe includes Italy, France, Poland, Germany, Czech Republic, Greece, Spain, Republic of Serbia, Russia, Ukraine, Romania, Turkey, Republic of Lithuania, Republic of Albania, Bulgaria, Republic of Ireland, Republic of Cyprus, the Netherlands, Georgia and Moldova.
- (4) South America includes Brazil, Argentina, Chile and Colombia.
- (5) Africa includes South Africa, Republic of Tunisia and Egypt.
- (6) Central America includes Republic of Panama.

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Korea

During the Track Record Period, our revenue generated from our customers in Korea constituted the largest component of our revenue. Our revenue generated from our customers in Korea amounted to approximately HK\$359.9 million and HK\$363.4 million, representing approximately 66.9% and 70.9% of our total revenue for the years ended 31 December 2015 and 2016, respectively. Our revenue generated from our customers in Korea remained relatively stable at approximately HK\$166.4 million and HK\$165.6 million, accounting for approximately 72.0% and 67.2% of our total revenue for the six months ended 30 June 2016 and 2017, respectively, which was a combined result of the decrease in sales of 4 ports 802.11 b/g/n protocols routers to EFM, the decrease in sales of action cameras to an OEM customer, Customer D, and an increase in the sales of 4 ports 802.11 ac protocol routers to one of our new customers, Customer H. Our largest customer during the Track Record Period, EFM, who is located in Korea, contributed revenue of approximately HK\$317.6 million, HK\$322.9 million, HK\$145.7 million and HK\$139.8 million, representing approximately 59.1%, 63.0%, 63.0% and 56.7% of our total revenue for the years ended 31 December 2015 and 2016 and for the six months ended 30 June 2016 and 2017, respectively.

Vietnam

Our revenue generated from our customers in Vietnam decreased by approximately HK\$24.7 million, representing a decrease of approximately 85.9%, from approximately HK\$28.7 million for the year ended 31 December 2015 to approximately HK\$4.0 million for the year ended 31 December 2016. The decrease was mainly due to decrease in the sales to Customer C, which, to the best of the knowledge of the Directors, was because Company X, a related company to Customer C, did not secure a contract with a telecommunications company in Vietnam.

Our revenue generated from our customers in Vietnam increased by approximately HK\$11.3 million, representing an increase by approximately 11.3 times, from approximately HK\$1.0 million for the six months ended 30 June 2016 to approximately HK\$12.3 million for the six months ended 30 June 2017. The increase was mainly because of the revenue generated from three new distributors in Vietnam that we newly engaged at the end of 2016 and in 2017.

PRC

Our revenue generated from our customers in the PRC amounted to approximately HK\$63.7 million and HK\$49.7 million, representing approximately 11.9% and 9.7% of our total revenue for the years ended 31 December 2015 and 2016, respectively. Our revenue generated from our customers in the PRC decreased by approximately HK\$14.0 million, representing a decrease of approximately 22.1%, which was mainly attributable to the decrease in sales to Customer B by approximately HK\$13.1 million. The detailed reason has been set out in “— Description and management discussion and analysis of selected items of our combined statements of profit or loss and other comprehensive income — Revenue — Revenue by business model — EMS products” in this section.

Our revenue generated from our customers in the PRC amounted to approximately HK\$21.0 million and HK\$9.0 million, accounting for approximately 9.1% and 3.6% of our total revenue for the six months ended 30 June 2016 and 2017, respectively. Our revenue generated from our customers in the PRC decreased by approximately HK\$12.0 million, representing a decrease of approximately 57.2%, which was mainly due to a further decrease in the sales to Customer B and decrease in the sales to another EMS customer based in the PRC who purchased from us on an order-by-order basis, while no new order was placed by this customer with us during the six months ended 30 June 2017.

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Other Asia

Our revenue generated from our customers in other Asia amounted to approximately HK\$38.7 million and HK\$60.3 million, which accounted for approximately 7.2% and 11.8% of our total revenue for the years ended 31 December 2015 and 2016, respectively. Our revenue generated from our customers in other Asia increased by approximately HK\$21.6 million, representing an increase of approximately 55.7%, which was mainly attributable to the increase in the sales to a new distributor in Thailand by approximately HK\$12.0 million and to Taiwan by approximately HK\$11.0 million after the commencement of operation of Zioncom Taiwan in late 2015.

Our revenue generated from our customers in other Asia amounted to approximately HK\$23.5 million and HK\$29.7 million, which accounted for approximately 10.2% and 12.1% of our total revenue for the six months ended 30 June 2016 and 2017, respectively. Our revenue generated from our customers in other Asia increased by approximately HK\$6.2 million, representing an increase of approximately 26.7%, which was mainly due to the increase in the sales to a distributor in Thailand by approximately HK\$6.7 million.

North America

For the years ended 31 December 2015 and 2016, our revenue generated from North America were approximately HK\$1.8 million and HK\$3.0 million, representing approximately 0.3% and 0.6% of our total revenue for the respective year.

Our revenue generated from North America increased significantly by approximately HK\$14.1 million from approximately HK\$1.2 million for the six months ended 30 June 2016 to approximately HK\$15.3 million for the six months ended 30 June 2017, representing an increase by approximately 11.9 times, which was primarily due to increased sales to one of our new customers, Customer G, by approximately HK\$14.5 million.

South America

During the Track Record Period, our revenue generated from our customers in South America amounted to approximately HK\$23.0 million and HK\$9.3 million, representing approximately 4.3% and 1.8% of our total revenue for the years ended 31 December 2015 and 2016, respectively. Our revenue generated from our customers in South America decreased by approximately HK\$13.7 million, representing a decrease of approximately 59.6%, which was mainly attributable to the decrease in the sales to a number of customers in Brazil by approximately HK\$14.5 million which we believe was due to the depreciation of Brazilian Real against USD.

Our revenue generated from our customers in South America remained relatively stable at approximately HK\$4.4 million and HK\$4.2 million, which accounted for approximately 1.9% and 1.7% of our total revenue for the six months ended 30 June 2016 and 2017, respectively.

Cost of sales

Our cost of sales during the Track Record Period comprised mainly of cost of materials, direct labour costs and manufacturing overhead.

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The following table sets forth, for the periods indicated, a breakdown of our cost of sales by nature:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Percentage of cost of sales		Percentage of cost of sales		Percentage of cost of sales		Percentage of cost of sales	
	Amount	%	Amount	%	Amount	%	Amount	%
HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
				(Unaudited)				
Cost of								
materials	375,840	80.0	347,486	80.4	157,605	80.4	170,729	82.1
ICs	79,265	16.9	82,665	19.1	34,668	17.7	43,893	21.1
Router								
CPUs	53,166	11.3	50,710	11.8	25,048	12.7	25,468	12.2
AC								
adaptors	25,773	5.5	25,198	5.8	14,626	7.5	16,090	7.7
PCBs	28,011	6.0	26,814	6.2	12,477	6.4	12,875	6.2
Cases	23,180	4.9	24,325	5.6	10,529	5.4	10,274	4.9
Transformers	16,428	3.5	20,952	4.9	10,060	5.1	9,695	4.7
Electrical								
components	25,381	5.4	19,581	4.5	8,415	4.3	8,639	4.2
Packaging								
materials	19,302	4.1	17,330	4.0	8,104	4.1	8,232	4.0
Antennas	17,958	3.8	17,421	4.0	8,395	4.3	7,922	3.8
SDRAMs	20,739	4.4	15,433	3.6	5,521	2.8	6,640	3.2
Connectors	12,582	2.7	8,113	1.9	3,852	2.0	3,301	1.6
Other								
materials	54,055	11.5	38,944	9.0	15,910	8.1	17,700	8.5
Manufacturing								
overhead	47,655	10.2	51,888	12.0	22,859	11.7	25,965	12.5
Direct labour								
costs	27,301	5.8	26,523	6.2	12,080	6.2	9,032	4.3
Subcontracting								
service fees	16,508	3.5	4,921	1.1	2,644	1.3	1,864	0.9
Royalty fees	2,235	0.5	1,432	0.3	831	0.4	312	0.2
Total	469,539	100.0	432,250	100.0	196,019	100.0	207,902	100.0

Our cost of sales were approximately HK\$469.5 million and HK\$432.3 million for the years ended 31 December 2015 and 2016, respectively, representing approximately 87.3% and 84.4% of our total revenue for the corresponding year. The decrease in our cost of sales was generally in line with the decrease in our revenue during the years ended 31 December 2015 and 2016.

Our cost of sales were approximately HK\$196.0 million and HK\$207.9 million, representing approximately 84.8% and 84.4% of our total revenue for the six months ended 30 June 2016 and 2017, respectively. The increase in our cost of sales was generally in line with the increase in our revenue for the six months ended 30 June 2017 compared with that for the six months ended 30 June 2016.

Below is the description and analysis of our cost of sales by nature during the Track Record Period.

Cost of materials

Our cost of materials represented the cost of procurement of raw materials and components for manufacturing of our products which principally included ICs, router CPUs and PCBs, etc. According to

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the Frost & Sullivan Report, the unit price of ICs, router CPUs and PCBs demonstrated a general downward trend. During the Track Record Period, cost of materials was the largest component of our cost of sales. Our cost of materials amounted to approximately HK\$375.8 million and HK\$347.5 million for the years ended 31 December 2015 and 2016 respectively, representing approximately 69.9% and 67.8% of our revenue for the corresponding year. Our cost of materials decreased by approximately HK\$28.3 million during the years ended 31 December 2015 and 2016, representing a decrease of approximately 7.5%, which was generally in line with the decreasing trend of unit price of our raw materials and components during the years ended 31 December 2015 and 2016.

Our cost of materials amounted to approximately HK\$157.6 million and HK\$170.7 million, representing approximately 68.2% and 69.3% of our revenue for the six months ended 30 June 2016 and 2017, respectively. Our cost of materials increased by approximately HK\$13.1 million, representing an increase of approximately 8.3%, which was mainly due to the increase in purchase of ICs by approximately HK\$9.2 million as a result of increased sales of 802.11ac protocol routers and decreased sales of 802.11 b/g/n protocols routers as the ICs used for the latter were of a relatively lower average selling price.

Manufacturing overhead

Our manufacturing overhead during the Track Record Period mainly included (i) indirect labour cost; (ii) rental expenses for our Shajing Production Facilities; (iii) depreciation recognised for the plant and machineries in relation to our production; (iv) cost of consumables; (v) utilities costs for the electricity and water used in our production process; and (vi) other miscellaneous production costs. Our manufacturing overhead remained relatively stable at approximately HK\$47.7 million and HK\$51.9 million for the years ended 31 December 2015 and 2016, respectively.

Our manufacturing overhead amounted to approximately HK\$22.9 million and HK\$26.0 million for the six months ended 30 June 2016 and 2017, respectively. Our manufacturing overhead increased by approximately HK\$3.1 million, representing an increase of approximately 13.6%, which was mainly due to the increase in labour despatch costs by approximately HK\$2.0 million.

Direct labour cost

Direct labour costs mainly represented the salaries paid to our production staff. Our direct labour costs remained relatively stable, and amounted to approximately HK\$27.3 million and HK\$26.5 million for the years ended 31 December 2015 and 2016, respectively.

Our direct labour costs amounted to approximately HK\$12.1 million and HK\$9.0 million for the six months ended 30 June 2016 and 2017, respectively. Our direct labour costs decreased by approximately HK\$3.1 million, representing a decrease of approximately 25.2%, which was mainly because we used more labour despatch as a supplement to our production staff during the six months ended 30 June 2017, of which the costs were included in manufacturing overhead.

Subcontracting services fees

The subcontracting service fees represented the service fees that we paid to subcontractors for (i) manufacturing of action cameras for an OEM customer, Customer D; and (ii) certain production process when we considered necessary or exceeded or approached our maximum production capacity. The subcontracting service fees decreased by approximately HK\$11.6 million, representing a decrease of approximately 70.2%, from approximately HK\$16.5 million for the year ended 31 December 2015 to approximately HK\$4.9 million for the year ended 31 December 2016, which was mainly due to the

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decrease in the sales volume of action cameras that we supplied to Customer D and in turn the subcontracting service fees that we paid to the subcontractor. We did not enter into new transaction with Customer D as it failed to settle its purchase amount within the credit term we granted to it, for which we had claimed for export credit insurance and written off the residual amount that would not be covered by the export credit insurance.

Our subcontracting services fees decreased by approximately HK\$0.7 million, representing a decrease of approximately 29.5%, from approximately HK\$2.6 million for the six months ended 30 June 2016 to approximately HK\$1.9 million for the six months ended 30 June 2017. The decrease was mainly attributable to a decrease in the subcontracting fees we paid to the subcontractor for manufacturing action cameras for Customer D, which was partially offset by an increase in the fees that we paid to certain independent processing factories for surface mounting process when our production demand exceeded or approached our maximum production capacity.

Royalty fees

During the Track Record Period, we paid royalty fees to EFM for the sale of certain networking products produced by us that used software developed by EFM. Our royalty fees decreased by approximately HK\$0.8 million, representing a decrease of approximately 35.9%, from approximately HK\$2.2 million for the year ended 31 December 2015 to approximately HK\$1.4 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in the sales volume of the products that used software developed by EFM.

Our royalty fees amounted to approximately HK\$0.8 million and HK\$0.3 million for the six months ended 30 June 2016 and 2017, respectively. Our royalty fees decreased by approximately HK\$0.5 million, representing a decrease of approximately 62.3%, which was generally in line with the decrease in the sales volume of the products that used software developed by EFM.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$11.7 million, representing an increase of approximately 17.3%, from approximately HK\$68.2 million for the year ended 31 December 2015 to approximately HK\$79.9 million for the year ended 31 December 2016. Our gross profit margin increased from approximately 12.7% for the year ended 31 December 2015 to approximately 15.6% for the year ended 31 December 2016.

Our gross profit increased by approximately HK\$3.4 million, representing an increase of approximately 9.7%, from approximately HK\$35.1 million for the six months ended 30 June 2016 to approximately HK\$38.5 million for the six months ended 30 June 2017. Our gross profit margin increased from approximately 15.2% for the six months ended 30 June 2016 to approximately 15.6% for the six months ended 30 June 2017.

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The following table sets forth, for the periods indicated, a breakdown of our gross profit and gross profit margin by business models:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(Unaudited)</i>							
Sale of products								
<i>EMS products</i>								
Jointly Developed								
Products	39,083	12.3	45,297	14.0	18,703	12.8	20,045	14.3
Other EMS products	11,461	11.3	10,803	16.0	5,706	16.2	4,509	12.6
<i>Branded Products</i>	14,943	19.2	21,371	24.8	9,300	25.2	12,734	24.6
<i>OEM products</i>	1,328	5.8	865	7.3	877	14.9	1,032	6.8
Sub-total	66,815	12.9	78,336	16.0	34,586	15.5	38,320	15.8
Processing services ⁽¹⁾	1,349	7.4	1,606	6.7	516	7.1	200	5.2
Total	68,164	12.7	79,942	15.6	35,102	15.2	38,520	15.6

Note:

(1) Our revenue generated from processing services included processing fee and sale of materials.

Our gross profit and gross profit margin for different business models depend on the mix of products sold under the respective business model, which in turn depend on the composition of our customer base and their demand. For further details, please see “— Factors affecting our results of operations and financial conditions — Change in customer base and products mix” in this section.

Our gross profit from the sale of Jointly Developed Products increased by approximately HK\$6.2 million, representing an increase of approximately 15.9%, from approximately HK\$39.1 million for the year ended 31 December 2015 to approximately HK\$45.3 million for the year ended 31 December 2016. The gross profit margin of our Jointly Developed Products increased from approximately 12.3% for the year ended 31 December 2015 to approximately 14.0% for the year ended 31 December 2016. Such increase was mainly attributable to the combined effect of the increase in sales of 4 ports 802.11 ac protocol routers and decrease in sales of 4 ports 802.11 b/g/n protocols routers to EFM as the former had higher gross profit margin than the latter.

Our gross profit from the sale of Jointly Developed Products remained relatively stable at approximately HK\$18.7 million for the six months ended 30 June 2016 and approximately HK\$20.0 million for the six months ended 30 June 2017. Our gross profit margin of Jointly Developed Products increased from approximately 12.8% for the six months ended 30 June 2016 to approximately 14.3% for the six months ended 30 June 2017, which was mainly attributable to the increase in the sales volume of 4 ports 802.11 b/g/n protocols routers which had relatively higher gross profit margin for the six months ended 30 June 2017.

Our gross profit from the sale of other EMS products decreased from approximately HK\$11.5 million for the year ended 31 December 2015 to approximately HK\$10.8 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in sales volume. The gross profit margin of other EMS products increased from approximately 11.3% for the year ended 31 December

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2015 to approximately 16.0% for the year ended 31 December 2016. Such increase was mainly attributable to the decrease in sales to Customer B for the year ended 31 December 2016 to whom the products sold generally had a lower gross profit margin than average.

Our gross profit from the sale of other EMS products decreased by approximately HK\$1.2 million, representing a decrease of approximately 21.0%, from approximately HK\$5.7 million for the six months ended 30 June 2016 to approximately HK\$4.5 million for the six months ended 30 June 2017. The decrease was mainly attributable to the decrease in the revenue and consequently the decrease in the gross profit of 4 ports 802.11 b/g/n protocols routers sold to our other EMS customers. Our gross profit margin of other EMS products decreased from approximately 16.2% for the six months ended 30 June 2016 to approximately 12.6% for the six months ended 30 June 2017, which was mainly attributable to the decrease in the gross profit margin of 4 ports 802.11 b/g/n protocols routers sold to Customer B and the increase in the sales to two customers of our other EMS products for which comparatively lower gross profit margins were recorded.

Our gross profit generated from the sale of Branded Products increased by approximately HK\$6.5 million, representing an increase of approximately 43.0%, from approximately HK\$14.9 million for the year ended 31 December 2015 to approximately HK\$21.4 million for the year ended 31 December 2016. The increase was in line with the increase in revenue of Branded Products which was larger than the increase in cost of sales of Branded Products during the Track Record Period. The gross profit margin of our Branded Products increased from approximately 19.2% for the year ended 31 December 2015 to approximately 24.8% for the year ended 31 December 2016. Such increase was mainly attributable to the increase in both the revenue and gross profit margin of branded 4 ports 802.11 ac protocol routers, other networking products and Ethernet switches. The details of the increase in gross profit margin of 4 ports 802.11 ac protocol routers, other networking products and Ethernet switches are set out below.

Our gross profit from the sale of Branded Products increased by approximately HK\$3.4 million, representing an increase of approximately 36.9%, from approximately HK\$9.3 million for the six months ended 30 June 2016 to approximately HK\$12.7 million for the six months ended 30 June 2017. The increase was mainly attributable to the increase in the gross profit of branded Access Points and power banks by approximately HK\$3.1 million and HK\$1.5 million, respectively. Our gross profit margin of Branded Products decreased from approximately 25.2% for the six months ended 30 June 2016 to approximately 24.6% for the six months ended 30 June 2017, which was mainly attributable to the decrease in the gross profit margin of branded 4 ports 802.11 b/g/n protocols routers as a result of increased sales of relatively less advanced routers with generally lower gross profit margin.

Our gross profit from the sales of OEM products decreased by approximately HK\$0.4 million, representing a decrease of approximately 34.9%, from approximately HK\$1.3 million for the year ended 31 December 2015 to approximately HK\$0.9 million for the year ended 31 December 2016. The decrease in gross profit from the sales of OEM products was generally in line with the decrease in our revenue from the sales of OEM products during the Track Record Period. Notwithstanding the decrease in gross profit, the gross profit margin from sales of OEM products remained relatively stable at approximately 5.8% for the year ended 31 December 2015 and approximately 7.3% for the year ended 31 December 2016.

Our gross profit from the sale of OEM products remained relatively stable at approximately HK\$0.9 million for the six months ended 30 June 2016 and approximately HK\$1.0 million for the six months ended 30 June 2017. Our gross profit margin of OEM products decreased from approximately 14.9% for the six months ended 30 June 2016 to approximately 6.8% for the six months ended 30 June

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2017, which was mainly attributable to the increase in the sales of 4G LTE routers, which had a lower gross profit margin than that of action cameras.

The following table sets forth, for the periods indicated, a breakdown of our gross profit and gross profit margin by types of our products and services:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(Unaudited)</i>							
Routers								
- 4 ports 802.11 ac protocol	12,350	10.3	21,864	15.7	8,723	14.4	10,536	14.1
- 4 ports 802.11 b/g/n protocols	31,816	13.2	24,486	13.4	12,300	13.5	9,111	12.9
	44,166	12.3	46,350	14.4	21,023	13.9	19,647	13.5
- Other routers ⁽¹⁾	2,626	16.5	4,599	23.3	1,906	21.7	3,679	11.4
	46,792	12.4	50,949	14.9	22,929	14.3	23,326	13.1
Ethernet switches	5,282	13.1	7,823	16.8	3,482	16.8	3,575	18.2
Other networking products ⁽²⁾	9,235	16.5	13,363	21.7	5,341	20.7	7,610	26.3
Non-networking products ⁽³⁾	5,506	11.7	6,201	16.4	2,834	17.0	3,809	23.7
Subtotal	66,815	12.9	78,336	16.0	34,586	15.5	38,320	15.8
Processing fee	1,349	7.4	1,606	6.7	516	7.1	200	5.2
Total	68,164	12.7	79,942	15.6	35,102	15.2	38,520	15.6

Notes:

- (1) Other routers included 2, 8, 16 and 24 ports routers, VPN routers and 4G LTE routers.
- (2) Other networking products mainly included LAN cards, Wi-Fi modules and Access Points.
- (3) Non-networking products mainly included action cameras, hard disk cases, power banks and USB hubs.

Our gross profit from the sale of routers increased by approximately HK\$4.1 million, representing an increase of approximately 8.9%, from approximately HK\$46.8 million for the year ended 31 December 2015 to approximately HK\$50.9 million for the year ended 31 December 2016, corresponding to an increase in its gross profit margin from approximately 12.4% to 14.9% during the same period. Such increase was mainly driven by the increase in the gross profit margin of our 4 ports 802.11 ac protocol routers and the decrease in the sales of routers with lower gross profit margin to Customer B.

Our gross profit from the sale of routers remained relatively stable at approximately HK\$22.9 million for the six months ended 30 June 2016 and approximately HK\$23.3 million for the six months ended 30 June 2017. Our gross profit margin of routers decreased from approximately 14.3% for the six months ended 30 June 2016 to approximately 13.1% for the six months ended 30 June 2017, which was mainly attributable to the increased sales of one of our new products, 4G LTE routers, to one of our OEM customers, Customer G, which had a relatively lower gross profit margin compared with that

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of the other router products as we generally do not have any design input to the 4G LTE routers that were sold to this customer.

Our gross profit from the sale of Ethernet switches increased by approximately HK\$2.5 million, representing an increase of approximately 48.1%, from approximately HK\$5.3 million for the year ended 31 December 2015 to approximately HK\$7.8 million for the year ended 31 December 2016. The gross profit margin of our Ethernet switches increased from approximately 13.1% for the year ended 31 December 2015 to approximately 16.8% for the year ended 31 December 2016. The increase was mainly attributable to the increase of sales of certain types of our branded Ethernet switches, which possess relatively more advanced features compared with our other Ethernet switches products, and had a higher gross profit margin.

Our gross profit from the sale of Ethernet switches remained relatively stable at approximately HK\$3.5 million for the six months ended 30 June 2016 and approximately HK\$3.6 million for the six months ended 30 June 2017. Our gross profit margin of Ethernet switches increased from approximately 16.8% for the six months ended 30 June 2016 to approximately 18.2% for the six months ended 30 June 2017, which was mainly attributable to the decrease in the sales volume of less advanced Ethernet switches which had relatively lower gross profit margin.

Our gross profit from the sale of other networking products increased by approximately HK\$4.2 million, representing an increase of approximately 44.7%, from approximately HK\$9.2 million for the year ended 31 December 2015 to approximately HK\$13.4 million for the year ended 31 December 2016. The gross profit margin of other networking products increased from approximately 16.5% for the year ended 31 December 2015 to approximately 21.7% for the year ended 31 December 2016. The increase was mainly attributable to the increase in the sales of our Access Points, which had a higher gross profit margin in the year ended 31 December 2016 as a result of decrease in cost of sales.

Our gross profit from the sale of other networking products increased by approximately HK\$2.3 million, representing an increase of approximately 42.5%, from approximately HK\$5.3 million for the six months ended 30 June 2016 to approximately HK\$7.6 million for the six months ended 30 June 2017. The increase was mainly attributable to the increase in the gross profit generated from increased sale of Access Points and wired LAN cards by approximately HK\$2.5 million and HK\$0.5 million, respectively, which was offset by the decrease in the sale of wireless LAN cards by approximately HK\$0.7 million. Our gross profit margin of other networking products increased from approximately 20.7% for the six months ended 30 June 2016 to approximately 26.3% for the six months ended 30 June 2017, which was mainly attributable to the increase in the gross profit margin of both Access Points and wired LAN cards as a result of (i) increased sales of branded Access Points to certain distributors in Vietnam and branded wired LAN cards to a customer in Korea during the six months ended 30 June 2017, both of which had relatively higher gross profit margin; and (ii) decreased sales of Access Points to an EMS customer in the PRC which were of lower gross profit margin.

Our gross profit from the sale of non-networking products remained relatively stable at approximately HK\$5.5 million for the year ended 31 December 2015 and approximately HK\$6.2 million for the year ended 31 December 2016. The gross profit margin of our non-networking products increased from approximately 11.7% for the year ended 31 December 2015 to approximately 16.4% for the year ended 31 December 2016. Such increase was mainly due to commencement of sales of power banks in 2016, which had a higher gross profit margin than the average of those of other non-networking products.

Our gross profit from the sale of non-networking products increased by approximately HK\$1.0 million, representing an increase of approximately 34.4%, from approximately HK\$2.8 million for the six months ended 30 June 2016 to approximately HK\$3.8 million for the six months ended

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30 June 2017. The increase was mainly attributable to the increase in the gross profit of power banks, which was partially offset by the decrease in the gross profit of action camera. Our gross profit margin of non-networking products increased from approximately 17.0% for the six months ended 30 June 2016 to approximately 23.7% for the six months ended 30 June 2017, which was mainly attributable to the increase in the sales of power banks which had relatively higher gross profit margin compared with those of other non-networking products.

Our gross profit generated from providing processing services remained relatively stable at approximately HK\$1.3 million for the year ended 31 December 2015 and approximately HK\$1.6 million for the year ended 31 December 2016. The gross profit margin of providing processing services also remained stable at approximately 7.4% and 6.7% for the corresponding year.

Our gross profit generated from providing processing services decreased by approximately HK\$0.3 million, representing a decrease of approximately 61.2%, from approximately HK\$0.5 million for the six months ended 30 June 2016 to approximately HK\$0.2 million for the six months ended 30 June 2017. The decrease was mainly attributable to the decrease in the raw materials procured for processing services provided to the Relevant Customer. Our gross profit margin of providing processing services decreased from approximately 7.1% for the six months ended 30 June 2016 to approximately 5.2% for the six months ended 30 June 2017, which was mainly attributable to the decrease in the gross profit margin in the sale of raw materials to the Relevant Customer.

Other income

For the years ended 31 December 2015 and 2016 and for the six months ended 30 June 2016 and 2017, our other income amounted to approximately HK\$10.4 million, HK\$6.3 million, HK\$1.7 million and HK\$5.5 million, respectively. The table below sets forth a breakdown of other income of our Group by nature for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Product development income	379	2,455	348	2,535
Sales of parts material	112	544	44	2,096
Exchange gain	-	-	-	311
Interest income on life insurance policies	343	651	399	195
Sundry income	436	573	333	192
Investment income	429	178	86	117
Bank interest income	1,909	618	511	63
Government grant	875	1,290	-	9
Forfeited of trade payables and deposits received	5,933	-	-	-
Total	10,416	6,309	1,721	5,518

Our other income decreased by approximately HK\$4.1 million, representing a decrease of approximately 39.4%, from approximately HK\$10.4 million for the year ended 31 December 2015 to approximately HK\$6.3 million for the year ended 31 December 2016. The decrease was primarily due to the decrease in the receipts of forfeited trade payables and deposits by approximately HK\$5.9 million,

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which was partially offset by an increase in the product development income by approximately HK\$2.1 million.

Our other income increased by approximately HK\$3.8 million, representing an increase of approximately 220.6%, from approximately HK\$1.7 million for the six months ended 30 June 2016 to approximately HK\$5.5 million for the six months ended 30 June 2017. The increase was mainly attributable to the increase in product development income by approximately HK\$2.2 million and increase in the sale of parts materials by approximately HK\$2.1 million.

Product development income

Product development income mainly represented standalone income that we charged for development of hardware, including mould charges, for our customers. Our product development income increased by approximately HK\$2.1 million, representing an increase of approximately 547.8%, from approximately HK\$0.4 million for the year ended 31 December 2015 to approximately HK\$2.5 million for the year ended 31 December 2016. Due to its non-recurring nature, the increase in product development income was mainly attributable to the increase in such income generated from one of our other EMS customers in Korea in the year ended 31 December 2016.

Our product development income increased by approximately HK\$2.2 million, representing an increase of approximately 628.4%, from approximately HK\$0.3 million for the six months ended 30 June 2016 to approximately HK\$2.5 million for the six months ended 30 June 2017. The increase was mainly attributable to the increased income we charged for development of hardware for Customer H.

Government grant

Government grant mainly represented subsidies granted by the PRC government to Zioncom Shenzhen on the premium paid for export credit insurance and the employment insurance paid in support of stabilising employment. Our government grant increased by approximately HK\$0.4 million, representing an increase of approximately 47.4%, from approximately HK\$0.9 million for the year ended 31 December 2015 to approximately HK\$1.3 million for the year ended 31 December 2016. The increase was mainly attributable to the increase in subsidies granted on employment insurance paid in support of stabilising employment.

Our government grant amounted to nil for the six months ended 30 June 2016 and approximately HK\$9,000 for the six months ended 30 June 2017.

Forfeited of trade payables and deposits received

Forfeited deposits in the past mainly represented the deposits and cost of raw materials in the amount of approximately HK\$4.4 million received from one of our customers for an order placed by it in the year ended 31 December 2012 which was subsequently cancelled by such customer in late 2012 because, to the best knowledge of our Directors, the customer no longer needed the products. Before the order was cancelled, such customer had paid us deposits pursuant to the relevant purchase contract and we had already purchased raw materials specifically for the order. Such customer then asked us to withhold manufacturing the products due to absence of market demand at the relevant time. After negotiation, the customer paid for the cost of raw materials that we had purchased specifically for the order in 2012 and 2013 but did not contact us to resume manufacturing of the products since then even though it had been our intention to retain the relationship with the customer and complete the order until we consulted with and obtained legal advice from our PRC Legal Advisers. As advised by our PRC Legal Advisers, the customer is not entitled to claim for return of the deposits or the cost of materials paid to us

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as it failed to collect goods pursuant to the purchase contract due to its own fault. Therefore, we forfeited the deposits and the cost of raw materials when preparing our audited financial statements for the year ended 31 December 2015. The write-back of trade payables mainly represented the amount of trade payables of approximately HK\$0.5 million and HK\$0.7 million related to two suppliers that were cancelled which the Directors confirm was a result of quality issues in the materials supplied by such suppliers in the year ended 31 December 2008 and the year ended 31 December 2013, respectively. The trade payables were written back in 2015 because after negotiation with the two suppliers, one stopped requesting us for settlement of the trade payables incurred to the best knowledge of our Directors and the other agreed to offset our claim against it for compensation by cancelling the trade payables in 2015. Taking into consideration of the opinion from our PRC Legal Advisers and our efforts to negotiate with the relevant customer and suppliers, our Directors considered it reasonable to forfeit the deposits and write back the trade payables in 2015. It is our policy that our finance manager will review our trade payables at the end of each financial year and consider to write back trade payables that have aged over two years based on factors including the time of occurrence of underlying transaction, relationship with the relevant supplier and status of negotiation with such supplier, etc. We may obtain legal opinion from legal advisers in the relevant jurisdiction when necessary. Our finance manager will report to and seek approval in writing from our chief financial officer when he considers it necessary to write back the trade payables.

We had no forfeited deposits or trade payables that were written back in the year ended 31 December 2016 and the six months ended 30 June 2017.

Selling and distribution expenses

For the years ended 31 December 2015 and 2016 and for the six months ended 30 June 2016 and 2017, our selling and distribution expenses amounted to approximately HK\$12.0 million, HK\$8.5 million, HK\$3.9 million and HK\$5.9 million, respectively. The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Export, flight and transportation fees	3,536	2,915	1,631	2,424
Salary, allowance, staff welfare and benefits	2,025	2,077	945	1,336
Advertising, promotion, sales support and exhibition expenses	4,974	2,018	463	713
Others ⁽¹⁾	1,499	1,484	875	1,468
Total	<u>12,034</u>	<u>8,494</u>	<u>3,914</u>	<u>5,941</u>

Note:

(1) Others mainly represented travelling expenses, entertainment expenses and rebate offered to our distributors.

Our selling and distribution expenses decreased by approximately HK\$3.5 million, representing a decrease of approximately 29.4%, from approximately HK\$12.0 million for the year ended 31 December 2015 to approximately HK\$8.5 million for the year ended 31 December 2016. The decrease in our selling and distribution expenses was mainly attributable to the decrease in our advertising, promotion, sales support and exhibition expenses.

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Our selling and distribution expenses increased by approximately HK\$2.0 million, representing an increase of approximately 51.8%, from approximately HK\$3.9 million for the six months ended 30 June 2016 to approximately HK\$5.9 million for the six months ended 30 June 2017. The increase was mainly attributable to the increase in the export, flight and transportation fees by approximately HK\$0.8 million and the increase in salary, allowance, staff welfare and benefits by approximately HK\$0.4 million.

Below is the description and analysis of the major components in our selling and distribution expenses during the Track Record Period.

Export, flight and transportation fees

During the Track Record Period, our export, flight and transportation fees included transportation fee, custom declaration fee, inspection fee, motor vehicle expenses and export credit insurance expenses. Our export, flight and transportation fees decreased by approximately HK\$0.6 million, representing a decrease of approximately 17.6%, from approximately HK\$3.5 million for the year ended 31 December 2015 to approximately HK\$2.9 million for the year ended 31 December 2016. The decrease in our export, flight and transportation fees was generally in line with the decrease of our revenue during the Track Record Period.

Our export, flight and transportation fees increased by approximately HK\$0.8 million, representing an increase of approximately 48.6%, from approximately HK\$1.6 million for the six months ended 30 June 2016 to approximately HK\$2.4 million for the six months ended 30 June 2017. The increase was mainly attributable to (i) increase in shipping costs, which was generally in line with the increase in our revenue for the six months ended 30 June 2017; and (ii) increase in insurance premium paid for export credit insurance.

Salary, allowance, staff welfare and benefits

Our salary, allowance, staff welfare and benefits expenses mainly represented the salaries and welfare expenses, social insurance and housing provident fund contributions for our sales and marketing staff. For the years ended 31 December 2015 and 2016, our salary, allowance, staff welfare and benefits expenses remained relatively stable, and amounted to approximately HK\$2.0 million and HK\$2.1 million, respectively.

Our salary, allowance, staff welfare and benefits expenses increased by approximately HK\$0.4 million, representing an increase of approximately 41.4%, from approximately HK\$0.9 million for the six months ended 30 June 2016 to approximately HK\$1.3 million for the six months ended 30 June 2017. The increase was mainly because we newly hired certain staffs in sales and marketing department during the six months ended 30 June 2017.

Advertising, promotion, sales support and exhibition expenses

Advertising, promotion, sales support and exhibition expenses during the Track Record Period mainly represented (i) reimbursement to our distributors for the expenses on media advertising; (ii) incentive payments made to our distributors when target sales volume is reached as provided in the relevant distribution agreements; (iii) marketing support provided to some of the distributors for sale of our Branded Products which was negotiated on a case-by-case basis; and (iv) cost incurred during participating in products exhibition. Our advertising, promotion, sales support and exhibition expenses decreased by approximately HK\$3.0 million, representing a decrease of approximately 59.4%, from approximately HK\$5.0 million for the year ended 31 December 2015 to approximately HK\$2.0 million for the year ended 31 December 2016. The decrease was mainly because (i) we provided one-off

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advertisement subsidies of approximately HK\$1.0 million to our distributor in Egypt in the year ended 31 December 2015; and (ii) less marketing support was paid to our distributor in Taiwan as we have established our own subsidiary in Taiwan in September 2015 and this led to a lesser amount of expenses in the year ended 31 December 2016.

Our advertising, promotion, sales support and exhibition expenses remained relatively stable at approximately HK\$0.5 million for the six months ended 30 June 2016 and approximately HK\$0.7 million for the six months ended 30 June 2017.

Administrative expenses

Our administrative expenses amounted to approximately HK\$32.0 million, HK\$41.4 million, HK\$18.9 million and HK\$24.0 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively. The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Staff costs	13,664	15,335	6,409	9,895
Listing expenses	3,724	5,419	2,709	5,174
Depreciation	2,892	3,751	1,744	1,926
Net exchange loss	1,122	3,091	1,666	-
Other tax expenses	2,694	2,274	1,480	272
Rental and building management fees	1,390	1,868	928	957
Written-off of trade receivables	91	1,563	44	695
Legal and professional fees	1,167	988	274	671
Others ⁽¹⁾	5,241	7,105	3,623	4,399
Total	<u>31,985</u>	<u>41,394</u>	<u>18,877</u>	<u>23,989</u>

Note:

(1) Others mainly represented bank charges, office, telecommunication and utility expenses, entertainment expenses, certification fee, mould expenses and travelling expenses, etc.

Our administrative expenses increased by approximately HK\$9.4 million, representing an increase of approximately 29.4%, from approximately HK\$32.0 million for the year ended 31 December 2015 to approximately HK\$41.4 million for the year ended 31 December 2016. The increase was mainly attributable to (i) the increase in Listing expenses of approximately HK\$1.7 million; (ii) the increase in staff cost of approximately HK\$1.6 million; (iii) the increase in exchange losses of approximately HK\$2.0 million; and (iv) the increase in the trade receivables written off of approximately HK\$1.5 million.

Our administrative expenses increased by approximately HK\$5.1 million, representing an increase of approximately 27.1%, from approximately HK\$18.9 million for the six months ended 30 June 2016 to approximately HK\$24.0 million for the six months ended 30 June 2017. The increase was mainly attributable to the increase in the staff costs of approximately HK\$3.5 million and the increase in the Listing expenses of approximately HK\$2.5 million which was partially offset by the decrease in the net exchange loss of approximately HK\$1.7 million.

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Staff costs

Our staff costs in administrative expenses mainly represented Directors' emoluments, salaries, other benefits, bonuses, social insurance and housing provident fund contributions for our administrative and general staff. Our staff costs increased by approximately HK\$1.6 million, representing an increase of approximately 12.2%, from approximately HK\$13.7 million for the year ended 31 December 2015 to approximately HK\$15.3 million for the year ended 31 December 2016. The increase was mainly driven by the expansion of Zioncom Taiwan and Zioncom Vietnam.

Our staff costs increased by approximately HK\$3.5 million, representing an increase of approximately 54.4%, from approximately HK\$6.4 million for the six months ended 30 June 2016 to approximately HK\$9.9 million for the six months ended 30 June 2017. The increase was mainly attributable to the increase in Directors' fees and increased number of staff employed for both Vietnam and Taiwan subsidiaries.

Net exchange loss

The net exchange losses increased by approximately HK\$2.0 million, representing an increase of approximately 175.5%, from approximately HK\$1.1 million for the year ended 31 December 2015 to approximately HK\$3.1 million for the year ended 31 December 2016. The increase was mainly due to the fluctuation of RMB, US\$, NT\$ and VND during the year ended 31 December 2016.

Our net exchange losses amounted to approximately HK\$1.7 million for the six months ended 30 June 2016 which turned around to exchange gains for the six months ended 30 June 2017. For details, please refer to "— Other income" in this section.

Written-off of trade receivables

During the Track Record Period, our Group had written-off certain receivables because, among other things, (i) we did not purchase export credit insurance with respect to sale to one of our customers for its urgent order which subsequently defaulted its payment; and (ii) we claimed for export credit insurance for uncollectable receivables of five customers during the Track Record Period and the parts of residual balances that were not compensated by the insurance company and such balances were written off. For details, please see "— Factors affecting our results of operations and financial condition — Credit risk" in this section. The trade receivables written off by us increased by approximately HK\$1.5 million, representing an increase of approximately 16.2 times, from approximately HK\$0.1 million for the year ended 31 December 2015 to approximately HK\$1.6 million for the year ended 31 December 2016. The trade receivables written off by us increased by approximately HK\$0.7 million, representing an increase of approximately 14.8 times, from approximately HK\$44,000 for the six months ended 30 June 2016 to approximately HK\$0.7 million for the six months ended 30 June 2017. The underlying trade receivables relating to the amount written off by us amounted to approximately HK\$0.1 million, HK\$5.0 million and HK\$7.0 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017.

Legal and professional fees

Our legal and professional fees mainly comprise of accounting expenses, auditors' remuneration, consultancy fees and other professional expenses. Legal and professional fees remained relatively stable at approximately HK\$1.2 million and HK\$1.0 million for the years ended 31 December 2015 and 2016, respectively.

Our legal and professional fees increased by approximately HK\$0.4 million, representing an increase of approximately 144.9%, from approximately HK\$0.3 million for the six months ended 30 June

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2016 to approximately HK\$0.7 million for the six months ended 30 June 2017. The increase was mainly attributable to the stamp duty arising from one of our Reorganisation steps that involved our Hong Kong subsidiary.

Research and development expenses

Our research and development expenses represented staff costs relating to our research and development staff and other expenses arising from our research and development activities. Our research and development expenses increased by approximately HK\$2.3 million, representing an increase of approximately 14.4%, from approximately HK\$15.7 million for the year ended 31 December 2015 to approximately HK\$18.0 million for the year ended 31 December 2016. The increase was mainly attributable to increase in number of staff in our research and development centre in Xi'an.

Our research and development expenses increased by approximately HK\$1.4 million, representing an increase of approximately 17.1%, from approximately HK\$8.4 million for the six months ended 30 June 2016 to approximately HK\$9.8 million for the six months ended 30 June 2017. The increase was mainly attributable to the increase in salaries and allowance due to expansion of our research and development department.

Finance costs

Our finance costs mainly include interest expenses on bank borrowings and finance leases. The following table sets forth a breakdown of our finance costs for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Interest expenses on bank borrowings				
wholly repayable within five years . . .	1,474	1,316	800	512
Interest expenses on finance leases	200	242	166	150
	1,674	1,558	966	662

For the years ended 31 December 2015 and 2016, the finance costs remained relatively stable, amounted to approximately HK\$1.7 million and HK\$1.6 million respectively. Our finance costs decreased by approximately HK\$0.3 million, representing a decrease of approximately 31.5%, from approximately HK\$1.0 million for the six months ended 30 June 2016 to approximately HK\$0.7 million for the six months ended 30 June 2017. The decrease was mainly attributable to the decrease in our bank borrowings.

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Taxation

The below table sets forth a breakdown of our taxation for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 <i>(Unaudited)</i>	HK\$'000
Current taxation	6,728	2,946	1,394	1,949
Deferred taxation	(33)	(21)	(10)	(5)
	6,695	2,925	1,384	1,944

The Company was incorporated in the Cayman Islands and other members of our Group were incorporated in the BVI, Hong Kong, the PRC, Vietnam and Taiwan. Pursuant to the rules and regulations of the Cayman Islands and the BVI, we are not subject to any income tax in the Cayman Islands and the BVI.

Our Group is subject to corporate income tax in Hong Kong, the PRC and Taiwan.

Our operating subsidiary, Zioncom HK is subject to Hong Kong Profits Tax at a rate of 16.5% of the estimated assessable profit during the Track Record Period.

In 2015, our operating subsidiaries, Zioncom Shenzhen was accredited as a High and New Technology Enterprise and therefore was entitled to 15% preferential tax rate for PRC enterprise income tax for three years starting from year ended 31 December 2015, according to the New PRC Enterprise Income Tax Law. In 2016, we succeeded in applying for tax concession of approximately HK\$1.1 million for research and development cost on High and New Technology.

Our operating subsidiary, Zioncom Taiwan is subject to Taiwan Corporate Income Tax at a rate of 17% of the estimated assessable profit during the Track Record Period.

Our operating subsidiary, Zioncom Vietnam is subject to Vietnam Corporate Income Tax at a rate of 20% of the estimated assessable profit during the Track Record Period. No provision of Vietnam Profits Tax for Zioncom Vietnam has been made as it had no assessable profit during the Track Record Period.

We incurred tax expenses of approximately HK\$6.7 million and HK\$2.9 million for the years ended 31 December 2015 and 2016, respectively, representing effective tax rate (excluding the Listing expenses) of approximately 32.1% and 13.2% for each of the respective period. We incurred tax expenses of approximately HK\$1.4 million and HK\$1.9 million for the six months ended 30 June 2016 and 2017, respectively, representing effective tax rate (excluding Listing expenses) of approximately 18.7% and 22.0% for each of the respective period. Such increase was mainly because Zioncom HK incurred a tax loss of relatively insignificant effect for the six months ended 30 June 2017. For the year ended 31 December 2015, our Group has submitted a tax computation which overstated taxable profits of Zioncom Shenzhen to the tax authority of the PRC. As a result, our Group has over-paid tax expenses of approximately RMB1.8 million and thus the effective tax rate for the year ended 31 December 2015 was relatively high at approximately 32.1% for the year. The Directors confirm that the overstatement of taxable profits of Zioncom Shenzhen for the year ended 31 December 2015 did not involve any wilful intent to evade tax but was mainly attributable to (i) inconsistency of inventory records as a result of adoption of two separate systems for inventory management and financial reporting which recognised purchase of raw materials differently, resulting in understatement of cost of sales by approximately

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RMB18.1 million and hence overstatement of taxable profits; and (ii) foreign exchange difference on finance costs resulted from the application of different closing rates, resulting in understatement of finance costs by approximately RMB2.4 million and hence overstatement of taxable profits, which were mitigated by a minimal understatement of revenue resulting from sales cut-off errors by approximately RMB3.0 million and correspondingly an overstatement of relevant cost of sales by approximately RMB0.5 million due to the timing difference in recognising sales whereby certain invoices for goods that were delivered before 31 December 2015 were issued in 2016 for which the relevant amount of revenue was recognised in 2016, for which had adjustments been made to the management account to correct the errors for the year ended 31 December 2015, no enterprise income tax would have been paid by Zioncom Shenzhen. We have approached the relevant parties for assessing the practicability of claiming for tax refund with the tax authority. The estimated time and costs required would be around three months and approximately HK\$1.2 million. However, there is no assurance that we will be able to obtain the tax refund or we will be able to obtain the tax refund within three months while additional human resources need to be employed for communicating with and handling requests from the professional parties and tax authorities. If there is a delay in the process, we may incur additional costs. Considering that (i) the result of the claim for tax refund was uncertain; and (ii) the possible net cash refund for the year ended 31 December 2015 of approximately HK\$0.8 million is relatively immaterial, our Directors do not consider it to be beneficial for Zioncom Shenzhen to spend the time and efforts to apply for the tax refund.

We have enhanced our internal control for the reconciliation of warehouse inventory records and records for accounting purpose and tax compliance awareness of Zioncom Shenzhen's accounting and finance personnel after engaging our internal control consultant. Learning from the past experience, we have filed a tax computation with appropriate calculation of taxable profits of Zioncom Shenzhen for the year ended 31 December 2016, which was satisfactory to the tax authority of the PRC. Coupled with the effect of tax concession for research and development cost, the effective tax rate dropped to approximately 13.2% for the year ended 31 December 2016.

Our Directors have confirmed that all relevant taxes had been paid when due and there are no disputes or unresolved tax issues with the relevant tax authorities during the Track Record Period and up to the Latest Practicable Date.

Profit for the year/period

As a combined effect of the above, our profit for the year increased by approximately HK\$3.5 million, representing an increase of approximately 32.8%, from approximately HK\$10.4 million for the year ended 31 December 2015 to approximately HK\$13.9 million for the year ended 31 December 2016. Our profit for the six months ended 30 June 2016 and 2017 amounted to approximately HK\$3.3 million and HK\$1.7 million, respectively, representing a decrease of approximately HK\$1.6 million or by 48.6%.

LISTING EXPENSES

The Listing expenses in relation to the Share Offer, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately HK\$41.0 million (based on the mid-point of the indicative Offer price range of HK\$0.4 per Share and 198,000,000 Offer Shares). Among the estimated total Listing expenses, (i) approximately HK\$17.2 million is expected to be accounted for as a deduction from equity upon Listing; and (ii) approximately HK\$23.8 million is expected to be recognised as expenses in our consolidated statement of comprehensive income, of which approximately HK\$3.7 million, HK\$5.4 million, HK\$2.7 million and HK\$5.2 million had been recognised for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and

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2017, respectively and the remaining of approximately HK\$9.5 million is expected to be recognised for the years ending 31 December 2017 and 2018.

Our Directors would like to emphasise that the amount of the Listing expenses is a current estimate for reference only and the final amount to be recognised in the consolidated financial statements of our Group for the years ending 31 December 2017 and 2018 is subject to adjustment based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the years ending 31 December 2017 and 2018 is expected to be adversely affected by the estimated non-recurring Listing expenses mentioned above, and may or may not be comparable to the financial performance of our Group in the past.

LIQUIDITY AND CAPITAL RESOURCES

Our sources of liquidity and capital resources have been and are expected to continue to be cash from operating activities and other various forms of financing including bank borrowings. As at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, we had cash and bank balance of approximately HK\$20.9 million, HK\$11.9 million, HK\$6.6 million and HK\$25.0 million, respectively. Going forward, our Group expects to fund our working capital and other capital requirements with a combination of various sources, including but not limited to cash generated from our operations, bank borrowings, and the net proceeds from the Share Offer.

Cash flows

The following table sets out selected cash flow data from our Group's combined cash flows statements for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Net cash generated from / (used in) operating activities	20,054	21,203	(17,603)	7,330
Net cash (used in) / generated from investing activities	(34,634)	2,825	26,170	(10,016)
Net cash generated from / (used in) financing activities	2,255	(33,230)	(13,595)	(2,971)
Net decrease in cash and cash equivalents	(12,325)	(9,202)	(5,028)	(5,657)
Cash and cash equivalents at the beginning of the year/ period	33,652	20,863	20,863	11,870
Effect of foreign exchange rate changes	(464)	209	14	428
Cash and cash equivalents at the end of the year/ period	20,863	11,870	15,849	6,641

Net cash generated from / (used in) operating activities

Our cash inflow from operating activities principally derived from receipts from our products sold and processing services provided. Our cash outflow from operating activities primarily represented payments for the purchase of materials, components and staff costs.

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We had net cash generated from operating activities of approximately HK\$7.3 million for the six months ended 30 June 2017. Such amount was derived from our profit before taxation of approximately HK\$3.6 million, positively adjusted for (i) depreciation on property, plant and equipment by approximately HK\$5.0 million; and (ii) the increase in trade and bills payables by approximately HK\$6.4 million, which was partially offset by (i) the increase in trade and bills receivables by approximately HK\$4.2 million; and (ii) the increase in the amount due from a Director by approximately HK\$3.0 million.

We had net cash generated from operating activities of approximately HK\$21.2 million for the year ended 31 December 2016. Such amount was derived from our profit before taxation generated from our operations amounted to approximately HK\$16.8 million, positively adjusted for the increase in trade and bills payables by approximately HK\$39.7 million, partially offset by (i) the increase in prepayments, deposits and other receivables by approximately HK\$28.0 million mainly due to the increase of value added tax receivables and prepaid Listing expenses; and (ii) the increase in inventories by approximately HK\$16.4 million. The trade and bills payables and inventories has increased, mainly as a result of the earlier timing of the Chinese New Year in January in 2017 as compared to that in February in 2016. We normally would bring forward our production before the Chinese New Year and thus our trade and bills payables and inventories as at 31 December 2016 were higher as compared to those as at 31 December 2015.

We had net cash generated from operating activities of approximately HK\$20.0 million for the year ended 31 December 2015. Such amount was derived from our profit before taxation which amounted to approximately HK\$17.1 million, positively adjusted for the increase in trade and bills payables by approximately HK\$33.9 million, partially offset by (i) the increase in inventories by approximately HK\$16.8 million; and (ii) the increase in trade and bills receivables by approximately HK\$15.9 million. All increase of such balances were mainly due to the earlier timing of Chinese New Year in 2016 as compared to that in 2015, as a result of which a number of orders were placed by our customers close to the end of 2015 and production were brought forward as our normal practice.

Net cash (used in) / generated from investing activities

Our cash inflow from investing activities primarily included decrease in pledged bank deposits and bank interest income received, whereas our cash outflow from investing activities principally represented cash used in purchase of property, plant and equipment.

Our net cash used in investing activities amounted to approximately HK\$10.0 million for the six months ended 30 June 2017, which was primarily a combined result of the payment for acquisition of property, plant and equipment of approximately HK\$8.2 million and the decrease in pledged bank deposits by approximately HK\$2.0 million.

Our net cash generated from investing activities amounted to approximately HK\$2.8 million for the year ended 31 December 2016, which was primarily a combined result of the increase in pledged bank deposits of approximately HK\$36.4 million and the payment for acquisition of property, plant and equipment of approximately HK\$30.8 million mainly for our factory in Vietnam.

Our net cash used in investing activities amounted to approximately HK\$34.6 million for the year ended 31 December 2015, which was primarily a combined result of (i) the payment for acquisition of property, plant and equipment of approximately HK\$9.2 million mainly relating to the purchase of equipment for our production lines; (ii) the acquisition of prepaid lease payment of approximately HK\$5.0 million; and (iii) the decrease in pledged bank deposits of approximately HK\$22.3 million.

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Net cash generated from/(used in) financing activities

Our net cash generated from/(used in) financing activities during the Track Record Period mainly included the draw down and/or repayment of bank borrowings. During the Track Record Period, our cash flows used in financing activities mainly included repayment of bank borrowings.

Our net cash used in financing activities amounted to approximately HK\$3.0 million for the six months ended 30 June 2017, which was a combined result of (i) repayment of bank borrowings of approximately HK\$1.2 million, (ii) repayment of obligations under finance lease of approximately HK\$1.1 million; and (iii) the interest paid of approximately HK\$0.7 million.

Our net cash used in financing activities amounted to approximately HK\$33.2 million for the year ended 31 December 2016, which was primarily a combined result of (i) repayment of bank loans in the amount of approximately HK\$66.4 million; (ii) proceeds from bank borrowings of approximately HK\$25.8 million; and (iii) proceeds from issuance of new shares of approximately HK\$12.0 million.

Our net cash generated from financing activities amounted to approximately HK\$2.3 million for the year ended 31 December 2015, which was primarily a combined result of (i) proceeds from bank borrowings of approximately HK\$70.8 million; (ii) repayment of bank borrowings of approximately HK\$60.9 million; and (iii) repayment to shareholders of approximately HK\$3.8 million.

Net current assets

As at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, we had net current assets of approximately HK\$8.4 million, HK\$8.1 million, HK\$1.4 million and HK\$0.3 million, respectively. The following table sets forth the breakdown of our current assets and liabilities as at the dates indicated:

	<u>As at 31 December</u>		<u>As at 30 June</u>	<u>As at 31 October</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
				<i>(Unaudited)</i>
Current assets				
Inventories	93,476	103,438	104,926	119,613
Trade and bills receivables	66,191	60,112	64,421	74,904
Prepaid lease payments	115	114	227	225
Prepayments, deposits and other receivables	14,588	42,004	40,237	61,936
Amount due from a Director	-	-	3,000	-
Tax recoverable	-	3,271	4,393	3,672
Pledged bank deposits	56,799	16,966	19,236	30,835
Cash and bank balances	20,863	11,870	6,641	25,019
Sub-total	<u>252,032</u>	<u>237,775</u>	<u>243,081</u>	<u>316,204</u>
Current liabilities				
Trade and bills payables	148,240	180,282	190,294	215,858
Accruals, deposits received and other payables	21,203	22,232	23,921	45,930
Bank borrowings	69,819	24,479	23,889	51,655
Obligations under finance leases	2,398	1,230	2,238	2,267
Tax payables	2,021	1,467	1,385	154
Sub-total	<u>243,681</u>	<u>229,690</u>	<u>241,727</u>	<u>315,864</u>
Net current assets	<u>8,351</u>	<u>8,085</u>	<u>1,354</u>	<u>340</u>

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Our current assets increased by approximately HK\$73.1 million from approximately HK\$243.1 million as at 30 June 2017 to approximately HK\$316.2 million as at 31 October 2017. The increase was mainly attributable to the increase in inventories of approximately HK\$14.7 million, trade and bills receivables of approximately HK\$10.5 million, prepayments, deposits and other receivables of approximately HK\$21.7 million and cash and bank balances of approximately HK\$18.4 million.

Our current liabilities increased by approximately HK\$74.2 million from approximately HK\$241.7 million as at 30 June 2017 to approximately HK\$315.9 million as at 31 October 2017. The increase was mainly attributable to the increase in trade and bills payables of approximately HK\$25.6 million, bank borrowings of approximately HK\$27.8 million and accruals, deposits received and other payables of approximately HK\$22.0 million.

As a result, our net current assets decreased by approximately HK\$1.1 million from approximately HK\$1.4 million as at 30 June 2017 to approximately HK\$0.3 million as at 31 October 2017.

Our current assets increased by approximately HK\$5.3 million from approximately HK\$237.8 million as at 31 December 2016 to approximately HK\$243.1 million as at 30 June 2017. The increase was mainly attributable to (i) the increase in trade and bills receivables of approximately HK\$4.3 million; (ii) the increase in amount due from a Director of approximately HK\$3.0 million; and (iii) the increase in pledged bank deposits of approximately HK\$2.2 million, which was partially offset by the decrease in cash and bank balances of approximately HK\$5.3 million. The amount due from a Director of approximately HK\$3.0 million represented advances to Mr. BK Kim, which had been fully settled in September 2017.

Our current liabilities increased by approximately HK\$12.0 million from approximately HK\$229.7 million as at 31 December 2016 to approximately HK\$241.7 million as at 30 June 2017. The increase was mainly attributable to (i) the increase in trade and bills payables of approximately HK\$10.0 million; and (ii) the increase in accruals, deposits received and other payables of approximately HK\$1.7 million.

As a result, our net current assets decreased by approximately HK\$6.7 million from approximately HK\$8.1 million as at 31 December 2016 to approximately HK\$1.4 million as at 30 June 2017.

Our current assets decreased by approximately HK\$14.2 million from approximately HK\$252.0 million as at 31 December 2015 to approximately HK\$237.8 million as at 31 December 2016. The decrease was mainly attributable to the decrease in pledged bank deposits of approximately HK\$39.8 million, which was partially offset by the increase in prepayments, deposits and other receivables of approximately HK\$27.4 million.

Our current liabilities decreased by approximately HK\$14.0 million from approximately HK\$243.7 million as at 31 December 2015 to approximately HK\$229.7 million as at 31 December 2016. The decrease was mainly due to the decrease in bank borrowings of approximately HK\$45.3 million, which was partially offset by the increase in trade and bills payables of approximately HK\$32.1 million.

As a result, our net current assets remained relatively stable at approximately HK\$8.4 million as at 31 December 2015 and approximately HK\$8.1 million as at 31 December 2016.

For details regarding the major items affecting our net current assets during the Track Record Period, please refer to “— Description of certain items of combined statements of financial position” below.

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DESCRIPTION OF CERTAIN ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

The following is the management discussion and analysis on the principal items in our combined statements of financial position as at 31 December 2015, 31 December 2016 and 30 June 2017.

Property, plant and equipment

As at 31 December 2015, 31 December 2016 and 30 June 2017, our property, plant and equipment amounted to approximately HK\$85.6 million, HK\$103.3 million and HK\$120.2 million, respectively. The table below sets forth a breakdown of the net carrying amount of our property, plant and equipment as at the dates indicated:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
Land and building	52,000	48,910	78,336
Leasehold improvement	1,222	1,084	1,156
Furniture, fixtures and office equipment	5,591	4,604	4,304
Machineries and equipment	25,771	22,808	34,673
Motor vehicles	956	1,844	1,668
Construction in progress	46	24,069	47
Total	<u>85,586</u>	<u>103,319</u>	<u>120,184</u>

Our property, plant and equipment increased by approximately HK\$16.9 million from approximately HK\$103.3 million as at 31 December 2016 to approximately HK\$120.2 million as at 30 June 2017. The increase was mainly attributable to the increase in our land and buildings by approximately HK\$29.4 million and the increase in our machineries and equipment by approximately HK\$11.9 million purchased for our Shajing Production Facilities and Vietnam factory, which were partially offset by the decrease in construction in progress by approximately HK\$24.0 million which were transferred as land and buildings.

Our property, plant and equipment increased by approximately HK\$17.7 million from approximately HK\$85.6 million as at 31 December 2015 to approximately HK\$103.3 million as at 31 December 2016. The increase was primarily due to the increase in construction in progress by approximately HK\$24.0 million which was mainly due to the construction of our Vietnam factory, which was partially offset by the decrease in machinery and equipment by approximately HK\$3.0 million and a decrease in land and building by approximately HK\$3.1 million which was mainly due to the negative effect of exchange alignment.

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Available-for-sale financial assets

As at 31 December 2015, 31 December 2016 and 30 June 2017, we recorded available-for-sale financial assets of approximately HK\$4.4 million, HK\$6.3 million and HK\$6.5 million, respectively. The table below sets forth a breakdown of our available-for-sale financial assets as at the dates indicated:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
Bonds	3,791	5,761	5,868
Club membership	625	581	599
Total	<u>4,416</u>	<u>6,342</u>	<u>6,467</u>

The bonds classified as available-for-sale investments are stated at fair value. During the Track Record Period, the fair values of our investments in bonds are determined by reference to the quoted price from the financial institution. During the Track Record Period, we invested in HSBC Global Investment Funds — Global High Income Bond (the “Fund”) which was authorised by the SFC. 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 Fund was managed by HSBC Investment Funds (Luxembourg) S.A. and received a Morningstar Rating of four stars by Morningstar Asia Limited, an established rating agency as of 30 November 2017. Our Directors were of the view that our 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 31 December 2015, 2016 and 30 June 2017; and (iii) we recorded increase in the fair value of our investment in the Fund during the Track Record Period. Our Directors believe that any losses arising from such investments would not have any material adverse impact on our Group due to the insignificant amount involved. The club membership represented the indefinite useful life golf club membership. The club membership, classified as available-for-sale investments, is stated at fair value.

Our available-for-sale financial assets remained stable at approximately HK\$6.3 million as at 31 December 2016 and approximately HK\$6.5 million as at 30 June 2017. Our available-for-sale financial assets increased by approximately HK\$1.9 million from approximately HK\$4.4 million as at 31 December 2015 to approximately HK\$6.3 million as at 31 December 2016 which was mainly attributable to additional bonds purchased by our Group during the financial year ended 31 December 2016.

We have established a financial management policy, pursuant to which we would make investments when the management consider necessary to our operational needs. We generally only purchase investment products incidental to requirements from banks when we obtain loans. During the Track Record Period, we purchased investment products primarily with guaranteed investment return from the banks that we intended to borrow from which was required by them in order to facilitate the process of granting loans to us. We currently do not have any plan to purchase any new investment products. In the event that we are required to purchase financial products, it is our policy to take into consideration of factors including income stability within the following six months, credit risk or risk of default of the counterparty, availability of exit plan in case of drop of value of the financial products and the breakeven period. Our finance manager needs to prepare a financial analysis addressing the above factors, which needs to be reported to our chief financial officer for approval.

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Other financial assets

Our other financial assets amounted to approximately HK\$11.5 million, HK\$9.9 million and HK\$10.0 million as at 31 December 2015, 31 December 2016 and 30 June 2017. The table below sets forth the other financial assets of our Group as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	HK\$'000	HK\$'000	2017
Key management personnel life insurance policies	<u>11,509</u>	<u>9,854</u>	<u>9,968</u>

Our Group purchased certain life insurance policies (the “Policies”) for the then directors in year 2010 and year 2012. Under the Policies, Zioncom HK is the beneficiary and policy holder and the total insured sum is US\$4.5 million (equivalent to approximately HK\$34.9 million).

Our other financial assets remained relatively stable at approximately HK\$9.9 million as at 31 December 2016 and approximately HK\$10.0 million as at 30 June 2017.

Our other financial assets decreased by approximately HK\$1.6 million from approximately HK\$11.5 million as at 31 December 2015 to approximately HK\$9.9 million as at 31 December 2016 mainly because Mr. Lee left our Group and the respective insurance premium balance under the Policies for Mr. Lee was subsequently refunded after deducting the accumulated insurance charge and policy expenses charge for the year ended 31 December 2016.

For details, please refer to note 20 of the Accountants’ Report set forth in Appendix I to this prospectus.

Prepayments for acquisition of property, plant and equipment

As at 31 December 2015, 31 December 2016 and 30 June 2017, we recorded prepayments for acquisition of property, plant and equipment of approximately HK\$0.9 million, HK\$4.6 million and nil, respectively, which were classified as non-current assets.

Our prepayments for acquisition of property, plant and equipment mainly represented our prepayment for the land use right of Lot B in Vietnam. We did not incur any prepayments for acquisition of property, plant and equipment as at 30 June 2017 as we had fully settled the payment for land use right of Lot B.

Our prepayments for acquisition of property, plant and equipment increased by approximately HK\$3.7 million from approximately HK\$0.9 million as at 31 December 2015 to approximately HK\$4.6 million as at 31 December 2016 mainly because prepayments for land use right of Lot B were made pursuant to the relevant land use right lease agreement. Our Group has fully settled the payment of land use right of Lot B and obtained the land use right certificates for Lot B on 4 January 2017.

For details, please refer to note 21 of the Accountants’ Report set forth in Appendix I to this prospectus.

Inventories

Our inventories include raw materials, work in progress and finished goods. We had inventories of approximately HK\$93.5 million, HK\$103.4 million and HK\$104.9 million as at 31 December 2015, 31 December 2016 and 30 June 2017, respectively.

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The following table sets forth a summary of the balance of our inventories as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	HK\$'000	HK\$'000	2017
	HK\$'000	HK\$'000	HK\$'000
Raw materials	45,309	41,293	42,254
Work in progress	10,331	10,915	13,339
Finished goods	37,836	51,230	49,333
	<u>93,476</u>	<u>103,438</u>	<u>104,926</u>

The balance of our inventories remained relatively stable at approximately HK\$103.4 million as at 31 December 2016 and approximately HK\$104.9 million as at 30 June 2017.

The balance of our inventories increased by approximately HK\$9.9 million from approximately HK\$93.5 million as at 31 December 2015 to approximately HK\$103.4 million as at 31 December 2016, which was primarily attributable to the increase in the balance of finished goods by approximately HK\$13.4 million. The increase in the balances of work-in-progress and finished goods was mainly because (i) we had to keep a certain level of inventory of finished goods for our sales of Branded Products through our consignees due to our expansion of operation in Taiwan; and (ii) the earlier timing of the Chinese New Year in January in 2017 as compared to that in February in 2016. We normally would bring forward our production before the Chinese New Year and thus our inventories increased from 31 December 2015 to 31 December 2016.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended 31 December		Six months
	2015	2016	ended
			30 June 2017
Average inventory turnover days ⁽¹⁾	67.3	83.4	90.7

Note:

- (1) Average inventory turnover days are calculated by averaging the inventories balance as at the beginning and as at the end of a particular period, dividing such average by cost of sales during the period and multiplying the number of days in the period.

Our average inventories turnover days increased from approximately 83.4 days for the year ended 31 December 2016 to approximately 90.7 days for the six months ended 30 June 2017. The increase was mainly because of (i) the increased percentage of sales through distribution for the six months ended 30 June 2017; and (ii) postponed delivery of certain products to Customer H to July 2017 as requested by it.

Our average inventory turnover days increased from approximately 67.3 days for the year ended 31 December 2015 to approximately 83.4 days for the year ended 31 December 2016. Such increase in the average inventory turnover days was mainly due to (i) the relatively higher inventory balance as at 31 December 2016 as compared to that as at 31 December 2015; (ii) the decrease in cost of sales for the year end 31 December 2016; and (iii) an increase in the percentage of sales through distribution, for which we would usually prepare larger scale of inventories of Branded Products for sales to distributors.

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Set out below is the ageing analysis of our inventories balance as at dates indicated:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
0 to 30 days	54,987	76,315	59,915
31 to 90 days	23,202	20,693	25,396
91 to 180 days	8,692	3,352	13,417
181 to 365 days	5,047	1,890	4,826
Over 365 days	1,548	1,188	1,372
	<u>93,476</u>	<u>103,438</u>	<u>104,926</u>

We closely monitor our inventory level. Physical inventory count on inventories would be conducted at least twice a year. Our Group makes provision for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. Our management performs regular review on the carrying amounts of the inventories with reference to ageing analysis of inventories, projection of expected future saleability of goods and management judgement based on their experience. Our policy on obsolete or slow moving or damaged inventories is to write off such inventories when our management consider those inventories have no residual value. As at 31 December 2015, 31 December 2016 and 30 June 2017, our inventories that were aged over 365 days amounted to approximately HK\$1.5 million, HK\$1.2 million and HK\$1.4 million, accounting for only approximately 1.7%, 1.1% and 1.3% of our total inventories for the relevant period, respectively. Our Directors consider that due to the non-consumable nature of our products and materials, those relatively long-aged inventories would be saleable or useable. Moreover, as at the Latest Practicable Date, approximately 94.1% of our inventory balance as at 30 June 2017 were subsequently sold or utilised, among which, approximately HK\$48.7 million of finished goods and HK\$50.0 million of raw materials and work in progress have been subsequently sold and utilised. As such, no provision for our inventories was made during the Track Record Period.

Trade and bills receivables

We had trade and bills receivables of approximately HK\$66.2 million, HK\$60.1 million and HK\$64.4 million as at 31 December 2015, 31 December 2016 and 30 June 2017. The following table sets forth a summary of the balance of our trade and bills receivables as at the dates indicated:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Trade receivables	63,771	60,032	64,339
Bills receivables	2,420	80	82
	<u>66,191</u>	<u>60,112</u>	<u>64,421</u>

The trade and bills receivables increased by approximately HK\$4.3 million from approximately HK\$60.1 million as at 31 December 2016 to approximately HK\$64.4 million as at 30 June 2017. The increase was mainly attributable to the increase in the current trade receivables relating to one of our new

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customers, Customer G, which was partially offset by the decrease in the current trade receivables due to Customer H.

Our trade and bills receivables slightly decreased from approximately HK\$66.2 million as at 31 December 2015 to approximately HK\$60.1 million as at 31 December 2016, which was generally in line with the decrease in our revenue for the year ended 31 December 2015 to 2016.

The following table sets forth the average turnover days of our trade and bills receivables for the periods indicated:

	<u>Year ended 31 December</u>		<u>Six months ended</u>
	<u>2015</u>	<u>2016</u>	<u>30 June 2017</u>
Average trade receivables turnover days ⁽¹⁾	41.4	45.1	45.7

Note:

- (1) Average trade receivables turnover days are calculated by averaging the trade and bills receivables balance after impairment as at the beginning and as at the end of a particular period, dividing such average by revenue during the period and multiplying the number of days in the period.

The average trade receivables turnover days remained relatively stable at approximately 45.1 days for the year ended 31 December 2016 and approximately 45.7 days for the six months ended 30 June 2017.

The average trade receivables turnover days increased from approximately 41.4 days for the year ended 31 December 2015 to approximately 45.1 days for the year ended 31 December 2016, which was mainly attributable to (i) increase of revenue from Relevant Customer to which we generally granted a longer credit period; and (ii) the generally lower level of trade receivable as at 1 January 2015.

The following table sets forth the average turnover days of our trade and bills receivables excluding receivables from EFM to whom no credit period was granted (“**Adjusted Trade Receivables Turnover Days**”) for the periods indicated:

	<u>Year ended</u>		<u>Six months</u>
	<u>31 December</u>		<u>ended</u>
	<u>2015</u>	<u>2016</u>	<u>30 June 2017</u>
Adjusted Trade Receivables Turnover Days ⁽¹⁾	101.1	122.1	104.6

Note:

- (1) Adjusted Trade Receivable Turnover Days are calculated by averaging the trade and bills receivables balance (excluding receivables from EFM) after impairment as at the beginning and as at the end of a particular period, dividing such average by total revenue excluding the revenue from EFM during such period and multiplying the number of days in the period.

Our Adjusted Trade Receivables Turnover Days during the Track Record Period were within the average credit period of up to 180 days that we granted to our customers.

Our Adjusted Trade Receivables Turnover Days increased from approximately 101.1 days for the year ended 31 December 2015 to approximately 122.1 days for the year ended 31 December 2016, which was primarily due to (i) the decrease in our revenue excluding revenue from EFM by approximately HK\$30.8 million for the year ended 31 December 2016 compared with that for the year ended 31 December 2015; (ii) a lower opening balance of our trade and bills receivables as at 1 January 2015; and

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(iii) increased sales to the Relevant Customer, to which we granted a relatively long payment term of 180 days after issuing the invoice.

Our Adjusted Trade Receivables Turnover Days decreased from approximately 122.1 days for the year ended 31 December 2016 to approximately 104.6 days for the six months ended 30 June 2017, which was primarily due to (i) the decrease in the percentage of revenue contribution from EFM for the six months ended 30 June 2017 compared with that for the year ended 31 December 2016; and (ii) decreased sales to the Relevant Customer, to which we granted a relatively long payment term of 180 days after issuing the invoice.

The following table sets forth an ageing analysis of trade receivables of our Group, based on the invoice date, as at the dates indicated:

	As at 31 December				As at 30 June	
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Within 30 days	19,174	30.0	28,461	47.4	25,092	39.0
31 to 60 days	9,680	15.2	8,435	14.1	7,325	11.4
61 to 90 days	14,987	23.5	4,072	6.8	4,978	7.7
91 to 180 days	11,704	18.4	10,387	17.3	10,931	17.0
Over 180 days	8,226	12.9	8,677	14.4	16,013	24.9
	<u>63,771</u>	<u>100.0</u>	<u>60,032</u>	<u>100.0</u>	<u>64,339</u>	<u>100.0</u>

Our Group generally allows an average credit period of 30 to 180 days to our customers. We do not make impairment allowance for receivables that were not past due and were related to customers for whom there was no default.

The following table sets forth an ageing analysis of trade receivables of our Group based on the due date as at the dates indicated:

	As at 31 December				As at 30 June	
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Current	41,516	65.1	43,621	72.7	35,224	54.7
Within 30 days	4,595	7.2	4,516	7.5	13,570	21.1
31 to 60 days	9,570	15.0	3,195	5.3	561	0.9
61 to 90 days	2,786	4.4	2,408	4.0	4,926	7.7
91 to 180 days	2,425	3.8	5,520	9.2	6,339	9.8
Over 180 days	2,879	4.5	772	1.3	3,719	5.8
	<u>63,771</u>	<u>100.0</u>	<u>60,032</u>	<u>100.0</u>	<u>64,339</u>	<u>100.0</u>

Approximately 65.1%, 72.7% and 54.7% of the total trade receivable as at 31 December 2015, 31 December 2016 and 30 June 2017, respectively, were neither past due nor impaired. As at 31 December 2015, 31 December 2016 and 30 June 2017, our trade receivables of approximately HK\$22.3 million, HK\$16.4 million and HK\$29.1 million were past due but not impaired, representing approximately 34.9%, 27.3% and 45.3% of the total trade receivables as at the relevant date, of which approximately HK\$2.9 million, HK\$0.8 million and HK\$3.7 million were past due more than 180 days, representing approximately 4.5%, 1.3% and 5.8% of the total trade receivables as at the relevant date, respectively. As at 30 June 2017, our trade receivables that were past due over 90 days amounted to

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approximately HK\$10.0 million, representing an increase of approximately HK\$3.8 million compared with the amount as at 31 December 2016, which was mainly due to an increase in the trade receivables past due over 90 days relating to certain distributors and customers, including approximately HK\$4.0 million due from Customer D. These distributors and customers did not settle their purchase amount within the credit term we granted to them, for which we had claimed for export credit insurance and written off the residual amount that would not be covered by the export credit insurance. Our trade receivables balances were related to a number of independent customers for whom there was no history of default in payment. Moreover, we entered into certain short-term export credit insurances with the CECIC for our invoice value in order to reduce our credit risks regarding trade receivables. Pursuant to our internal policy in relation to the export credit insurance, generally, we would purchase such insurance for all export sales with credit terms. Yet, the export credit insurance does not fully recover the total uncollectable amounts, as such, it is one of the reasons that we have written off a small portion of certain uncollectable receivables during the Track Record Period. During the Track Record Period, approximately HK\$13.3 million of our claims made to CECIC were recognised and we have received approximately HK\$5.0 million of insurance payment. The amount that we had claimed with CECIC during the Track Record Period but not yet recovered as at the Latest Practicable Date were mainly related to claims that we made in 2017, which were all in the process of being approved by CECIC. For details of the export credit insurance policy and the credit risks therewith, please see “Business — Insurance” in this prospectus and “— Factors affecting our results of operations and financial condition — Credit risks” in this section. Even though we have purchased the export credit insurance for those receivables, we were closely monitoring those past due receivables and took an active role for collection. Based on past experience, our Directors considered no impairment was necessary as there had not been any significant change in credit quality of these balances, which were still considered fully recoverable. We did not hold any collateral over these balances.

As at the Latest Practicable Date, approximately HK\$49.1 million, representing approximately 81.7% of our trade and bills receivables as at 31 December 2016 had been settled or recovered. Out of those remaining balance of trade receivables as at 31 December 2016 that were not settled as at the Latest Practicable Date, we have claimed for export credit insurance for approximately HK\$5.8 million, representing approximately 52.7% of them and approximately 9.7% of the total trade and bills receivables as at 31 December 2016 which were related to a number of independent customers and distributors who did not settle the purchase amount within the credit period we granted to them. As at the Latest Practicable Date, CECIC was still in the process of approving the claims that we made, and such balances were not yet recovered. To the best of the knowledge of our Directors, there was no obstacle for CECIC to approve our claims. As at the Latest Practicable Date, by excluding the amount claimed for the export credit insurance that we expect will be recovered, approximately 90.4% of our trade and bills receivables as at 31 December 2016 had been subsequently settled or recovered. The remaining amount of approximately HK\$5.2 million, representing approximately 8.6% of the trade and bill receivables as at 31 December 2016 which have neither been settled nor any export credit insurance claim has been made for mainly represented balances due from one of our five largest customers during the Track Record Period, which our Group had years of relationship with and had a track record of settling their balances consistently. Therefore, our Directors considered it unnecessary to make any impairment for such balances.

As at the Latest Practicable Date, approximately HK\$43.6 million, representing approximately 67.7% of our trade and bills receivables as at 30 June 2017 had been subsequently settled or recovered. As at the Latest Practicable Date, by excluding the amount claimed for the export credit insurance that we expect will be recovered of approximately HK\$6.7 million, representing approximately 10.4% of the

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total trade and bills receivables as at 30 June 2017, approximately 75.6% of our trade receivables as at 30 June 2017 had been subsequently settled. Out of the remaining amount of approximately HK\$14.1 million, representing approximately 21.9% of the trade and bill receivables as at 30 June 2017, had neither been settled as at the Latest Practicable Date nor any export credit insurance was claimed for, approximately HK\$13.6 million, representing approximately 96.5% of such balances were past due for less than 30 days. Therefore, our Directors considered it unnecessary to make any impairment for such balances.

Prepayments, deposits and other receivables

We had prepayments, deposits and other receivables of approximately HK\$14.6 million, HK\$42.0 million and HK\$40.2 million as at each of 31 December 2015, 31 December 2016 and 30 June 2017. The below table sets forth a breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Deposits	2,809	3,370	6,885
Prepayments	3,595	11,429	12,095
Other receivables	2,662	4,343	747
Value-added tax receivables	5,522	22,862	20,510
	14,588	42,004	40,237

Our deposits, prepayments and other receivables mainly comprised of prepayments to suppliers for the purchase of materials, prepaid Listing expenses, trade deposits paid, rental and utility deposits paid. Our deposits, prepayments and other receivables increased by approximately HK\$10.0 million from approximately HK\$9.1 million as at 31 December 2015 to approximately HK\$19.1 million as at 31 December 2016, which was primarily due to (i) prepaid development fees relating to certain new products of approximately HK\$3.6 million; (ii) an increase in the other receivables of export credit insurance compensation relating to a distributor in Russia by approximately HK\$3.4 million of which the relevant amount was fully received in 2017; and (iii) prepaid Listing expenses. As at 30 June 2017, our deposits, prepayments and other receivables remained relatively stable at approximately HK\$19.7 million compared with that as at 31 December 2016 which was primarily a combined result of (i) an increase in prepaid Listing expenses; (ii) an increase in deposits paid to a number of suppliers for purchase of raw materials in June 2017; and (iii) decrease in other receivables due to settlement of export credit insurance compensation relating to a distributor in Russia. As at the Latest Practicable Date, approximately 97.1% and 70.3% of our other receivables as at 31 December 2016 and 30 June 2017 had been settled, respectively.

Our value-added tax receivables mainly comprised of value-added tax that we paid for materials that we purchased in the PRC for our overseas sales during the Track Record Period which was eligible for value-added tax refund and value-added taxes in relation to the land use right of Lot A Facilities and Lot B Facilities in Vietnam that were subject to refund. Our value-added tax receivables remained relatively stable at approximately HK\$22.9 million as at 31 December 2016 and approximately HK\$20.5 million as at 30 June 2017. Our value-added tax receivables increased by approximately HK\$17.4 million from approximately HK\$5.5 million as at 31 December 2015 to approximately HK\$22.9 million as at 31 December 2016, which was in line with the increase in our trade and bills payables to our suppliers of raw materials as at 31 December 2016. As at the Latest Practicable Date, the entire amount of our value-

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added tax receivables as at 31 December 2016 had been settled. As at the Latest Practicable Date, approximately 97.7% of our value-added tax receivables as at 30 June 2017 had been settled.

Trade and bills payables

Our trade and bills payables amounted to approximately HK\$148.2 million, HK\$180.3 million and HK\$190.3 million as at 31 December 2015, 31 December 2016 and 30 June 2017, respectively.

The following table sets forth a summary of the balance of our trade and bills payables as at the dates indicated:

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Trade payables	108,901	131,292	136,350
Bills payables	39,339	48,990	53,944
	148,240	180,282	190,294

Our trade and bills payables increased by approximately HK\$10.0 million from approximately HK\$180.3 million as at 31 December 2016 to approximately HK\$190.3 million as at 30 June 2017. The increase was mainly because, to the best of the knowledge of our Directors, our suppliers generally would ask for settlement of our purchase amount more actively close to the end of a calendar year compared with in the middle of a year.

Our trade and bills payables increased by approximately HK\$32.1 million from approximately HK\$148.2 million as at 31 December 2015 to approximately HK\$180.3 million as at 31 December 2016, which was mainly attributable to our purchase of a large amount of materials for a number of orders that our customers placed with us close to the end of the year ended 31 December 2016, which were not yet settled as at 31 December 2016.

The following table sets forth the average turnover days of our trade payables for the periods indicated:

	Year ended 31 December		Six months ended
	2015	2016	30 June 2017
Average trade payables turnover days ⁽¹⁾	108.1	139.1	161.3

Note:

- (1) Average trade payables turnover days are calculated by averaging the trade and bills payables balance as at the beginning and as at the end of a particular period, dividing such average by cost of sales during the period and multiplying the number of days in the period.

Average trade payables turnover days indicates the average time that we take to make cash payments to suppliers. The average trade payables turnover days increased from approximately 139.1 days for the year ended 31 December 2016 to approximately 161.3 days for the six months ended 30 June 2017. The increase was mainly because, to the best of the knowledge of our Directors, our suppliers generally would ask for settlement of our purchase amount more actively close to the end of a calendar year compared with in the beginning and middle of a year. The average trade payables turnover days

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increased from approximately 108.1 days for the year ended 31 December 2015 to approximately 139.1 days for the year ended 31 December 2016 which were mainly due to (i) the relatively high balance of trade payables as at 31 December 2016; (ii) the decrease in our cost of sales; and (iii) increased purchase from Supplier Group A which granted us relatively long payment term of up to 90 days after issuing monthly statements during the years ended 31 December 2015 and 2016.

The average credit period granted by our suppliers to us is up to 30 to 120 days. The following is an aging analysis of trade payables, presented based on the invoice date at the end of the reporting periods:

	As at 31 December				As at 30 June	
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Within 30 days	69,025	63.4	89,215	68.0	68,052	50.0
31 to 60 days	12,926	11.9	29,039	22.1	19,238	14.1
61 to 90 days	11,919	10.9	6,231	4.7	15,937	11.7
91 to 180 days	13,552	12.4	1,022	0.8	20,785	15.2
Over 180 days	1,479	1.4	5,785	4.4	12,338	9.0
	<u>108,901</u>	<u>100.0</u>	<u>131,292</u>	<u>100.0</u>	<u>136,350</u>	<u>100.0</u>

As at the Latest Practicable Date, approximately 99.9% and 93.8% of our trade and bills payables as at 31 December 2016 and 30 June 2017 had been settled, respectively. Our Directors confirm that our Group did not have any material default in trade and bills payables during the Track Record Period.

Accruals, deposits received and other payables

As at 31 December 2015, 31 December 2016 and 30 June 2017, our Group had accruals, deposits received and other payables of approximately HK\$21.2 million, HK\$22.2 million and HK\$23.9 million respectively. The below table sets forth a breakdown of our accruals, deposits received and other payables as at the dates indicated:

	As at 31 December		As at
	2015		30 June
	2016	2017	
	HK\$'000	HK\$'000	HK\$'000
Accruals	8,622	11,974	15,103
Deposits received	10,982	9,087	5,665
Other payables	1,599	1,171	3,153
	<u>21,203</u>	<u>22,232</u>	<u>23,921</u>

Our accruals mainly represented accrued salaries and allowance, directors' fee and bonus and construction payments. Our accruals increased by approximately HK\$3.1 million from approximately HK\$12.0 million as at 31 December 2016 to approximately HK\$15.1 million as at 30 June 2017 which was mainly attributable to the increase in accrued Listing expenses, which was partially offset by the decrease in the accrued salaries of Zioncom Shenzhen. Our accruals increased by approximately HK\$3.4 million from approximately HK\$8.6 million as at 31 December 2015 to approximately HK\$12.0 million as at 31 December 2016, which was mainly attributable to increase in accrued construction payment for the factory in Vietnam.

Our deposits received represented trade deposits received from our customers. Our deposits received decreased by approximately HK\$3.4 million from approximately HK\$9.1 million as at

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31 December 2016 to approximately HK\$5.7 million as at 30 June 2017, which was primarily due to the decrease in the deposits received from EFM. Our deposits received decreased by approximately HK\$1.9 million from approximately HK\$11.0 million as at 31 December 2015 to approximately HK\$9.1 million as at 31 December 2016, which was mainly due to a lower balance of deposits we received from EFM as at 31 December 2016 compared to 31 December 2015.

Our other payables increased by approximately HK\$2.0 million from approximately HK\$1.2 million as at 31 December 2016 to approximately HK\$3.2 million as at 30 June 2017, which was primarily due to the increase in other payables relating to purchase of machinery and equipment. Our other payables remained relatively stable at approximately HK\$1.6 million as at 31 December 2015 and approximately HK\$1.2 million as at 31 December 2016, which mainly represent value-added and other tax payable, accrued utilities payables and accrued staff benefits.

Our Directors confirmed that our Group did not have any material default in other payables during the Track Record Period.

MATERIAL RELATED PARTY TRANSACTIONS

Save as the related party transactions as set out in note 37 to the Accountants' Report set forth in Appendix I to this prospectus, our Directors confirm that there were no other material related party transactions during the Track Record Period.

Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period.

INDEBTEDNESS

During the Track Record Period, we have financed our operations mainly through cash flows from operations and bank borrowings. We obtained bank borrowings primarily for expanding our business and meeting working capital requirements.

As at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, our Group had outstanding indebtedness of approximately HK\$75.6 million, HK\$27.4 million, HK\$31.5 million and HK\$58.5 million respectively, which represented bank borrowings and obligations under finance leases.

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Bank borrowings

As at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, the aggregate amount of bank borrowings repayable is set out below:

	<u>As at 31 December</u>		<u>As at</u>	<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>	<u>31 October</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>	<u>2017</u>
			<u>HK\$'000</u>	<u>HK\$'000</u>
				<i>(Unaudited)</i>
Bank loans that are:				
- secured fixed rate borrowings	14,815	3,940	3,126	2,574
- secured floating rate borrowings	55,004	20,539	20,763	49,081
	<u>69,819</u>	<u>24,479</u>	<u>23,889</u>	<u>51,655</u>
which are repayable within the period of:				
- less than one year	69,214	22,183	22,440	50,780
- more than one year but within two years	605	1,711	1,449	875
- more than two years but within five years	-	585	-	-
	<u>69,819</u>	<u>24,479</u>	<u>23,889</u>	<u>51,655</u>

As at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, our bank borrowings represented secured term loan amounted to approximately HK\$69.8 million, HK\$24.5 million, HK\$23.9 million and HK\$51.7 million, respectively, which were denominated in Hong Kong dollars and RMB. The secured term loan was interest-bearing with a variable interest rate ranging from 1.42% to 2.83%, 1.74% to 4.00%, 2.26% to 4.00% and 2.26% to 4.00% per annum as at each of 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, respectively. We plan to settle the bank loans by utilising our internal resources, our operating cash inflow and part of our net proceeds from the Listing when they fall due. We intend to finance our capital expenditure and working capital requirement with cash generated from our operating activities and net proceeds from the Share Offer, and we may consider to continue to utilise the banking facilities if necessary in the future.

Our bank borrowings remained relatively stable at approximately HK\$24.5 million as at 31 December 2016 and approximately HK\$23.9 million as at 30 June 2017, and increased by approximately HK\$27.8 million to approximately HK\$51.7 million as at 31 October 2017. On 5 September 2017, one of our banks renewed a revolving loan of US\$2.8 million that expired in August 2017 for a term of one year. In October 2017, we obtained bank borrowings of US\$3.5 million for our operation in Vietnam for a term of one year. Our bank borrowings decreased by approximately HK\$45.3 million from approximately HK\$69.8 million as at 31 December 2015 to approximately HK\$24.5 million as at 31 December 2016. The decrease was mainly attributable to the repayment of our certain bank borrowings before the year ended 31 December 2016 upon maturity.

The banking facilities available to our Group as at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017 respectively were secured by:

- (i) personal guarantee provided by Mr. BK Kim which will be released upon Listing;
- (ii) corporate guarantee provided by Zioncom Shenzhen for the year ended 31 December 2015, which has been released during the year ended 31 December 2016;

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- (iii) pledged bank deposit with carrying amounts of approximately HK\$56.8 million, HK\$17.0 million, HK\$19.2 million and HK\$30.8 million as at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, respectively;
- (iv) pledge of our Group's investments in life insurance with carrying amounts of approximately HK\$11.5 million, HK\$9.9 million, HK\$10.0 million and HK\$10.0 million as at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, respectively;
- (v) pledge of the available-for-sale financial assets with carrying amounts of approximately HK\$3.8 million, HK\$5.8 million, HK\$5.9 million and HK\$5.9 million as at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, respectively;
- (vi) pledge of our Group's land and building in the PRC and Vietnam and machinery and equipments in Vietnam with carrying amounts of approximately HK\$52.0 million, HK\$48.9 million, HK\$50.4 million and HK\$96.2 million as at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, respectively; and
- (vii) corporate guarantee provided by our Company.

As at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, we had credit facilities of approximately HK\$145.5 million, HK\$90.2 million, HK\$93.0 million and HK\$145.1 million and approximately HK\$19.9 million, HK\$4.9 million, HK\$4.6 million and HK\$2.0 million of such credit limit were not drawn. Among which, the credit facilities with a bank require a cash deposit of no less than HK\$7.7 million, together with all interest accrued thereon, and the credit facilities with another bank require a charge over all monies standing to the credit of Zioncom HK's deposit. The credit facilities with another bank require a cash deposit of HK\$23.1 million and a pledge over our office located in Nanshan District, Shenzhen, the PRC.

Obligations under finance leases

As at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, our Group had outstanding obligations under finance leases of approximately HK\$5.8 million, HK\$2.9 million, HK\$7.6 million and HK\$6.8 million respectively in respect of two motor vehicles and machineries of our Group for corporate use. The below table sets forth the breakdown of our finance leases obligations as at the dates indicated:

	<u>As at 31 December</u>		<u>As at</u>	<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>	<u>31 October</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>	<u>2017</u>
			<u>HK\$'000</u>	<u>HK\$'000</u>
				<i>(Unaudited)</i>
Minimum lease payments under finance leases				
- within one year	2,676	1,378	2,509	2,507
- in the second to the fifth years, inclusive	3,664	1,819	5,682	4,847
	<u>6,340</u>	<u>3,197</u>	<u>8,191</u>	<u>7,354</u>
Less: Future finance charges	(572)	(278)	(615)	(514)
Present value of finance leases	<u>5,768</u>	<u>2,919</u>	<u>7,576</u>	<u>6,840</u>

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	<u>As at 31 December</u>		<u>As at</u>	<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>	<u>31 October</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>	<u>2017</u>
				<i>(Unaudited)</i>
Present value of minimum lease payments under finance leases				
- within one year	2,398	1,230	2,238	2,267
- in the second to the fifth years, inclusive	3,370	1,689	5,338	4,573
	<u>5,768</u>	<u>2,919</u>	<u>7,576</u>	<u>6,840</u>
Less: Amount due for settlement within one year	<u>(2,398)</u>	<u>(1,230)</u>	<u>(2,238)</u>	<u>(2,267)</u>
Amount due for settlement after one year	<u>3,370</u>	<u>1,689</u>	<u>5,338</u>	<u>4,573</u>

Our obligations under finance leases were denominated in Hong Kong Dollars and Vietnamese Dong, the effective interest rate of which as at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017, ranged from 3.00% to 4.25% per annum, 3.55% to 8.00% per annum, 4.25% to 8.77% per annum and 4.25% to 8.77% per annum, respectively.

As at 31 October 2017, we had outstanding obligations under finance leases of approximately HK\$6.8 million and the obligations under the finance leases are secured by the motor vehicles, machineries, personal guarantee given by Mr. BK Kim and the Lease Finance Facilities under SME Loan Guarantee Scheme by HKSAR.

All personal guarantees given by Mr. BK Kim will be released and replaced by corporate guarantees to be provided by our Company upon Listing.

Our obligations under finance leases decreased from approximately HK\$7.6 million as at 30 June 2017 to approximately HK\$6.8 million as at 31 October 2017 due to the repayment of such leases. Our obligations under finance leases increased by approximately HK\$4.7 million from approximately HK\$2.9 million as at 31 December 2016 to approximately HK\$7.6 million as at 30 June 2017, which was primarily because we entered into two new finance leases for machinery and equipment for our Vietnam factory. Our obligations under finance leases decreased by approximately HK\$2.9 million from approximately HK\$5.8 million as at 31 December 2015 to approximately HK\$2.9 million as at 31 December 2016 mainly driven by the repayment of finance lease in respect of certain machineries during the year ended 31 December 2016.

Our bank loans agreements contain standard terms, conditions and covenants that are customary for commercial bank loans in Hong Kong and the PRC. Such covenants primarily include requirements for us to obtain the lending bank's prior consent for certain transactions, such as disposal of material assets, merger or consolidation, and liquidation or winding-up. During the Track Record Period and up to the Latest Practicable Date, we did not breach any material covenants of our borrowings, and we did not have any material default and delay in any repayment of our borrowings, and did not experience any difficulties in obtaining bank borrowings. In addition, there were no material covenants which limited our ability to undertake additional debt or equity financing during the Track Record Period.

Our Directors are of the view that we will unlikely have difficulties in the drawdown of such banking facilities.

Statement of indebtedness

As at 31 October 2017, being the latest practicable date for the purpose of this indebtedness statement, we had a total indebtedness of approximately HK\$58.5 million, representing bank borrowings

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repayable of approximately HK\$51.7 million and outstanding obligations under finance leases of approximately HK\$6.8 million.

Save as aforesaid, our Group did not have any outstanding mortgages, charges, debentures, other loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, finance leases, hire purchase commitments, guarantees or other material contingent liabilities, issued or authorised but unissued debt securities, terms loans or any other borrowings as at the close of business on 31 October 2017 and up to the Latest Practicable Date.

Except as otherwise disclosed above in this section, none of our assets was charged during the Track Record Period and as at the Latest Practicable Date.

Our unutilised bank facilities as at 31 October 2017 was approximately HK\$2.0 million. We confirm that, other than as disclosed in this prospectus, there had not been any material change in our indebtedness, capital commitment and contingent liabilities from 31 October 2017 up to the Latest Practicable Date.

Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise. The Directors confirm that as at the date of this prospectus, we have not decided to raise any material external debt financing, save as the renewal upon expiry of the existing bank borrowings.

CAPITAL COMMITMENTS

The following table sets forth a breakdown of our capital commitments as at each of the following dates contracted but not provided for in the combined financial statements:

	<u>As at 31 December</u>		<u>As at</u> <u>30 June</u>	<u>As at</u> <u>31 October</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
				<i>(Unaudited)</i>
Acquisition of land use right	4,082	-	-	-
Acquisition of construction in progress	-	4,192	243	-
Acquisition of property, plant and equipment	-	-	58	6,582
	<u>4,082</u>	<u>4,192</u>	<u>301</u>	<u>6,582</u>

Our capital expenditure contracted for but not yet provided for in our combined financial information as at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017 amounted to approximately HK\$4.1 million, HK\$4.2 million, HK\$0.3 million and HK\$6.6 million, respectively. The capital commitments for acquisition of property, plant and equipment increased from approximately HK\$58,000 as at 30 June 2017 to approximately HK\$6.6 million as at 31 October 2017, represented the acquisition costs of machinery for the Lot A Facilities. The decrease in capital commitments for acquisition of construction in progress and the increase in acquisition of property, plant and equipment was mainly due to the completion of construction of our production facilities in Vietnam during the six months ended 30 June 2017. The capital commitments for acquisition of land use right decreased from approximately HK\$4.1 million as at 31 December 2015 to nil as at 31 December 2016 mainly attributable to the prepayment made for acquisition of land use right during the financial year ended 31 December 2016. The capital commitments for acquisition of construction in progress as at 31 December 2016 mainly represented the construction and development costs for the Lot A Facilities.

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CAPITAL EXPENDITURES

Historical capital expenditures

During the Track Record Period, our capital expenditures mainly comprised additions of property, plant and equipment of approximately HK\$52.9 million, HK\$30.9 million and HK\$17.8 million for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. We principally funded our capital expenditures with internal resources, bank borrowing and finance lease arrangements.

Planned capital expenditures

Save for (i) the planned capital expenditures as disclosed in “Future Plan and Use of Proceeds”, and “Business — Production — New production facilities in Vietnam” in this prospectus and “— Capital commitments” in this section; and (ii) additions of property, plant and equipment necessary for our business operations which will be made by our Group from time to time, our Group had no material planned capital expenditures as at the Latest Practicable Date.

For details, please refer to “Business — Production — New Production Facilities in Vietnam” and “Future Plan and Use of Proceeds — Business Strategies and Future Plans” in this prospectus.

PROPERTY INTERESTS

As at the Latest Practicable Date, we owned three properties in the PRC and leased 10 material properties in the PRC, Hong Kong, Vietnam and Taiwan. For detail, please see “Business — Properties” in this prospectus.

OPERATING LEASE ARRANGEMENTS

We leased certain business premises through non-cancellable operating leases. The below table sets forth the total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>As at 31 December</u>		<u>As at</u>	<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>	<u>31 October</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>	<u>2017</u>
			<u>HK\$'000</u>	<u>HK\$'000</u>
				<i>(Unaudited)</i>
Within one year	3,914	6,417	6,693	7,076
In the second to the fifth years, inclusive	887	20,843	19,374	19,814
Over five years	-	1,723	-	-
	<u>4,801</u>	<u>28,983</u>	<u>26,067</u>	<u>26,890</u>

Operating lease payments represented rentals payable by our Group for certain premises. Leases were negotiated at terms which ranged from one to six years. Our Group does not have an option to purchase the leased premises at the expiry of the lease period. Our obligation under the operating lease arrangements remained relatively stable at approximately HK\$26.1 million and HK\$26.9 million as at 30 June 2017 and 31 October 2017, respectively. Our obligations under the operating lease arrangements decreased by approximately HK\$2.9 million from approximately HK\$29.0 million as at 31 December 2016 to HK\$26.1 million as at 30 June 2017, which was mainly due to the settlement of operating lease payment. Our obligations under the operating lease increased by approximately HK\$24.2 million from approximately HK\$4.8 million as at 31 December 2015 to approximately HK\$29.0 million as at 31 December 2016. The increase was mainly attributable to our entering into a lease agreement in relation to the lease of part of our Shajing Production Facilities.

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OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

WORKING CAPITAL

Historically, we have met our working capital and other liquidity requirements principally from cash generated from our operations and bank borrowings. The existing financial resources available to our Group are as follows:

- cash and cash equivalents of approximately HK\$20.9 million, HK\$11.9 million, HK\$6.6 million and HK\$25.0 million as at 31 December 2015, 31 December 2016, 30 June 2017 and 31 October 2017;
- the undrawn banking facilities of approximately HK\$2.0 million as at 31 October 2017, being the latest practicable date for the preparation of the indebtedness statement in this prospectus; and
- the estimated net proceeds from the Share Offer of approximately HK\$38.2 million (assuming an Offer Price of HK\$0.40 per Offer Share, being the mid-point of proposed Offer Price range of HK\$0.28 to HK\$0.52 per Offer Share).

Taking into account the financial resources available to our Group, including the internally generated funds, available banking facilities as at the Latest Practicable Date and the estimated proceeds from the Share Offer, our Directors are of the opinion that our Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this prospectus.

As at the Latest Practicable Date, our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Save as the renewal upon expiry of the existing bank borrowings, we do not have any material external financing plans. Details of the funds necessary to meet our existing operations and to fund our future plan are set out in "Future Plan and Use of Proceeds" of this prospectus.

KEY FINANCIAL RATIOS

The following table sets out a summary of certain financial ratios for the periods or as of the dates indicated:

	As at 31 December		As at 30 June
	2015	2016	2017
Current ratio ⁽¹⁾	1.0	1.0	1.0
Quick ratio ⁽²⁾	0.7	0.6	0.6
Net debt-to-equity ratio ⁽³⁾	N/A	N/A	4.0%
Gearing ratio ⁽⁴⁾	68.8%	20.7%	22.7%
	Year ended 31 December		Six months
	2015	2016	ended 30 June
	2017		
Return on equity ⁽⁵⁾	9.5%	10.5%	N/A
Return on assets ⁽⁶⁾	2.9%	3.8%	N/A
Net profit margin ⁽⁷⁾	1.9%	2.7%	0.7%
Net profit margin before interest and tax ⁽⁸⁾	3.5%	3.6%	1.7%
Interest coverage ⁽⁹⁾	11.2	11.8	6.5

FINANCIAL INFORMATION

Notes:

- (1) Current ratio is calculated based on the total current assets for the respective year/period divided by total current liabilities as of the end of the respective year/period.
- (2) Quick ratio is calculated based on the current assets less inventories for the respective year/period divided by current liabilities as of the end of the respective year/period.
- (3) Net debt-to-equity ratio is calculated based on net debt (including bank borrowings and obligations under finance leases less pledged bank deposits and cash and bank balances) for the respective year/period divided by total equity as of the end of the respective year/period.
- (4) Gearing ratio is calculated based on total debt for the respective year/period divided by total equity as of the end of the respective year/period.
- (5) Return on equity is calculated by dividing net profit attributable to equity shareholders for the respective year by total equity attributable to equity shareholders as of the end of the respective year.
- (6) Return on assets is calculated by dividing net profit for the year attributable to equity shareholders for the respective year by total assets as of the end of the respective year.
- (7) Net profit margin is calculated as net profit for the year/period divided by revenue for the year/period multiplied by 100%.
- (8) Net profit margin before interest and tax is calculated as net profit before interest and tax for the year/period divided by revenue for the year/period multiplied by 100%.
- (9) Interest coverage ratio is calculated by dividing profit before interest expenses and tax by interest expenses for the year/period.

Current ratio

Our current ratio is derived by dividing our current assets by our current liabilities at the end of each financial period.

Our current ratio remained relatively stable at approximately 1.0 as at 31 December 2015, 31 December 2016 and 30 June 2017, respectively.

Quick ratio

Our quick ratio is our current asset less inventories divided by current liabilities at the end of each financial period.

There has been no material fluctuations in our quick ratio as at 31 December 2015, 31 December 2016 and 30 June 2017, respectively.

Net debt-to-equity ratio

Net debt-to-equity ratio is our net debt (including bank borrowings and obligations under finance leases less cash and bank balances and pledged bank deposits) for the respective period divided by total equity as of the end of the respective period.

Our Group had net cash position as at 31 December 2015 and 2016. Accordingly, debt-to-equity ratio was not applicable to our Group.

Our net debt-to-equity ratio was approximately 4.0% as at 30 June 2017, which was mainly attributable to the increase in finance lease due for settlement after one year, which primarily represented the finance lease we entered into for new machinery for our new factory in Vietnam.

FINANCIAL INFORMATION

Gearing ratio

Gearing ratio is calculated based on total debt for the respective period divided by total equity as of the end of the respective period.

Our gearing ratio was approximately 68.8% and 20.7% as at 31 December 2015 and 2016 respectively. The decrease of our gearing ratio from approximately 68.8% as at 31 December 2015 to approximately 20.7% as at 31 December 2016 was primarily due to the decrease in our bank borrowings by approximately HK\$45.3 million.

Our gearing ratio remained relatively stable at approximately 20.7% as at 31 December 2016 and approximately 22.7% as at 30 June 2017.

Return on equity

Our return on equity is our profit for the year as a percentage of our equity for each financial year.

Our return on equity was approximately 9.5% and 10.5% for each of the years ended 31 December 2015 and 2016 respectively. The increase from approximately 9.5% for the year ended 31 December 2015 to approximately 10.5% for the year ended 31 December 2016 was primarily due to the increase in our profit for the year by approximately HK\$3.5 million.

Return on assets

Our return on assets is derived by dividing our profit for the year by our total assets at the end of each financial year.

Our return on assets increased from approximately 2.9% for the year ended 31 December 2015 to approximately 3.8% for the year ended 31 December 2016, which was primarily due to the increase in our profit for the year by approximately HK\$3.5 million.

Net profit margin

Our net profit margin is calculated by dividing our profit for the period by revenue multiplied by 100%.

Our net profit margin increased from approximately 1.9% for the year ended 31 December 2015 to approximately 2.7% for the year ended 31 December 2016, which was primarily due to the increase in our profit for the year by approximately HK\$3.5 million and the decrease in our revenue by approximately HK\$25.5 million.

Our net profit margin decreased from approximately 2.7% for the year ended 31 December 2016 to approximately 0.7% for the six months ended 30 June 2017, which was mainly attributable to a lower net profit that we recorded for the six months ended 30 June 2017 as (i) we had a lower net profit before taxation for the six months ended 30 June 2017 compared with a full year ended 31 December 2016; (ii) we incurred Listing expenses of approximately HK\$5.2 million for the six months ended 30 June 2017; and (iii) our taxation for the six months ended 30 June 2017 amounted to approximately HK\$1.9 million, while our taxation for the full year ended 31 December 2016 was approximately HK\$2.9 million, which was mainly due to a tax benefit Zioncom Shenzhen obtained during the year ended 31 December 2016 in the amount of approximately HK\$1.1 million.

Net profit margin before interest and tax

Net profit margin before interest and tax is calculated as net profit before interest and tax for the period divided by revenue for the period multiplied by 100%.

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Our net profit margin before interest and tax remained relatively stable at approximately 3.5% and 3.6% for the years ended 31 December 2015 and 2016.

Our net profit margin before interest and tax decreased from approximately 3.6% for the year ended 31 December 2016 to approximately 1.7% for the six months ended 30 June 2017, which was mainly attributable to (i) the impact of Listing expenses as the amount we recorded for the six months ended 30 June 2017 was larger than the amount that we recorded for a full year ended 31 December 2016; and (ii) the fact that the increase in our operational expenses for the six months ended 30 June 2017 outweighed our increase in revenue for the same periods.

Interest coverage

Interest coverage is calculated by dividing profit before interest and tax by interest expenses for the period.

Our interest coverage remained relatively stable at approximately 11.2 times as at 31 December 2015 and approximately 11.8 times as at 31 December 2016. Our gearing ratio dropped sharply while our interest coverage remained relatively stable mainly because the interest rates for our bank borrowings were generally higher in the year ended 31 December 2016 as the loans we obtained in 2016 were mainly loans from banks in Hong Kong and the interest rates from those banks were generally higher than those charged by the banks in the PRC.

Our interest coverage decreased from approximately 11.8 times for the year ended 31 December 2016 to approximately 6.5 times for the six months ended 30 June 2017, which was mainly because we recorded a thinner profit before interest expenses and tax in the six months ended 30 June 2017 primarily due to the impact of Listing expenses.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

We are exposed to various types of financial risks in the normal course of our business, including market risk, credit risk, liquidity risk, and interest rate risk. Please refer to note 6 of the Accountants' Report set forth in Appendix I to this prospectus for details.

DIVIDENDS

Subject to the Companies Law, through a general meeting, we may declare dividends in any currency, but no dividend may be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realised or unrealised, or from any reserve set aside from profits which our Directors determine are no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law and our Articles of Association.

The Company currently does not have a dividend policy. Our Directors will declare dividends, if any, in Hong Kong dollars with respect to our Share on a per-Share basis and will pay such dividends in Hong Kong dollars. The amount of dividends actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China or elsewhere. PRC laws require that dividends be paid only out of net profit, calculated in accordance with PRC accounting principles, which differ in certain aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require

FINANCIAL INFORMATION

foreign-invested enterprises to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. Furthermore, distributions from our subsidiaries may be restricted if they incur debts or losses or as a result of any restrictive covenants in our bank credit facilities, or other agreements that we or our subsidiaries may enter into in the future.

During the Track Record Period, we had not declared any dividends.

We will re-evaluate our dividend policy annually. Our Board has the absolute discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

UNAUDITED PRO FORMA AND ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group is prepared in accordance with Rule 7.31 of the GEM Listing Rules and is set out below to illustrate the effect of the Share Offer on the combined net tangible assets of our Group attributable to owners of the Company as at 30 June 2017 as if the Share Offer had taken place on 30 June 2017.

The unaudited pro forma information of our Group is prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Share Offer been completed as at 30 June 2017 or at any future dates.

The unaudited pro forma financial information of our Group is prepared based on the combined net tangible assets attributable to owners of the Company as at 30 June 2017 as set out in the combined financial statements contained in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to owners of our Company as at 30 June 2017	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 30 June 2017	Unaudited pro forma adjusted combined net tangible assets of the Group per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i> <i>(Note 3)</i>	<i>HK cents</i> <i>(Note 4)</i>
Based on the Share Offer price of HK\$0.28 per Share	138,694	16,578	155,272	23.53
Based on the Share Offer price of HK\$0.52 per Share	138,694	59,822	198,516	30.08

Notes:

- (1) The audited combined net tangible assets of the Group attributable to owners of our Company as at 30 June 2017 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on the Share Offer Prices of HK\$0.28 or HK\$0.52 per Share respectively after deduction of the estimated underwriting commission and other related fees and expenses (excluding Listing expenses which have been accounted for prior to 30 June 2017) payable by the Company.
- (3) No adjustment has been made to the unaudited pro forma adjusted net tangible assets of our Group to reflect any trading results or other transaction of our Group entered into subsequent to 30 June 2017.

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- (4) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to the preceding paragraphs and on the basis that 660,000,000 Shares are in issue immediately upon the completion of the Share Offer.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, no circumstances would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules upon the Listing of the Shares on the Stock Exchange.

DISTRIBUTABLE RESERVE

Our Company was incorporated on 29 January 2016. As at 31 December 2015, 31 December 2016, 30 June 2017 and the Latest Practicable Date, our Company does not have reserve available for distribution respectively.

EVENTS AFTER THE BALANCE SHEET DATE

Please see “Summary — Recent developments and material adverse change” in this prospectus and “III. Events After The Reporting Period” to the Accountants’ Report set forth in Appendix I in this prospectus.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

For the recent developments and material adverse change of our business subsequent to the Track Record Period and up to the date of this prospectus, please see “Summary — Recent developments and material adverse change” in this prospectus.

FUTURE PLAN AND USE OF PROCEEDS

BUSINESS STRATEGIES AND FUTURE PLANS

Our business objective is to strengthen our position as a networking products manufacturer specialising in the design and development of wireless networking products by enhancing recognition of our own brand and increasing our profitability. We plan to achieve our business objective by (i) increasing our market penetration for our Branded Products in emerging markets in Asia and other markets with good potential; (ii) increasing our production capacity and lowering our production costs by manufacturing in our new production facilities in Vietnam and introducing automation system to our Shajing Production Facilities; and (iii) broadening our product offerings by enlarging our research and development capacity. For details of our business strategies and future plans, please see “Business — Business strategies and future plans” in this prospectus.

In January 2017, the construction of a new factory in Vietnam, i.e. Lot A Facilities, was completed and the trial production commenced in late October 2017. The total expected capital expenditure of the Lot A Facilities amounted to approximately HK\$42.6 million and the capital expenditure for Lot A Facilities has been paid and incurred as at the Latest Practicable Date. We plan to recruit around 200 local staff from Vietnam in addition to our managerial staff when mass production commence at Lot A Facilities around the end of 2017 or in the first quarter of 2018. The staff may be recruited in batches depending on the orders that we may receive and requirement from specific customers who may designate their orders to be manufactured in Vietnam.

IMPLEMENTATION PLAN

Our Group will utilise the net proceeds we receive from the Share Offer to implement part of the business strategies of our Group and the implementation plans are set out below for each of the six-month periods until 30 June 2020. Investors should note that the implementation plans and their scheduled times for attainment are formulated on the bases and assumptions referred to in “— Bases and assumptions” below. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, particularly the risk factors set out in “Risk Factors” in this prospectus. Our Group’s actual course of business may vary from the business objective set out in this prospectus. There can be no assurance that the plans of our Group will materialise in accordance with the expected time frame or that the objective of our Group will be accomplished at all. Based on our Group’s business objective, our Directors intend to carry out the following implementation plans:

From the Latest Practicable Date to 30 June 2018

<u>Business strategies</u>	<u>Use of proceeds</u>	<u>Implementation plan</u>
N/A	HK\$5.4 million	- to reduce our gearing ratio by repaying finance lease facilities
To increase the market penetration of our Branded Products in emerging markets in Asia and other markets with good potential	HK\$0.9 million	- to maintain the four salespersons hired for exploring emerging markets in Asia - to organise overseas promotion campaign and to place advertisements in both printed and online media

FUTURE PLAN AND USE OF PROCEEDS

<u>Business strategies</u>	<u>Use of proceeds</u>	<u>Implementation plan</u>
To enlarge our research and development capacity	HK\$1.0 million	<ul style="list-style-type: none"> - to maintain 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
To introduce automation system to our Shajing Production Facilities for lowering our production costs	HK\$16.8 million	<ul style="list-style-type: none"> - to acquire six solder pasting inspection machines, six automatic insertion machines, seven automatic testing machines and one manufacturing execution system

For the six months ending 31 December 2018

<u>Business strategies</u>	<u>Use of proceeds</u>	<u>Implementation plan</u>
To increase the market penetration of our Branded Products in emerging markets in Asia and other markets with good potential	HK\$0.9 million	<ul style="list-style-type: none"> - to maintain the four salespersons hired for exploring emerging markets in Asia - to organise overseas promotion campaign and to place advertisements in both printed and online media
To enlarge our research and development capacity	HK\$1.0 million	<ul style="list-style-type: none"> - to maintain 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
To introduce automation system to our Shajing Production Facilities in order to lower our production costs	HK\$8.5 million	<ul style="list-style-type: none"> - to acquire six more automatic insertion machines and three more automatic testing machines

For the six months ending 30 June 2019

<u>Business strategies</u>	<u>Use of proceeds</u>	<u>Implementation plan</u>
To increase the market penetration of our Branded Products in emerging markets in Asia and other markets with good potential	HK\$0.9 million	<ul style="list-style-type: none"> - to maintain the four salespersons hired for exploring emerging markets in Asia - to organise overseas promotion campaign and to place advertisements in both printed and online media

FUTURE PLAN AND USE OF PROCEEDS

<u>Business strategies</u>	<u>Use of proceeds</u>	<u>Implementation plan</u>
To enlarge our research and development capacity	HK\$1.0 million	<ul style="list-style-type: none"> - to maintain 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

For the six months ending 31 December 2019

<u>Business strategies</u>	<u>Use of proceeds</u>	<u>Implementation plan</u>
To increase the market penetration of our Branded Products in emerging markets in Asia and other markets with good potential	HK\$0.8 million	<ul style="list-style-type: none"> - to maintain the four salespersons hired for exploring emerging markets in Asia - to organise overseas promotion campaign and to place advertisements in both printed and online media
To enlarge our research and development capacity	HK\$1.0 million	<ul style="list-style-type: none"> - to maintain 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

For the six months ending 30 June 2020

<u>Business strategies</u>	<u>Use of proceeds</u>	<u>Implementation plan</u>
N/A	N/A	N/A

BASES AND ASSUMPTIONS

The business objectives set out by our Directors are based on the following bases and assumptions:

- the net proceeds from the Share Offer based on Offer Price of HK\$0.40 per Offer Share (being the mid-point of the indicative Offer Price range), are estimated to be HK\$38.2 million;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our Group's future plans relate;
- there will be no change in the funding requirement for each of our Group's future plans described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, social, economic or market conditions in the PRC, Vietnam, Taiwan, Korea and Hong Kong;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- the Share Offer will be completed in accordance with and as described in "Structure and Conditions of the Share Offer" in this prospectus;

FUTURE PLAN AND USE OF PROCEEDS

- our Group is able to maintain its customers;
- our Group will be able to retain key staff in the management and the main operational departments;
- our Group will be able to continue its operation in substantially the same manner as our Group has been operating during the Track Record Period and our Group will also be able to carry out its development plans without disruptions adversely affecting its operations or business objectives in any way;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- our Group will not be materially affected by the risk factors as set out in “Risk Factors” in this prospectus.

REASONS FOR THE SHARE OFFER

Our Directors consider that:

- (i) the proceeds from the Share Offer will provide us with necessary financial resources for us to carry out the implementation plans for realising our business strategies as disclosed in “Business — Business strategies and future plans” in this prospectus;
- (ii) we will be able to gain access to capital markets directly for future fund raising through the issuance of equity and debt securities, which could involve lower financing cost as opposed to obtaining interest-bearing bank loans as a private company. During the Track Record Period, we have been relying on internally generated funds and bank borrowings to cater for our working capital needs. Based on our unaudited management accounts as at 31 October 2017, we had pledged bank deposits and cash and bank balances of approximately HK\$30.8 million and HK\$25.0 million respectively and bank borrowings of approximately HK\$51.7 million, representing a net amount of HK\$4.1 million. In order to maintain our financial position with a lower gearing ratio, we intend to utilise our net proceeds from the Share Offer to repay certain finance lease facilities before they fall due after Listing;
- (iii) the listing status will strengthen our market position and competitiveness, enhance our reputation and corporate profile and raise our brand publicity. Our Directors believe that having a listing status can enhance our corporate profile and credibility with the public and potential business partners. According to the Frost & Sullivan Report, in 2016, competition in telecom and network equipment market is quite intense. Our Directors are of the view that a listing status helps to distinguish our Group from the vast number of networking products manufacturers and is a complimentary advertising for our Group to a larger pool of potential customers of larger scale. In addition, our Directors are of the view that the Listing will also increase our bargaining power in negotiating terms with potential business partners. As a listed entity, customers and suppliers will have public access to our Group’s corporate and financial information, and they will have more confidence in the quality of our products, our financial strength and credibility, transparency in operations and financial reporting, and our internal control systems;
- (iv) the listing status will enhance our corporate governance practices including internal control, risk management and audit practices;
- (v) the Share Offer will diversify the risk of ownership among a larger group of shareholders, which is important as we continue to expand our business; and

FUTURE PLAN AND USE OF PROCEEDS

- (vi) the listing status will improve our ability to recruit, motivate and retain key management personnel as well as to expediently and effectually capitalise on any of our business opportunities that may arise. In addition, our Directors are of the view that the Listing will enable us to offer an equity-based incentive programme (such as a share option scheme) to our employees that more directly correlates to their performance in our business. We would therefore be in a better position to motivate our employees with any incentive programmes that are closely aligned with the objective of creating value for our Shareholders; and enable our Company to offer an equity-based incentive programme (such as a share option scheme) to our employees that correlates more directly to their performance in our Group's business.

USE OF PROCEEDS

We estimate the net proceeds from the Share Offer which we will receive, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Share Offer, will be approximately HK\$38.2 million (based on the Offer Price of HK\$0.4 per Share, being the mid-point of the indicative Offer Price range). Our Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 30 June 2018	For the six months ending 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	For the six months ending 30 June 2020	Total
	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	0.9	0.9	0.9	0.8	-	3.5
2. To introduce automation system to our Shajing Production Facilities in order to lower our production costs	16.8	8.5	-	-	-	25.3
3. To enlarge our research and development capacity	1.0	1.0	1.0	1.0	-	4.0
4. To reduce our gearing ratio by repaying finance lease facilities	5.4	-	-	-	-	5.4
Total	24.1	10.4	1.9	1.8	-	38.2

We plan to apply HK\$5.4 million of our proceeds from the Share Offer for repayment of balances under two finance lease facilities for our SMT production lines. The two finance lease facilities both have a lease period of 60 months from December 2016 with rate of 1% per annum or of such other best lending rate as is determined and published by the bank from time to time or available upon request.

If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.52 per Share, the net proceeds we receive from the Share Offer is expected to increase by approximately HK\$21.6 million. We intend to apply the additional net proceeds for the above purposes on a pro rata

FUTURE PLAN AND USE OF PROCEEDS

basis. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.28 per Share, the net proceeds from the Share Offer is expected to decrease by approximately HK\$21.6 million. We intend to reduce the net proceeds for the above purposes on a pro rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

UNDERWRITING

JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

Lego Securities Limited
Ping An Securities Limited
Ruibang Securities Limited

PUBLIC OFFER UNDERWRITERS

Lego Securities Limited
CLC Securities Limited
Ping An Securities Limited
Ruibang Securities Limited

UNDERWRITING ARRANGEMENTS, COMMISSIONS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to initially offer 19,800,000 new Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the approval for the listing of, and permission to deal in, all the Shares in issue and any Shares to be issued as mentioned in this prospectus by the Listing Division and certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally, but not jointly nor jointly and severally, agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Public Offer Underwriters to subscribe, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. The Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) shall have the sole and absolute right to terminate the Public Offer Underwriting Agreement by notice in writing to our Company with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (A) there shall develop, occur, exist or come into effect:
- any change or prospective change (whether or not permanent) in the business, earnings, operations, financial position, trading position, or prospects of our Group, or any change in capital stock or long-term debt of our Company or any other member of our Group, which (in any such case) is not set forth or contemplated in this prospectus; or
 - any change or development involving a prospective change or development, or any event or series of events resulting or representing or may result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including,

UNDERWRITING

without limitation, conditions in stock and bond markets, money and foreign exchange markets, and interbank markets) in or affecting any of Korea, Taiwan, Vietnam, the Cayman Islands, BVI, Hong Kong, the PRC or any other jurisdictions where any member of our Group is incorporated (collectively, the “**Relevant Jurisdictions**”); or

- any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
- any new law or change (whether or not forming part of a series of changes) or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
- a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or
- any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or
- any event, act or omission which gives rise to or may give rise to any liability of any of our Company, our executive Directors and our Controlling Shareholders pursuant to the indemnity contained in the Public Offer Underwriting Agreement; or
- the imposition or declaration of (i) any suspension or restriction on dealings in shares or securities generally on the Main Board of the Stock Exchange, GEM, or any other major international stock exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- the imposition of economic, political or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, drought, flooding, severe snow or hail storms, explosion, earthquake, hurricanes, tornadoes, volcanic eruption, epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, radiation or chemical contaminations, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or
- any change or development or event involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” to this prospectus; or

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- any change in the system under which the value of RMB or HKD or is linked to that of the USD or a material devaluation of HKD against any foreign currency; or
- any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- save as disclosed in this prospectus, a contravention by any member of our Group of the GEM Listing Rules or applicable laws; or
- a prohibition of our Company for whatever reason from offering, allotting, issuing or selling any of the Shares pursuant to the terms of the Share Offer; or
- non-compliance of any statement or disclosure of this prospectus or Application Forms or any aspect of the Share Offer with the GEM Listing Rules or any other applicable law; or
- other than with the prior approval of the Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) (such approval not to be unreasonably withheld or delayed) the issue or requirement to issue by our Company of a supplementary prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the GEM Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- an order is made or a petition is presented for the winding-up or liquidation of any member of our Group or any material member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any material member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- any litigation or claim of any third party being instigated against any member of our Group; or
- a Director being charged with an indictable offence or prohibited by operation of law or is otherwise disqualified from being a director or taking part in the management of a company; or
- the chairman, the chief executive officer, the director of finance and administration, the director of sales and marketing, or the group financial controller of the Company vacating his or her office; or
- the commencement by any governmental, regulatory, political or judicial body or organisation of any action against a Director or any member of our Group or an announcement by any governmental, regulatory, political or judicial body or organisation that it intends to take any such action; or
- our Company withdraws any of this prospectus or the Application Forms (and/or any other documents used in connection with the contemplated subscription of the Public Offer Shares); or
- any person (other than any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus or the Application Forms

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and/or any other documents used in connection with the contemplated subscription of the Offer Shares, or to the issue of any such documents,

which, in the sole and absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters):

- (a) has or will or may have a material adverse effect on the business, financial, trading or other condition or prospects of any member of our Group or our Group taken as a whole and/or to any present or prospective shareholder in its capacity as such; or
 - (b) has or will or may have a material adverse effect on the success of the Public Offer, the Placing or the level of Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
 - (c) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer, the Placing and/or the Share Offer to be performed or implemented as envisaged or (ii) to proceed with or to market the Public Offer, the Placing and/or the Share Offer on the terms and in the manner contemplated in this prospectus; or
- (B) any of the Sole Sponsor or any of the Public Offer Underwriters shall become aware of the fact that, or have cause to believe that:
- any of the representations, warranties or undertakings given by our Company, our executive Directors and/or our Controlling Shareholders under the Public Offer Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or as repeated as determined by the Sole Sponsor and the Joint Lead Managers in their sole and absolute discretion or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable; or
 - any statement contained in this prospectus, the Application Forms, the formal notice or any announcements or documents issued by our Company in respect of the Public Offer, the Placing and/or the Share Offer was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if this prospectus, the Application Forms, the formal notice and any announcements or documents issued by our Company in respect of the Public Offer, the Placing and/or the Share Offer were to be issued at that time, constitute a material omission therefrom as determined by the Joint Lead Managers in their sole and absolute discretion; or
 - any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, at the Application Forms, formal notice and/or any announcements or documents issued by our Company in connection with the Public Offer, the Placing and/or the Share Offer (including any supplement or amendment thereto) are not fair and honest nor based on reasonable assumptions; or
 - there has been a breach on the part of any of our Company, our executive Directors and/or our Controlling Shareholders of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement in any material respect as determined by the Joint Lead Managers in their sole and absolute discretion.

UNDERWRITING

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to our Company, the Sole Sponsor and Joint Lead Managers (for themselves and on behalf of all the Public Offer Underwriters) that:

- (i) he/it will not, without the prior written consent of the Sole Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), directly or indirectly, and will procure that none of his/its close associates (as defined in the GEM Listing Rules) or companies controlled by him/it or any nominee or trustee holding in trust for him/it shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Shares (or any interest in any Shares or any voting or other right attaching to any Shares) in respect of which he/it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares or such securities at any time during the period commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and ending on the date which is twelve months from the date on which dealings in our Shares commence on the Stock Exchange (the “**First Twelve-Month Period**”), subject always to compliance with the provisions of the GEM Listing Rules, in the event of a disposal of any Shares or such securities or any interest therein at any time during the period of twelve months immediately after the expiry of the First Twelve-Month Period (the “**Second Twelve-Month Period**”), (a) in respect of our Controlling Shareholders, such disposal shall not result in any of our Controlling Shareholders ceasing to be the controlling shareholder (as defined in the GEM Listing Rules) of our Company at any time during the Second Twelve-Month Period; and (b) he/it shall take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein; and
- (ii) within the First Twelve-Month Period and the Second Twelve-Month Period he/it shall:
 - (a) if and when he/it pledges or charges, directly or indirectly, any Shares or other securities of our Company beneficially owned by him/it, immediately inform our Company, the Sole Sponsor and Joint Lead Managers in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
 - (b) if and when he/it receives indications, either verbal or written, from any pledgee or chargee that any Shares or other securities in our Company pledged or charged by him/it will be disposed of, immediately inform our Company, the Sole Sponsor and the Joint Lead Managers in writing of such indications.

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Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of all the Public Offer Underwriters) that it will not:

- (i) except pursuant to the Share Offer, the Capitalisation Issue, the options that may be granted under the Share Option Scheme, without the prior written consent of the Sole Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), and such other exceptions as set out in Rule 17.29 of the GEM Listing Rules and subject always to the provisions of the GEM Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of our affiliates (as such term is defined under the Public Offer Underwriting Agreement)), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the period commencing on the date by reference to which disclosure of shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the date on which dealings in our Shares commence on the Stock Exchange (the “**First Six-Month Period**”);
- (ii) at any time during the First Six-Month Period, issue, or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Share Offer, the Capitalisation Issue or to the options that may be granted under the Share Option Scheme;
- (iii) at any time during the First Twelve-Month Period do any of the acts set out in paragraphs (i) and (ii) above such that any of the Controlling Shareholders would be in breach of his/its undertakings as set out in paragraph (i) under “Underwriting — Underwriting arrangements, commissions and expenses — Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement — Undertakings by our Controlling Shareholders” in this prospectus;
- (iv) at any time within the Second Twelve-Month Period do any of the acts set out in paragraphs (i) and (ii) above such that any of our Controlling Shareholders, directly or indirectly, would cease to be a controlling shareholder of our Company (within the meaning defined in the GEM Listing Rules); and

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- (v) during a period of two years from the date of this prospectus, in the event that our Company does any of the acts set out in paragraphs (i) or (ii), take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Undertakings pursuant to the GEM Listing Rules

Undertakings by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that, save as permitted under the GEM Listing Rules, he/it shall not and shall procure that the relevant registered holder(s) shall not:

- (i) in the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner; or
- (ii) in the period of six months commencing on the date on which the period referred to in (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the GEM Listing Rules) or they would cease to be a group of controlling shareholders (as defined in the GEM Listing Rules) of our Company.

Each of our Controlling Shareholders has also undertaken to the Stock Exchange, our Company, the Sole Sponsor, the Joint Lead Managers and the Public Offer Underwriters that to comply with the following requirements:

- (i) in the event that he/it pledges or charges any his/its direct or indirect interest in the Shares in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the periods specified in Rule 13.16A of the GEM Listing Rules, he/it must inform our Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (ii) having pledged or charged any interest in Shares under (i) above, he/it must inform our Company immediately in the event that he/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

Our Company will inform the Stock Exchange as soon as we have been informed of such matters and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

Undertakings by our Company

Our Company has undertaken to the Stock Exchange that no further shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except for those permitted in accordance with Rule 17.29(1) to (5) of the GEM Listing Rules.

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Our Company, our Controlling Shareholders and the executive Directors have agreed to indemnify the Public Offer Underwriters from certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by our Company or our Controlling Shareholders or the executive Directors of the Public Offer Underwriting Agreement.

Placing

In connection with the Placing, it is expected that our Company and the covenantors to be named therein (namely our Controlling Shareholders and the executive Directors) will enter into the Placing Underwriting Agreement with the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to severally, but not jointly and not jointly and severally, agree to act as agents of our Company to procure subscribers for the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and our Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in “— Underwriting arrangements, commissions and expenses — Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement”.

Commission and expenses

The Public Offer Underwriters will, and the Placing Underwriters are expected to, receive an underwriting commission of 9.0% of the aggregate Offer Price of all Offer Shares underwritten by them, which are to be borne by our Company, out of which they will pay any sub-underwriting commission, praecipium and selling concession and will be reimbursed for their reasonable expenses.

For unsubscribed Public Offer Shares reallocated to the Placing, the underwriting commission will be paid to the Public Offer Underwriters.

The total commission and expenses relating to the Share Offer and Listing (including the GEM Listing fees, legal and other professional fees, and printing), are estimated to approximately HK\$41.0 million, assuming an Offer Price of HK\$0.4, being the mid-point of the indicative Offer Price range, which will be payable by our Company.

JOINT LEAD MANAGERS' AND UNDERWRITERS' INTERESTS IN OUR COMPANY

Save as provided for under the Underwriting Agreements and save as disclosed in this prospectus, none of the Joint Lead Managers and the Underwriters has any shareholding interests in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any share in any member of our Group nor any interest in the Share Offer.

SOLE SPONSOR'S INTERESTS AND INDEPENDENCE

Save as provided for under the Underwriting Agreements and save as disclosed in this prospectus, neither the Sole Sponsor nor any of its directors, employees and close associates is interested legally or

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beneficially in the shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Share Offer or has any other business relationship with our Group.

Neither the Sole Sponsor nor any of its directors, employees and close associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than by way of sponsorship, documentation and financial advisory fee to be paid to the Sole Sponsor for acting as the sole sponsor of the Share Offer, compliance advisory fee to be paid to the Sole Sponsor for acting as our Company's compliance advisor pursuant to Rule 6A.19 of the GEM Listing Rules, and the underwriting commission and/or other underwriting fees as stipulated in the Underwriting Agreements and the ancillary documents related thereto to be paid to the Sole Sponsor and/or its associates.

None of the directors and employees of the Sole Sponsor has any directorship in our Company or any other companies comprising our Group.

The Sole Sponsor satisfies the independence criteria applicable to the Sole Sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE STRUCTURE OF THE SHARE OFFER

Lego Securities, Ping An Securities and Ruibang Securities are the Joint Lead Managers to the Share Offer.

An aggregate of 19,800,000 Shares have been initially allocated to the Public Offer for subscription in Hong Kong at the Offer Price under the Public Offer (subject to re-allocation on the basis described in “— Re-allocation between the Placing and the Public Offer” below) outside the United States (including to professional institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S. An aggregate of 178,200,000 Shares are initially offered under the Placing for subscription, subject to re-allocation as mentioned below and under the GEM Listing Rules.

Investors are free to select to apply for the Public Offer Shares or the Placing Shares, but not both. Our Directors and the Joint Lead Managers will take all reasonable steps to identify any multiple applications under the Public Offer and the Placing which are not allowed and are bound to be rejected.

PRICING

The Offer Price is expected to be not more than HK\$0.52 per Offer Share and is expected to be not less than HK\$0.28 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable upon application for the Public Offer Shares

Investors of the Public Offer Shares will be required to pay the maximum indicative Offer Price of HK\$0.52 plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$5,252.40 for each board lot of 10,000 Shares. If the final Offer Price is less than the maximum indicative Offer Price, arrangements will be made to refund any excess amount to the investors, without interest.

Determining the Offer Price

The Placing Underwriters are soliciting from prospective investors the level of indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “bookbuilding”, is expected to continue up to, and to cease on or around the Price Determination Date. The Offer Price is expected to be fixed by agreement between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company, on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Thursday, 11 January 2018 or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree.

The Offer Price shall be fixed on the Price Determination Date by agreement among our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) in Hong Kong dollars after the market demand for the Offer Shares has been determined. The Offer Price range disclosed in this prospectus and the Application Forms is indicative only and the Joint Lead Managers (for themselves and on behalf of the Underwriters) may, based on the level of indications of interest expressed by prospective investors during the bookbuilding process and after consultation with our Company and with the written consent of our Company, reduce the indicative Offer Price range below that disclosed in this prospectus and the Application Forms at any time not later than the morning of the last day for lodging applications under the Public Offer. If the Offer Price range is reduced, the Sole Sponsor shall assist our Company in

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

arranging for, and our Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause there to be published in accordance with the GEM Listing Rules a notice of reduction of the Offer Price range or to be announced in such manner as permitted under the GEM Listing Rules and agreed between our Company, the Joint Lead Managers and the Sole Sponsor. Upon issue of these notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and us will be fixed within this revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in indicative Offer Price range may not be made until the last day for lodging applications under the Public Offer. Such notice shall also include confirmation or revision, as appropriate, of the working capital statement, offer statistics and any financial or other information in this prospectus which may change as a result of any such reduction. Applicants under the Public Offer should note that if an application for the Public Offer Shares before the last day for lodging applications under the Public Offer have been submitted, applicants will not be allowed to subsequently withdraw their application. However, if the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If, for any reason, our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price on or before the Price Determination Date, the Share Offer (including the Public Offer) will not become unconditional and will lapse immediately.

CONDITIONS OF THE SHARE OFFER

Acceptance of applications for the Offer Shares will be conditional upon:

- (i) the Listing Division granting the listing of, and permission to deal in, on the Stock Exchange, our Shares in issue, any Shares to be issued pursuant to the Capitalisation Issue and the Share Offer and any Shares which may fall to be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and
- (ii) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming unconditional (including, if relevant, as a result of a waiver of any condition(s) by the Joint Lead Managers (for themselves and on behalf of the Underwriters)) and not being terminated in accordance with the terms and conditions of the respective agreements,

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is the thirty day after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If any of the above conditions has not been fulfilled or waived prior to the time(s) and date(s) specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be caused to be published by our Company on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.zioncom.net the next day following such lapse. In such event, all application money will be refunded, without interest. The terms on which the

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

application money will be refunded are set forth under “Refund of your money” on the Application Forms. In the meantime, all application money received from the Public Offer will be held in a separate bank account (or separate bank accounts) with the receiving bank in Hong Kong.

We expect to issue share certificates for the Offer Shares on Wednesday, 17 January 2018. Share certificates for the Offer Shares will only become valid certificates of title at 8.00 a.m. on Thursday, 18 January 2018 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in “Underwriting — Underwriting arrangements, commissions and expenses — Public Offer — Grounds for termination” has not been exercised.

THE PUBLIC OFFER

Our Company is initially offering 19,800,000 Shares under the Public Offer, at the Offer Price, representing 10% of the total number of the Offer Shares being offered in the Share Offer, for subscription by way of a public offer in Hong Kong, subject to the re-allocation as mentioned below and under the GEM Listing Rules. The Public Offer is managed by the Joint Lead Managers and is fully underwritten by the Public Offer Underwriters. Applicants for the Public Offer Shares are required to pay on application the maximum indicative Offer Price of HK\$0.52 per Offer Share plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

The Public Offer is open to all members of the public in Hong Kong. An applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the Application Forms that he has not taken up and will not indicate an interest to take up any Placing Shares nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Public Offer is bound to be rejected. The Public Offer will be subject to the conditions stated under “— Conditions of the Share Offer” in this section.

If the Public Offer is not fully subscribed for, the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) have the authority to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as they deem appropriate to satisfy demand under the Placing. The total number of the Public Offer Shares to be allotted and issued may change as a result of the re-allocation as mentioned below.

When there is over-subscription, allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Multiple or suspected multiple applications under the Public Offer and any application for more than 9,900,000 Public Offer Shares initially available for subscription will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation

For allocation purposes only, the total number of Public Offer Shares available under the Public Offer (after taking into account any re-allocation referred to below) will be divided equally into two pools: pool A and pool B. Accordingly, the maximum number of Public Offer Shares initially in pool A and pool B will be 9,900,000 Public Offer Shares and 9,900,000 Public Offer Shares, respectively. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate price of more than HK\$5.0 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable). For the purpose of this paragraph only, the “price” for Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Public Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Public Offer and any application for more than 9,900,000 Public Offer Shares are liable to be rejected.

THE PLACING

Our Company is initially offering 178,200,000 Shares at the Offer Price, representing 90% of the total number of the Offer Shares being offered in the Share Offer, for subscription by way of the Placing, subject to re-allocation as mentioned below and under the GEM Listing Rules.

The Placing is fully underwritten by the Placing Underwriters on a several basis upon and subject to the terms and conditions of the Placing Underwriting Agreement.

Investors subscribing for the Placing Shares are also required to pay brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell the Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a broad Shareholder base for the benefit of our Company and the Shareholders as a whole.

In addition, our Company and the Joint Lead Managers will use their best endeavours to observe the minimum public float requirement under the GEM Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such Shares. The Placing is subject to the Public Offer being unconditional.

The total number of the Placing Shares to be allotted and issued may change as a result of re-allocation mentioned below and any re-allocation of the unsubscribed Public Offer Shares to the Placing as mentioned under “— The Public Offer”.

RE-ALLOCATION BETWEEN THE PLACING AND THE PUBLIC OFFER

The allocation of Offer Shares between the Public Offer and the Placing is subject to adjustment on the following basis:

- (i) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the initial number of the Public Offer Shares, then the number of Shares

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 59,400,000 Shares, representing 30% of the total number of the Offer Shares available under the Share Offer;

- (ii) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the initial number of the Public Offer Shares, then the number of Shares to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 79,200,000 Shares, representing 40% of total number of the Offer Shares available under the Share Offer; and
- (iii) if the number of Shares validly applied for under the Public Offer represents 100 times or more the initial number of the Public Offer Shares, then the number of Shares to be re-allocated to the Public Offer from Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 99,000,000 Shares, representing 50% of the total number of the Offer Shares available under the Share Offer.

In each case, the additional Offer Shares reallocated to the Public Offer will be allocated between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced, in such manner as the Joint Lead Managers (for themselves and on behalf of the Underwriters) deem appropriate. In addition, the Joint Lead Managers may, in their sole discretion, re-allocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer.

The Offer Shares to be offered in the Public Offer and the Placing may be re-allocated as between these offerings at the discretion of the Joint Lead Managers. If either the Public Offer or the Placing is not fully subscribed, the Joint Lead Managers have the authority to re-allocate any or all unsubscribed Offer Shares from such offering to the other in such proportions as the Joint Lead Managers deem appropriate.

Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Share Offer, which is expected to be published on Wednesday, 17 January 2018.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Thursday, 18 January 2018. Shares will be traded in board lots of 10,000 Shares and are fully transferable. The GEM stock code for the Shares is 8287.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Share Offer Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Lead Managers, and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you, or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Joint Lead Managers may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of shares in our Company and/or any of our subsidiaries;
- a director or chief executive officer of our Company and/or any of our subsidiaries;
- an associate (as defined in the GEM Listing Rules) of any of the above;
- a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Offer Shares or otherwise participated in the Share Offer.

3. APPLYING FOR PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form. For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into

HOW TO APPLY FOR PUBLIC OFFER SHARES

CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Form

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 28 December 2017 until 12:00 noon on Monday, 8 January 2018 from:

- (i) the following addresses of the Public Offer Underwriters:

Lego Securities Limited	Room 804, 8/F., Jubilee Centre 46 Gloucester Road Wanchai, Hong Kong
CLC Securities Limited	13/F., Nam Fung Tower 88 Connaught Road Central Central, Hong Kong
Ping An Securities Limited	Unit 02, 2/F China Merchants Building 152–155 Connaught Road Central Hong Kong
Ruibang Securities Limited	9/F Sang Woo Building 227–228 Gloucester Road Wanchai Hong Kong

- (ii) any of the following branches of Industrial and Commercial Bank of China (Asia) Limited:

<u>District</u>	<u>Branch name</u>	<u>Address</u>
Hong Kong Island	Caine Road Branch	G/F., Caine Building, 22 Caine Road, Hong Kong
	Siu Sai Wan Branch	Shop Nos 17-19, Ground Floor, Harmony Garden, No.9 Siu Sai Wan Road, Hong Kong
Kowloon	Jordan Branch	1/F, JD Mall, No. 233 Nathan Road, Jordan, Kowloon
	Lai Chi Kok Branch	Shop G06, G/F, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Lai Chi Kok, Kowloon
New Territories	Kwai Chung Branch	Unit G02, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 28 December 2017 until 12:00 noon on Monday, 8 January 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Limited - Zioncom Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Thursday, 28 December 2017	— 9:00 a.m. to 5:00 p.m.
Friday, 29 December 2017	— 9:00 a.m. to 5:00 p.m.
Saturday, 30 December 2017	— 9:00 a.m. to 1:00 p.m.
Tuesday, 2 January 2018	— 9:00 a.m. to 5:00 p.m.
Wednesday, 3 January 2018	— 9:00 a.m. to 5:00 p.m.
Thursday, 4 January 2018	— 9:00 a.m. to 5:00 p.m.
Friday, 5 January 2018	— 9:00 a.m. to 5:00 p.m.
Saturday, 6 January 2018	— 9:00 a.m. to 1:00 p.m.
Monday, 8 January 2018	— 9:00 a.m. to 12:00 noon

The application for the Public Offer Shares will commence on Thursday, 28 December 2017 up to Monday, 8 January 2018, being longer than normal market practice of four days.

The Application Lists will be open from 11:45 a.m. to 12:00 noon on Monday, 8 January 2018, the last application day or such later time as described in "— 9. Effect of bad weather on the opening of the Application Lists".

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By completing and submitting an Application Form among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Lead Managers (or their respective agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Share Offer nor participated in the Share Offer;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Forms;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (a) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, our Directors, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (a) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW**

HOW TO APPLY FOR PUBLIC OFFER SHARES

Application Form or by giving **electronic application instructions** to HKSCC; and (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Lead Managers and our Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Share Offer;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this

HOW TO APPLY FOR PUBLIC OFFER SHARES

prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving the **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage fee, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage fee, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000

HOW TO APPLY FOR PUBLIC OFFER SHARES

Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates ^(Note):

Thursday, 28 December 2017	—	9:00 a.m. to 8:30 p.m. ^(Note)
Friday, 29 December 2017	—	8:00 a.m. to 8:30 p.m. ^(Note)
Saturday, 30 December 2017	—	8:00 a.m. to 1:00 p.m. ^(Note)
Tuesday, 2 January 2018	—	8:00 a.m. to 8:30 p.m. ^(Note)
Wednesday, 3 January 2018	—	8:00 a.m. to 8:30 p.m. ^(Note)
Thursday, 4 January 2018	—	8:00 a.m. to 8:30 p.m. ^(Note)
Friday, 5 January 2018	—	8:00 a.m. to 8:30 p.m. ^(Note)
Monday, 8 January 2018	—	8:00 a.m. ^(Note) to 12:00 noon

Note:

These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 28 December 2017 until 12:00 noon on Monday, 8 January 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 8 January 2018, the last application day or such later time as described in “— 9. Effect of bad weather on the opening of the Application Lists”.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our Hong Kong Share Registrar, the receiving bank, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR PUBLIC OFFER SHARES

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 8 January 2018.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

You must pay the maximum Offer Price, brokerage fee, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 10,000 Public Offer Shares. Each application or **electronic application instructions** in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage fee will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure and Conditions of the Share Offer — Pricing” in the prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The Application Lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 8 January 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the Application Lists do not open and close on Monday, 8 January 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable” in this prospectus, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Wednesday, 17 January 2018 on our Company’s website at www.zioncom.net and the Stock Exchange’s website at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and dates and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.zioncom.net and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 17 January 2018;
- from the designated results of allocations website at www.iporeults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 17 January 2018 to 12:00 midnight on Tuesday, 23 January 2018;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 17 January 2018 to Saturday, 20 January 2018;

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- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 17 January 2018 to Friday, 19 January 2018 at all the receiving bank's designated branches listed above in “— 3. Applying for Public Offer Shares”.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in “Structure and Conditions of the Share Offer” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Lead Managers and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Division does not grant permission to list our Shares either:

- within three weeks from the closing date of the Application Lists; or

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- within a longer period of up to six weeks if the Listing Division notifies our Company of that longer period within three weeks of the closing date of the Application Lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 9,900,000 Public Offer Shares initially offered under the Public Offer.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.52 per Offer Share (excluding brokerage fee, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 17 January 2018.

13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in

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the event that the Offer Price is less than the maximum Offer Price (including brokerage fee, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, 17 January 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 18 January 2018 provided that the Share Offer has become unconditional and the right of termination described in "Underwriting" has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 17 January 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched on or before Wednesday, 17 January 2018 to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 17 January 2018, by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 17 January 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into

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CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 17 January 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you apply as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "— 10. Publication of results" above.

You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 17 January 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System.

(iii) If you apply via electronic application instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 17 January 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "— 10. Publication of results" above on Wednesday, 17 January 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 17 January 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to

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you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 17 January 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage fee, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 17 January 2018.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZIONCOM HOLDINGS LIMITED AND LEGO CORPORATE FINANCE LIMITED

Introduction

We report on the historical financial information of Zioncom Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages I-4 to I-58, which comprises the combined statements of financial position as at 31 December 2015 and 2016 and 30 June 2017, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-58 forms an integral part of this report, which had been prepared for inclusion in the prospectus of the Company dated 28 December 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our

work also included evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2016 and 30 June 2017 and the Group's financial position as at 31 December 2015 and 2016 and 30 June 2017 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the six months ended 30 June 2016 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE GEM OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 15 to the Historical Financial Information which states that no dividends have been paid or declared by the Company in respect of the Track Record Period.

No Historical Financial Information for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Wong Sze Wai, Basilia
Practising Certificate Number: P05806
Hong Kong, 28 December 2017

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the audited consolidated financial statements of Zioncom (Hong Kong) Technology Limited and its subsidiaries for the years ended 31 December 2015 and 2016 and management accounts for the period ended 30 June 2017 and management accounts of the Company and Zioncom BVI Limited from its date of incorporation to 31 December 2016 and for the period ended 30 June 2017 (the "Underlying Financial Statements"). The Underlying Financial Statements were audited us in accordance with Hong Kong Standards of Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Combined Statements of Profit or Loss and Other Comprehensive Income

		Year ended 31 December	Year ended 31 December	Six months ended 30 June	Six months ended 30 June
		2015	2016	2016	2017
	Notes	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Revenue	7	537,703	512,192	231,121	246,422
Cost of sales		(469,539)	(432,250)	(196,019)	(207,902)
Gross profit		68,164	79,942	35,102	38,520
Other income	9	10,416	6,309	1,721	5,518
Selling and distribution expenses		(12,034)	(8,494)	(3,914)	(5,941)
Administrative expenses		(31,985)	(41,394)	(18,877)	(23,989)
Research and development expenses		(15,746)	(18,012)	(8,374)	(9,803)
Profit from operations		18,815	18,351	5,658	4,305
Finance costs	10	(1,674)	(1,558)	(966)	(662)
Profit before taxation	12	17,141	16,793	4,692	3,643
Taxation	11	(6,695)	(2,925)	(1,384)	(1,944)
Profit for the year/period		10,446	13,868	3,308	1,699
Other comprehensive income/(loss)					
<i>Item that will not reclassified to profit or loss:</i>					
Surplus on revaluation of properties		16,087	3,229	1,346	1,300
Deferred tax liabilities arising from revaluation of properties		(2,332)	(300)	(135)	(282)
		13,755	2,929	1,211	1,018
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange difference on translating of foreign operation		(2,955)	(6,219)	(1,944)	3,458
(Loss)/gain arising from changes in fair value of available-for-sale financial assets		(206)	32	109	108
		(3,161)	(6,187)	(1,835)	3,566
Other comprehensive income/ (loss) for the year/period		10,594	(3,258)	(624)	4,584
Total comprehensive income for the year/ period		21,040	10,610	2,684	6,283
Profit for the year/period attributable to the owners of the company		10,446	13,868	3,308	1,699
Total comprehensive income attributable to owners of the Company		21,040	10,610	2,684	6,283
Earnings per share attributable to the owners of the company					
Basic and diluted (<i>HK cents</i>)	16	2.26	3.00	0.72	0.37

The accompanying notes form an integral part of the Historical Financial Information.

Combined Statements of Financial Position

		As at 31 December 2015	As at 31 December 2016	As at 30 June 2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	17	85,586	103,319	120,184
Prepaid lease payments	18	4,764	4,586	8,973
Available-for-sale financial assets	19	4,416	6,342	6,467
Other financial assets	20	11,509	9,854	9,968
Prepayments for acquisition of property, plant and equipment	21	902	4,551	-
		<u>107,177</u>	<u>128,652</u>	<u>145,592</u>
Current assets				
Inventories	22	93,476	103,438	104,926
Trade and bills receivables	23	66,191	60,112	64,421
Prepaid lease payments	18	115	114	227
Prepayments, deposits and other receivables	24	14,588	42,004	40,237
Amount due from a director	25	-	-	3,000
Tax recoverable		-	3,271	4,393
Pledged bank deposits	26	56,799	16,966	19,236
Cash and bank balances	26	20,863	11,870	6,641
		<u>252,032</u>	<u>237,775</u>	<u>243,081</u>
Current liabilities				
Trade and bills payables	27	148,240	180,282	190,294
Accruals, deposits received and other payables	28	21,203	22,232	23,921
Bank borrowings	29	69,819	24,479	23,889
Obligations under finance leases	30	2,398	1,230	2,238
Tax payables		2,021	1,467	1,385
		<u>243,681</u>	<u>229,690</u>	<u>241,727</u>
Net current assets		<u>8,351</u>	<u>8,085</u>	<u>1,354</u>
Total assets less current liabilities		<u>115,528</u>	<u>136,737</u>	<u>146,946</u>
Non-current liabilities				
Obligations under finance leases	30	3,370	1,689	5,338
Deferred tax liabilities	31	2,358	2,637	2,914
		<u>5,728</u>	<u>4,326</u>	<u>8,252</u>
Net assets		<u>109,800</u>	<u>132,411</u>	<u>138,694</u>
Capital and reserves				
Share capital	32	20,000	32,001	9
Reserves	33	89,800	100,410	138,685
Total equity attributable to owners of the Company		<u>109,800</u>	<u>132,411</u>	<u>138,694</u>

The accompanying notes form an integral part of the Historical Financial Information.

Statement of Financial Position of the Company

	As at <u>31 December</u> <u>2016</u>	As at <u>30 June</u> <u>2017</u>
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current asset		
Investment in subsidiary	1	9
Current assets		
Deposits and prepayments	1,382	3,937
Cash and bank balances	1	1
	<u>1,383</u>	<u>3,938</u>
Current liabilities		
Accruals	1,170	5,268
Amount due to a subsidiary	5,631	9,261
Amount due to a shareholder	1	1
	<u>6,802</u>	<u>14,530</u>
Net current liabilities	<u>(5,419)</u>	<u>(10,592)</u>
Net liabilities	<u>(5,418)</u>	<u>(10,583)</u>
Capital and reserves		
Share capital	32 1	9
Reserves	33 (5,419)	(10,592)
Total Equity	<u>(5,418)</u>	<u>(10,583)</u>

The accompanying notes form an integrated part of the Historical Financial Information.

Combined Statement of Changes in Equity

	Share capital	Other reserve	Surplus reserve	Exchange reserve	Revaluation surplus reserve	Available-for-sale financial assets reserve	Retained earnings	Total
	HK\$'000	HK\$'000 Note(a)	HK\$'000 Note(b)	HK\$'000 Note(c)	HK\$'000 Note(d)	HK\$'000 Note(e)	HK\$'000	HK\$'000
At 1 January 2015	20,000	-	2,279	8,462	-	120	57,899	88,760
Profit for the year	-	-	-	-	-	-	10,446	10,446
Other comprehensive income for the year	-	-	-	(2,955)	13,755	(206)	-	10,594
Profit and total comprehensive income for the year	-	-	-	(2,955)	13,755	(206)	10,446	21,040
At 31 December 2015 and 1 January 2016	20,000	-	2,279	5,507	13,755	(86)	68,345	109,800
Profit for the year	-	-	-	-	-	-	13,868	13,868
Other comprehensive loss for the year	-	-	-	(6,219)	2,929	32	-	(3,258)
Profit and total comprehensive income for the year	-	-	-	(6,219)	2,929	32	13,868	10,610
Allotment of new shares	12,001	-	-	-	-	-	-	12,001
At 31 December 2016 and 1 January 2017	32,001	-	2,279	(712)	16,684	(54)	82,213	132,411
Profit for the period	-	-	-	-	-	-	1,699	1,699
Other comprehensive income for the period	-	-	-	3,458	1,018	108	-	4,584
Profit and total comprehensive income for the period	-	-	-	3,458	1,018	108	1,699	6,283
Effect of reorganisation	(31,992)	31,992	-	-	-	-	-	-
At 30 June 2017	9	31,992	2,279	2,746	17,702	54	83,912	138,694
At 1 January 2016 (Audited)	20,000	-	2,279	5,507	13,755	(86)	68,345	109,800
Profit for the period	-	-	-	-	-	-	3,308	3,308
Other comprehensive (loss)/ income for the period	-	-	-	(1,944)	1,211	109	-	(624)
Profit and total comprehensive income for the period	-	-	-	(1,944)	1,211	109	3,308	2,684
Allotment of new shares	12,001	-	-	-	-	-	-	12,001
At 30 June 2016 (Unaudited)	32,001	-	2,279	3,563	14,966	23	71,653	124,485

Notes:

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

- (b) Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.
- (c) Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.
- (d) Revaluation surplus reserve represents the revaluation gains or losses arising on the land and building situated in the PRC, for such reclassifications, the cumulative increase in fair value at the date of reclassification in excess of any previous accumulative depreciation and impairment losses is included in the property revaluation reserve, and will be transferred to retained earnings upon the retirement or disposal of the relevant property.
- (e) Available-for-sale financial assets reserve represents cumulative net change in the fair value of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to the profit or loss when those investments have been disposed of or are determined to be impaired.

The accompanying notes form an integral part of the Historical Financial Information.

Combined Statements of Cash Flows

	Year ended 31 December	Year ended 31 December	Six months ended 30 June	Six months ended 30 June
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Operating activities				
Profit before taxation	17,141	16,793	4,692	3,643
Adjustments for:				
Amortisation of land use right	7	115	58	113
Investment income	(429)	(178)	(86)	(117)
Bank interest income	(1,909)	(618)	(511)	(63)
Written off of trade receivables	91	1,563	44	695
Interest income on life insurance policies	(343)	(651)	(399)	(195)
Finance costs	1,674	1,558	966	662
Forfeited of trade payable and deposits received	(5,933)	-	-	-
Insurance expenses deducted from life insurance policies	90	159	80	80
Loss on fair value change of derivative financial instruments	268	-	-	-
Loss/(gain) on disposal of property, plant and equipment	77	(1)	-	-
Loss on disposal of other financial assets at amortised costs	-	226	-	-
Depreciation of property, plant and equipment	9,922	10,083	5,155	4,960
Operating cash flows before movements in working capital	20,656	29,049	9,999	9,778
(Increase)/decrease in inventories	(16,795)	(16,357)	6,459	2,041
(Increase)/decrease in trade and bills receivables	(15,913)	2,039	17,978	(4,226)
Decrease/(increase) in prepayments, deposits and other receivables	5,467	(27,997)	(4,145)	2,549
Increase in amount due from a director	-	-	-	(3,000)
Increase/(decrease) in trade and bills payables	33,943	39,701	(33,690)	6,354
Increase/(decrease) in accruals, deposits received and other payables	1,421	1,427	(10,664)	(2,965)
Cash generated from/(used in) operating activities	28,779	27,862	(14,063)	10,531
Income taxes paid	(8,725)	(6,659)	(3,540)	(3,201)
Net cash generated from/(used in) operating activities	<u>20,054</u>	<u>21,203</u>	<u>(17,603)</u>	<u>7,330</u>
Investing activities				
Prepayment for acquisition of property, plant and equipment	(902)	(3,661)	-	-
Payment for purchase of available-for-sale financial assets	-	(1,938)	-	-
Payment for acquisitions of property, plant and equipment	(9,152)	(30,780)	(4,908)	(8,216)
Acquisition of prepaid lease payment	(4,960)	-	(1,846)	-
Proceeds from disposal of property, plant and equipment	354	97	-	-
Proceeds from disposal of other financial assets	-	1,920	-	-
Bank interest income received	1,909	618	511	63
Investment income	429	178	86	117
(Decrease)/increase in pledged bank deposits	(22,312)	36,391	32,327	(1,980)
Net cash (used in)/generated from investing activities	<u>(34,634)</u>	<u>2,825</u>	<u>26,170</u>	<u>(10,016)</u>

	Year ended 31 December	Year ended 31 December	Six months ended 30 June	Six months ended 30 June
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Unaudited)</i>	<i>HK\$'000</i>
Financing activities				
Proceeds from allotment of new shares	-	12,001	12,001	-
Proceeds from bank borrowings	70,773	25,812	5,000	-
Repayment of bank borrowings	(60,930)	(66,355)	(27,471)	(1,217)
Repayment of obligations under finance leases	(2,147)	(3,130)	(2,159)	(1,092)
Repayment to shareholders	(3,767)	-	-	-
Interest paid	(1,674)	(1,558)	(966)	(662)
Net cash generated from/(used in) financing activities	<u>2,255</u>	<u>(33,230)</u>	<u>(13,595)</u>	<u>(2,971)</u>
Net decrease in cash and cash equivalents	(12,325)	(9,202)	(5,028)	(5,657)
Cash and cash equivalents at the beginning of the year/period	33,652	20,863	20,863	11,870
Effect of foreign exchange rate changes	<u>(464)</u>	<u>209</u>	<u>14</u>	<u>428</u>
Cash and cash equivalents at the end of the year/period	<u><u>20,863</u></u>	<u><u>11,870</u></u>	<u><u>15,849</u></u>	<u><u>6,641</u></u>

The accompanying notes form an integral part of Historical Financial Information.

II. NOTES TO HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION OF THE GROUP

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 Prospectus.

The Company’s immediate and ultimate holding company is Lincats (BVI) Limited, a company incorporated in the British Virgin Islands (“BVI”). Lincats (BVI) Limited is controlled by Mr. Kim Byung Kwon. Lincats (BVI) Limited and Mr. Kim Byung Kwon are referred to as the controlling shareholders (“Controlling Shareholders”).

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

The Historical Financial Information is 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 AND BASIS OF PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Pursuant to the Reorganisation as fully explained in “History, Development and Reorganisation — Reorganisation” of 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 Historical Financial Information 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 Track Record Period.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined 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 Track Record Period or since their respective date of incorporation, where there is a shorter period. The combined statements of financial position of the Group as at 31 December 2015 and 2016 and 30 June 2017 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.

The basis of preparation of the Historical Financial Information is disclosed in note to the Historical Financial Information.

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

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the relevant HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations which are effective for financial periods beginning on 1 January 2017 (the “new and revised HKFRSs”) throughout the Track Record Period.

New and revised HKFRSs issued but not yet effective

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

HKFRS (Amendments)	Annual improvement to HKFRS, 2014-2016 cycle ¹
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transaction ¹
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contract ¹
HKFRS 9	Financial Instruments ¹
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HKAS 40 (Amendments)	Transfers of investment property ¹
HK (IFRIC) Int 22	Foreign Currency Transactions and Advance Consideration ¹

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

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

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

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

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial

liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

HKFRS 9 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The Directors anticipate that the application of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets in relation to the impairment assessment on receivables, with the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs. There will be additional disclosures upon the adoption of HKFRS 9. Except for abovementioned, the Directors anticipate that the adoption of HKFRS 9 in the future will not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 30 June 2017.

HKFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

HKFRS 16 Leases

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

Application of HKFRS 16 will result in the Group’s recognition of right-of-use assets and corresponding liabilities in respect of the Group’s lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments to these financial statements. As disclosed in Note 35, the Group’s future minimum lease payments under non-cancellable operating leases for its leased premises amount to approximately HK\$26,067,000 as at 30 June 2017. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s result, but it is expected that certain portion of the lease commitments will be regarded to be recognised in the combined statement of financial position as right-of-use assets and lease liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the Historical 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.

Basis of preparation

The Historical Financial Information has been prepared on the historical cost basis and fair value of financial assets and land and building.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical 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.

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.

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 component 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 interest 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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries

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

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

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

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

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

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

Revenue recognition

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

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

Processing services income is recognised when the service is provided.

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

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

Leasing

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

The Group as lessee

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

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

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 Historical Financial Information, 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.

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.

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 Track Record Period. Taxable profit differs from "profit before taxation" as reported in the combined 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 combined financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

For the purposes of measuring deferred tax 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 Track Record 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 combined 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.

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 ⅓%
Machinery and equipment	10% - 33 ⅓%
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.

Provisions

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

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

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

Inventories

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

Financial instruments

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

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

Financial assets

Financial assets are classified as loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and 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 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 relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including other financial assets, trade and bills receivables, deposit and other receivables, amount due from a director, 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 combined 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 combined statements of profit or loss and other comprehensive income.

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

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of each reporting period. The foreign exchange gains and losses that are recognised in combined 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 Track Record Period.

Impairment of financial assets

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

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

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

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

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

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

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

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.
- (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 Group's parent.

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants 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 JUDGEMENTS 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 judgements, 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 Judgements, 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 combined financial statements.

(a) Impairment of property, plant and equipment

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

(b) Impairment of trade receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the credit history of the customers and the current market condition. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Management reassesses the adequacy of impairment on a regular basis. Where the actual cash flows are less than expected, a material impairment loss may arise.

(c) Depreciation

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

(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.

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

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

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	<u>As at 31 December 2015</u> <i>HK\$'000</i>	<u>As at 31 December 2016</u> <i>HK\$'000</i>	<u>As at 30 June 2017</u> <i>HK\$'000</i>
Financial assets			
<i>Loans and receivables (including cash and bank balances)</i>			
- Other financial assets	11,509	9,854	9,968
- Trade and bills receivables	66,191	60,112	64,421
- Deposits and other receivables	10,993	30,575	28,142
- Amount due from a director	-	-	3,000
- Pledged bank deposits	56,799	16,966	19,236
- Cash and bank balances	20,863	11,870	6,641
	<u>166,355</u>	<u>129,377</u>	<u>131,408</u>
<i>At fair value</i>			
- Available-for-sale financial assets	4,416	6,342	6,467
	<u>4,416</u>	<u>6,342</u>	<u>6,467</u>
	<u>As at 31 December 2015</u> <i>HK\$'000</i>	<u>As at 31 December 2016</u> <i>HK\$'000</i>	<u>As at 30 June 2017</u> <i>HK\$'000</i>
Financial liabilities			
<i>Amortised cost</i>			
- Trade and bills payables	148,240	180,282	190,294
- Accruals, deposits received and other payables	21,203	22,232	23,921
- Bank borrowings	69,819	24,479	23,889
- Obligations under finance leases	5,768	2,919	7,576
	<u>245,030</u>	<u>229,912</u>	<u>245,680</u>

(b) Financial risk management

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

The Group's major financial instruments include other financial assets, available-for-sale financial assets, trade and bills receivables, deposits and other receivables, amount due from a director, pledged

bank deposits, cash and bank balances, trade and bills payables, accruals, deposits received and other payables, bank borrowings and obligations under finance leases. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group has no significant concentrations of credit risk with exposure spread over a large number of counterparties and customers. The carrying amounts of bank balances, trade and bills receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group generally allows an average credit period of 30 to 180 days to its customers. As at 31 December 2015 and 2016 and 30 June 2017, our trade receivables which were past due but not impaired amounted to approximately HK\$22,255,000, HK\$16,411,000 and HK\$29,115,000, representing approximately 34.9%, 27.3% and 45.3% of the total trade receivables as at the respective dates, out of which approximately HK\$2,879,000, HK\$772,000 and HK\$3,719,000, representing approximately 12.9%, 4.7% and 12.8% were past due more than 180 days, respectively. In order to minimise the credit risk, the management monitors the level of exposure to ensure that follow-up actions are taken to recover overdue debts. In addition, the management reviews the recoverability of each trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the management considers the Group does not expose to significant credit risk.

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

Foreign currency risk

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

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

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

	Liabilities			Assets		
	As at 31 December 2015	As at 31 December 2016	As at 30 June 2017	As at 31 December 2015	As at 31 December 2016	As at 30 June 2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
USD	19,380	62,801	20,560	43,585	54,459	59,590
RMB	184,907	123,921	145,005	95,432	46,932	39,328
VND	19	4,889	3,688	2,491	4,434	6,528
	<u>204,306</u>	<u>191,611</u>	<u>169,253</u>	<u>141,508</u>	<u>105,825</u>	<u>105,446</u>

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 2015	31 December 2016	30 June 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	(4,474)	(3,849)	(5,284)
VND	<u>124</u>	<u>(23)</u>	<u>142</u>

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.

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 2015						
Non-derivative financial liabilities						
Trade and bills payables	-	148,240	-	-	148,240	148,240
Accruals, deposits received and other payables	-	21,203	-	-	21,203	21,203
Bank borrowings	2.50%	69,944	-	-	69,944	69,819
Obligations under finance leases	4.14%	2,676	1,982	1,682	6,340	5,768
		<u>242,063</u>	<u>1,982</u>	<u>1,682</u>	<u>245,727</u>	<u>245,030</u>

	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 2016						
Non-derivative financial liabilities						
Trade and bills payables	-	180,282	-	-	180,282	180,282
Accruals, deposits received and other payables	-	22,232	-	-	22,232	22,232
Bank borrowings	3.48%	24,688	-	-	24,688	24,479
Obligations under finance leases	4.71%	1,378	1,283	536	3,197	2,919
		<u>228,580</u>	<u>1,283</u>	<u>536</u>	<u>230,399</u>	<u>229,912</u>

	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 30 June 2017						
Non-derivative financial liabilities						
Trade and bills payables	-	190,294	-	-	190,294	190,294
Accruals, deposits received and other payables	-	23,921	-	-	23,921	23,921
Bank borrowings	3.73%	24,157	-	-	24,157	23,889
Obligations under finance leases	8.11%	2,509	2,400	3,282	8,191	7,576
		<u>240,881</u>	<u>2,400</u>	<u>3,282</u>	<u>246,563</u>	<u>245,680</u>

The following table summarises 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	More than one year but less than two years	More than two years but less than five years
	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2015	<u>69,333</u>	<u>611</u>	<u>-</u>
As at 31 December 2016	<u>22,326</u>	<u>1,772</u>	<u>590</u>
As at 30 June 2017	<u>22,696</u>	<u>1,461</u>	<u>-</u>

(c) Fair value estimation

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

- (i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively, and
- (ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

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

- (i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.
- (ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Financial assets	Fair value as at			Fair value hierarchy	Valuation Techniques and key inputs	Significant unobservable inputs
	31 December 2015	31 December 2016	30 June 2017			
Available-for-sales financial asset						
- Bonds	HK\$3,791,000	HK\$5,761,000	HK\$5,868,000	Level 1	Quoted bid prices in an active market	N/A
- Club membership	HK\$625,000	HK\$ 581,000	HK\$599,000	Level 2	Market Approach in an active market	Market comparable ranges from As at 30 June 2017 HK\$570,000 to HK\$616,000 (31 December 2016: HK\$553,000 to HK\$597,000 and 31 December 2015: HK\$594,000 to HK\$642,000) and the individual factors considered are the second hand quotation price of golf club.

Except as disclosed as above, the Directors consider the carrying amounts of financial assets recorded at amortised costs in the consolidated financial statements approximates to their fair values.

(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 Track Record 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 Historical Financial Information.

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

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

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>
			<i>HK\$'000</i>
Total borrowings (note (a))	75,587	27,398	31,465
Total equity (note (b))	109,800	132,411	138,694
Gearing ratio	<u>68.8%</u>	<u>20.7%</u>	<u>22.7%</u>

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 Track Record Period.

7. REVENUE

An analysis of the Group's revenue for the Track Record Period is as follows:

	<u>Year ended 31 December</u>		<u>Six months ended</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>30 June</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Unaudited)</i>	
Router products	376,010	342,248	160,562	178,046
Switch products	40,440	46,657	20,750	19,626
Other networking products	56,090	61,621	25,794	28,887
Non-networking products	46,870	37,830	16,704	16,050
Processing service income	18,293	23,836	7,311	3,813
	<u>537,703</u>	<u>512,192</u>	<u>231,121</u>	<u>246,422</u>

8. SEGMENT INFORMATION

During the Track Record Period, the Group operates in one operating segment which is the manufacturing and sales of electronic network 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:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Korea	359,897	363,388	166,390	165,642
The People's Republic of China (the "PRC")	63,723	49,663	20,982	8,972
Vietnam	28,674	4,042	997	12,302
Other Asia (excluding Korea, the PRC and Vietnam) . . .	38,710	60,290	23,458	29,733
Europe	14,532	14,622	9,049	8,090
South America	23,041	9,303	4,360	4,173
Africa	7,032	7,879	4,692	2,156
North America	1,782	2,994	1,182	15,303
Central America	310	9	9	51
Oceania	2	2	2	-
	<u>537,703</u>	<u>512,192</u>	<u>231,121</u>	<u>246,422</u>

Information about major customers

Revenue from customer contributing over 10% of the total revenue of the Group during the Track Record Period are as follows:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
EFM Network Co., Ltd. (note i)	<u>317,602</u>	<u>322,891</u>	<u>145,718</u>	<u>139,763</u>

Note:

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

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

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	343	26	23
Mainland China	85,037	77,549	85,191
Vietnam	5,733	34,698	43,767
Others	139	183	176
	<u>91,252</u>	<u>112,456</u>	<u>129,157</u>

9. OTHER INCOME

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Government grant	875	1,290	-	9
Bank interest income	1,909	618	511	63
Exchange gain	-	-	-	311
Investment income	429	178	86	117
Interest income on life insurance policies	343	651	399	195
Forfeited of trade payables and deposits received	5,933	-	-	-
Sales of parts material	112	544	44	2,096
Product development income	379	2,455	348	2,535
Sundry income	436	573	333	192
	<u>10,416</u>	<u>6,309</u>	<u>1,721</u>	<u>5,518</u>

10. FINANCE COSTS

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Interest expenses on bank borrowings wholly repayable within five years	1,474	1,316	800	512
Interest expenses on finance leases	200	242	166	150
	<u>1,674</u>	<u>1,558</u>	<u>966</u>	<u>662</u>

11. TAXATION

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Current taxation:				
Provision for the year/period				
- Hong Kong Profit tax	4,631	97	762	-
- Other than Hong Kong	2,258	2,849	632	1,949
Over-provision in prior years	(161)	-	-	-
	<u>6,728</u>	<u>2,946</u>	<u>1,394</u>	<u>1,949</u>
Deferred taxation:				
Credit for the year/period (<i>Note 31</i>)	(33)	(21)	(10)	(5)
	<u>6,695</u>	<u>2,925</u>	<u>1,384</u>	<u>1,944</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

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, according to the New PRC Enterprise Income Tax Law.

Taiwan Corporate Income Tax is calculated at 17% of the estimated assessable profit for the Track Record Period.

Vietnam Corporate Income Tax is calculated at 20% of the estimated assessable profit for the Track Record Period. No provision of Profits Tax for the subsidiary in Vietnam as no assessable profit for the Track Record Period.

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 Track Record Period.

The taxation charge for the Track Record Period can be reconciled to the profit before taxation per combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	17,141	16,793	4,692	3,643
Tax calculated at the rates applicable to profits in the jurisdiction concerned	3,042	2,382	691	561
Tax effect of expenses not deductible for tax purpose . .	4,225	1,528	2,617	1,924
Tax effect of income not taxable for tax purpose	(378)	(1,188)	(2,071)	(1,086)
Over-provision in prior years	(161)	-	-	-
Tax effect of deductible temporary differences not recognised	(33)	(21)	(10)	(5)
Tax effect of unused tax losses not recognised	-	224	157	550
	<u>6,695</u>	<u>2,925</u>	<u>1,384</u>	<u>1,944</u>

12. PROFIT BEFORE TAXATION

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Profit for the year/period has been arrived at after charging:				
Directors' emoluments (<i>Note 13</i>)	5,227	3,692	810	2,234
Other staff costs:				
Salaries and other benefits	62,886	66,933	32,162	32,351
Bonuses	97	56	48	-
Retirement scheme contributions	6,304	8,925	4,037	4,743
Total staff cost	<u>69,287</u>	<u>75,914</u>	<u>36,247</u>	<u>37,094</u>
Auditors' remuneration	108	288	149	144
Amortisation of land use right	7	115	58	113
Written off of trade receivables	91	1,563	44	695
Depreciation of property, plant and equipment				
- selling and distribution expenses	12	16	7	14
- administrative expenses	2,892	3,751	1,744	1,926
- cost of sales	4,551	4,465	2,399	2,095
- research and development expenses	2,467	1,851	1,005	925
	9,922	10,083	5,155	4,960
Cost of inventories recognised as an expenses	375,840	347,486	159,252	171,468
Loss / (gain) on disposal of property, plant and equipment	77	(1)	-	-
Exchange loss/(gain), net	1,122	3,091	1,666	(311)
Operating lease rental expenses in respect of rented premises	6,610	6,969	3,363	3,762
Loss on fair value change of derivative financial instruments	268	-	-	-
Loss on disposal of other financial assets at amortised costs	-	226	-	-
Listing expenses (<i>Note</i>)	<u>3,724</u>	<u>5,419</u>	<u>2,709</u>	<u>5,174</u>

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

13. DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid by the companies now comprising the Group to the directors of the Company during the Track Record Period are as follows:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors' fees	-	-	-	-
Salaries and other benefits	4,225	3,501	727	2,197
Bonuses	805	-	-	-
Retirement schemes contributions	197	191	83	37
	<u>5,227</u>	<u>3,692</u>	<u>810</u>	<u>2,234</u>

Details for the emoluments of each director of the Company during the Track Record Period are as follows:

	Year ended 31 December 2015				
	Directors' fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Mr. Kim Byung Kwon (<i>Note (i)</i>)	-	809	805	51	1,665
Mr. Kim Jun Yeob (<i>Note (i)</i>)	-	2,143	-	44	2,187
Mr. Koo Ja Chun (<i>Note (i)</i>)	-	1,119	-	44	1,163
Mr. Xiao Jingen (<i>Note (i)</i>)	-	154	-	58	212
Mr. Lee Man Kyu (<i>Note (ii)</i>)	-	-	-	-	-
	-	<u>4,225</u>	<u>805</u>	<u>197</u>	<u>5,227</u>

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

Six months ended 30 June 2016

(Unaudited)

	Directors'	Salaries	Bonuses	Retirement	Total
	fees	and other		scheme	
	HK\$'000	benefits	HK\$'000	contributions	HK\$'000
Executive directors:					
Mr. Kim Byung Kwon (<i>Note (i)</i>)	-	439	-	24	463
Mr. Kim Jun Yeob (<i>Note (i)</i>)	-	93	-	17	110
Mr. Koo Ja Chun (<i>Note (i)</i>)	-	93	-	17	110
Mr. Xiao Jingen (<i>Note (i)</i>)	-	78	-	18	96
Mr. Lee Man Kyu (<i>Note (ii)</i>)	-	24	-	7	31
	-	727	-	83	810

Six months ended 30 June 2017

	Directors'	Salaries	Bonuses	Retirement	Total
	fees	and other		scheme	
	HK\$'000	benefits	HK\$'000	contributions	HK\$'000
Executive directors:					
Mr. Kim Byung Kwon (<i>Note (i)</i>)	-	844	-	9	853
Mr. Kim Jun Yeob (<i>Note (i)</i>)	-	635	-	8	643
Mr. Koo Ja Chun (<i>Note (i)</i>)	-	635	-	8	643
Mr. Xiao Jingen (<i>Note (i)</i>)	-	83	-	12	95
Mr. Lee Man Kyu (<i>Note (ii)</i>)	-	-	-	-	-
	-	2,197	-	37	2,234

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 Track Record Period. No directors waived or agreed to waive any emoluments during the Track Record Period.

No independent non-executive directors were appointed by the Company during the Track Record Period. 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.

Notes:

- (i) Mr. Kim Byung Kwon, Mr. Kim Jun Yeob, Mr. Koo Ja Chun and Mr. Xiao Jingen were appointed as executive directors on 29 January 2016.
- (ii) Mr. Lee Man Kyu ("Mr. Lee") was appointed as executive director on 29 January 2016 and resigned on 14 March 2016.

14. EMPLOYEES EMOLUMENTS AND SENIOR MANAGEMENT EMOLUMENTS

The five highest paid individuals included 3, 3, 2 and 3 executive directors of the Company for the year ended 31 December 2015 and 2016 and for the six months ended 30 June 2016 and 2017 respectively, details of whose emoluments are set out above in note 13. The emoluments of the remaining individuals for the year ended 31 December 2015 and 2016 and for the six months ended 30 June 2016 and 2017 are 2, 2, 3 and 2 respectively and individuals disclosed are as follows:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Salaries and other benefits	622	781	532	485
Bonuses	-	-	-	-
Retirement benefit schemes contributions	48	95	69	18
	<u>670</u>	<u>876</u>	<u>601</u>	<u>503</u>

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

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
			(Unaudited)	
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>3</u>	<u>2</u>

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

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
			(Unaudited)	
Nil to HK\$1,000,000	<u>-</u>	<u>1</u>	<u>1</u>	<u>1</u>

During the Track Record 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 Track Record Period.

15. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

16. EARNINGS PER SHARE

The calculation of basic earnings per share for the Track Record Period is based on the profit attributable to the owners of the Company for the Track Record Period and on the assumption that 462,000,000 ordinary shares had been in issue, comprising 858,000 ordinary shares in issue as at the date of this prospectus and 461,142,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in "Share Capital" set out in this prospectus as if the shares had been outstanding throughout the entire Track Record Period.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existences during the Track Record Period.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and Building	Leasehold improvement	Furniture, fixtures and office equipment	Machinery and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost							
At 1 January 2015	-	-	24,422	35,741	4,481	-	64,644
Additions	39,434	1,322	353	11,775	-	47	52,931
Disposals	-	-	(595)	(194)	(166)	-	(955)
Surplus on revaluation	16,087	-	-	-	-	-	16,087
Write back on revaluation	(1,723)	-	-	-	-	-	(1,723)
Exchange alignment	(1,798)	(44)	(932)	(1,772)	(107)	(1)	(4,654)
At 31 December 2015 and							
1 January 2016	52,000	1,278	23,248	45,550	4,208	46	126,330
Additions	-	-	888	4,163	1,529	24,364	30,944
Disposals	-	-	-	(100)	-	-	(100)
Surplus on revaluation	3,229	-	-	-	-	-	3,229
Write back on revaluation	(2,645)	-	-	-	-	-	(2,645)
Exchange alignment	(3,674)	(90)	(1,649)	(3,365)	(206)	(341)	(9,325)
At 31 December 2016 and							
1 January 2017	48,910	1,188	22,487	46,248	5,531	24,069	148,433
Additions	-	69	137	13,757	-	3,802	17,765
Transferred from Construction in progress to Land and Building	27,873	-	-	-	-	(27,873)	-
Surplus on revaluation	1,300	-	-	-	-	-	1,300
Write back on revaluation	(1,415)	-	-	-	-	-	(1,415)
Exchange alignment	1,668	38	716	1,569	87	49	4,127
As at 30 June 2017	78,336	1,295	23,340	61,574	5,618	47	170,210
Accumulated depreciation ...							
At 1 January 2015	-	-	15,943	15,897	2,779	-	34,619
Provided for the year	1,723	58	2,641	4,808	692	-	9,922
Write back on valuation	(1,723)	-	-	-	-	-	(1,723)
Disposals	-	-	(229)	(155)	(140)	-	(524)
Exchange alignment	-	(2)	(698)	(771)	(79)	-	(1,550)
Accumulated depreciation							
At 31 December 2015 and							
1 January 2016	-	56	17,657	19,779	3,252	-	40,744
Provided for the year	2,645	54	1,526	5,274	584	-	10,083
Write back on revaluation	(2,645)	-	-	-	-	-	(2,645)
Disposals	-	-	-	(4)	-	-	(4)
Exchange alignment	-	(6)	(1,300)	(1,609)	(149)	-	(3,064)

	Land and Building	Leasehold improvement	Furniture, fixtures and office equipment	Machinery and equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2016 and 1 January 2017	-	104	17,883	23,440	3,687	-	45,114
Provided for the period	1,415	31	581	2,737	196	-	4,960
Write back on revaluation	(1,415)	-	-	-	-	-	(1,415)
Exchange alignment	-	4	572	724	67	-	1,367
At 30 June 2017	-	139	19,036	26,901	3,950	-	50,026
Net carrying amounts							
At 31 December 2015	<u>52,000</u>	<u>1,222</u>	<u>5,591</u>	<u>25,771</u>	<u>956</u>	<u>46</u>	<u>85,586</u>
At 31 December 2016	<u>48,910</u>	<u>1,084</u>	<u>4,604</u>	<u>22,808</u>	<u>1,844</u>	<u>24,069</u>	<u>103,319</u>
At 30 June 2017	<u>78,336</u>	<u>1,156</u>	<u>4,304</u>	<u>34,673</u>	<u>1,668</u>	<u>47</u>	<u>120,184</u>

Assets pledged as security

As at 31 December 2015 and 2016 and 30 June 2017, the land and buildings with carrying amount of approximately HK\$52,000,000, HK\$48,910,000 and HK\$50,449,000 have been pledged to secure bank borrowings (Note 29) granted to the Group respectively.

As at 31 December 2015 and 2016 and 30 June 2017, the motor vehicles with carrying amount of approximately HK\$316,000, HK\$340,000 and HK\$301,000 have been pledged to secure finance lease payables (Note 30) granted to the Group respectively.

As at 31 December 2015 and 2016 and 30 June 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\$52,000,000, HK\$48,910,000 and HK\$78,336,000 respectively. Revaluation surplus, net aggregate amount of deferred tax approximately of HK\$13,755,000, HK\$2,929,000 and HK\$1,018,000 resulting from the above revaluation were credited to the revaluation surplus reserve during the years/period ended 31 December 2015 and 2016 and 30 June 2017 respectively.

The fair values of the Group's land and buildings at 31 December 2015 and 2016 and 30 June 2017 are estimated by using significant unobservable inputs and the fair value measurement is categorised under Level 3.

During the Track Record 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:

	As at 31 December		As at
	2015	2016	30 June
	HK\$'000	HK\$'000	2017
Carrying amount:			
At 1 January	-	52,000	48,910
Additions	39,434	-	27,873
Depreciation	(1,723)	(2,645)	(1,415)
Surplus on revaluation	16,087	3,229	1,300
Exchange differences	(1,798)	(3,674)	1,668
	<u>52,000</u>	<u>48,910</u>	<u>78,336</u>

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

Class of property	Fair value hierarchy	Valuation Technique	Significant unobservable input	Range of unobservable input		
				31 December 2015	31 December 2016	30 June 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\$54,041 to HK\$55,242	HK\$50,251 to HK\$51,368	HK\$52,407 to HK\$53,559
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 optimisation	N/A	N/A	N/A

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

18. PREPAID LEASE PAYMENTS

	<i>HK\$'000</i>
Cost	
At 1 January 2015	-
Additions	4,968
Exchange difference	(82)
At 31 December 2015 and 1 January 2016	4,886
Additions	-
Exchange difference	(65)
At 31 December 2016 and 1 January 2017	4,821
Additions	4,616
Exchange difference	(2)
At 30 June 2017	<u>9,435</u>
Accumulated amortisation	
At 1 January 2015	-
Amortisation	7
At 31 December 2015 and 1 January 2016	7
Amortisation	115
Exchange difference	(1)
At 31 December 2016 and 1 January 2017	121
Amortisation	113
Exchange difference	1
At 30 June 2017	<u>235</u>
Net carrying amount	
At 31 December 2015	<u>4,879</u>
At 31 December 2016	<u>4,700</u>
At 30 June 2017	<u>9,200</u>

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

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	115	114	227
Non-current assets	4,764	4,586	8,973
	<u>4,879</u>	<u>4,700</u>	<u>9,200</u>

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

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bonds (Note a)	3,791	5,761	5,868
Club membership (Note b)	625	581	599
	<u>4,416</u>	<u>6,342</u>	<u>6,467</u>

Notes:

- (a) The bonds were unlisted and classified as available-for-sale investments are stated at fair value. As at 31 December 2015 and 2016 and 30 June 2017, the fair values of the bonds are determined by reference to the quoted prices from the financial institution. As at 31 December 2015 and 2016 and 30 June 2017, 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 2015 and 2016 and 30 June 2017, the fair value of the club membership is arrived on the basis of a valuation carried out by an independent professional valuer.

20. OTHER FINANCIAL ASSETS

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Key management personnel life insurance policies	<u>11,509</u>	<u>9,854</u>	<u>9,968</u>

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

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

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

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

21. PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as:			
Current assets	-	-	-
Non-current assets	902	4,551	-
	<u>902</u>	<u>4,551</u>	<u>-</u>

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

The balances represent the prepayment for the land use rights of Lot B during the year ended 31 December 2015 and 2016. The Group had obtained the land use right certificates of Lot B on 4 January 2017.

22. INVENTORIES

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	45,309	41,293	42,254
Work in progress	10,331	10,915	13,339
Finished goods	37,836	51,230	49,333
	<u>93,476</u>	<u>103,438</u>	<u>104,926</u>

23. TRADE AND BILLS RECEIVABLES

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	63,771	60,032	64,339
Bills receivables	2,420	80	82
	<u>66,191</u>	<u>60,112</u>	<u>64,421</u>

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

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	19,174	28,461	25,092
31 to 60 days	9,680	8,435	7,325
61 to 90 days	14,987	4,072	4,978
91 to 180 days	11,704	10,387	10,931
Over 180 days	8,226	8,677	16,013
	<u>63,771</u>	<u>60,032</u>	<u>64,339</u>

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

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

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

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

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	4,595	4,516	13,570
31 to 60 days	9,570	3,195	561
61 to 90 days	2,786	2,408	4,926
91 to 180 days	2,425	5,520	6,339
Over 180 days	2,879	772	3,719
	<u>22,255</u>	<u>16,411</u>	<u>29,115</u>

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Deposits and prepayments	6,404	14,799	18,980
Value-added tax receivables	5,522	22,862	20,510
Other receivables	2,662	4,343	747
	<u>14,588</u>	<u>42,004</u>	<u>40,237</u>

25. AMOUNT DUE FROM A DIRECTOR

Name of director	Maximum balance outstanding during the year/period ended			As at		
	31 December		30 June	As at 31 December		30 June
	2015	2016	2017	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Kim Byung Kwon	-	-	3,000	-	-	3,000
	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>

The amount due from a director is non-trade, unsecured, interest-free and recoverable on demand.

26. PLEDGED BANK DEPOSITS/ CASH AND BANK BALANCES

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Pledged bank deposits	56,799	16,966	19,236
Cash and bank balances	20,863	11,870	6,641
	<u>77,662</u>	<u>28,836</u>	<u>25,877</u>

Cash and bank balances are denominated in the following currencies:

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Dollars (“HK\$”)	8,136	8,230	7,997
United States Dollars (“US\$”)	15,505	9,952	4,161
Renminbi (“RMB”)	51,837	9,513	12,418
Taiwan Dollars (“NT\$”)	1,742	638	492
Vietnam Dollars (“VND”)	442	503	809
	<u>77,662</u>	<u>28,836</u>	<u>25,877</u>

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

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

As at 31 December 2015 and 2016 and 30 June 2017, bank deposits of the Group of approximately HK\$56,799,000, HK\$16,966,000 and HK\$19,236,000 are pledged as collateral for bank facilities.

27. TRADE AND BILLS PAYABLES

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	108,901	131,292	136,350
Bills payables	39,339	48,990	53,944
	<u>148,240</u>	<u>180,282</u>	<u>190,294</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:

	As at 31 December		As at
	2015	2016	30 June
	HK\$'000	HK\$'000	2017
Within 30 days	69,025	89,215	68,052
31 to 60 days	12,926	29,039	19,238
61 to 90 days	11,919	6,231	15,937
91 to 180 days	13,552	1,022	20,785
Over 180 days	1,479	5,785	12,338
	<u>108,901</u>	<u>131,292</u>	<u>136,350</u>

Bills payables are all mature within 150 days.

28. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	As at 31 December		As at
	2015	2016	30 June
	HK\$'000	HK\$'000	2017
Accruals	8,622	11,974	15,103
Deposits received	10,982	9,087	5,665
Other payables	1,599	1,171	3,153
	<u>21,203</u>	<u>22,232</u>	<u>23,921</u>

29. BANK BORROWINGS

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank loans:			
Secured fixed rate borrowings (<i>Note (a) and Note (b)</i>)	14,815	3,940	3,126
Secured floating rate borrowings (<i>Note (a) and Note (b)</i>)	55,004	20,539	20,763
	<u>69,819</u>	<u>24,479</u>	<u>23,889</u>

Secured term loan from bank that repayable within the period of:

- less than one year	69,214	22,183	22,440
- more than 1 year but within 2 years	605	1,711	1,449
- more than 2 years but within 5 years	-	585	-
- over 5 years	-	-	-
Secured term loan	69,819	24,479	23,889
Less: Amount classified as current liabilities			
Secured term loan due within one year or contain a repayment on demand clause	(69,819)	(24,479)	(23,889)
Amount classified as non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>

Notes:

- (a) The bank borrowings of the Group as at 31 December 2015 and 2016 and 30 June 2017 respectively were secured by:
- (i) personal guarantee provided by one of the Controlling shareholders of the Group;
 - (ii) corporate guarantee provided by certain subsidiary of the Group for the year ended 31 December 2015 which has been released during the year ended 31 December 2016;
 - (iii) pledged bank deposits with carrying amounts of approximately HK\$56,799,000, HK\$16,966,000 and HK\$19,236,000 as at 31 December 2015 and 2016 and 30 June 2017 respectively;
 - (iv) pledge of the Group's investments in life insurance with carrying amounts of approximately HK\$11,509,000, HK\$9,854,000 and HK\$9,968,000 as at 31 December 2015 and 2016 and 30 June 2017 respectively;
 - (v) pledge of the available-for-sale financial assets with carrying amounts of approximately HK\$3,791,000 and HK\$5,761,000 and HK\$5,868,000 as at 31 December 2015 and 2016 and 30 June 2017 respectively;
 - (vi) pledge of the Group's land and building with carrying amounts of approximately HK\$52,000,000 and HK\$48,910,000 and HK\$50,449,000 as at 31 December 2015 and 2016 and 30 June 2017 respectively;
- (b) The loans of the Group with financial institutions amounted to approximately HK\$69,819,000 and HK\$24,479,000 and HK\$23,889,000 respectively, carried interest ranging from 1.42% to 2.83%, 1.74% to 4.00% and 2.26% to 4.00% per annum for the years ended 31 December 2015 and 2016 and 30 June 2017 respectively.
- (c) The shareholder of the Group represents that all personal guarantee provided by one of the Controlling shareholders will be released upon Listing.

30. OBLIGATIONS UNDER FINANCE LEASES

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

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments under finance leases			
- within one year	2,676	1,378	2,509
- in the second to fifth years, inclusive	3,664	1,819	5,682
	6,340	3,197	8,191
Less: Future finance charges	(572)	(278)	(615)
Present value of finance leases	<u>5,768</u>	<u>2,919</u>	<u>7,576</u>

	As at 31 December		As at 30 June
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Present value of minimum lease payments under finance leases			
- within one year	2,398	1,230	2,238
- in the second to fifth years, inclusive	3,370	1,689	5,338
	5,768	2,919	7,576
Less: Amount due for settlement within one year	(2,398)	(1,230)	(2,238)
Amount due for settlement after one year	3,370	1,689	5,338

31. DEFERRED TAX LIABILITIES

The components of deferred tax balances recognised in the combined statements of financial position and the movement thereon during the Track Record Period are as follows:

	Accelerated tax depreciation	Revaluation of Land and building	Total
	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2015	59	-	59
Credited to profit or loss (<i>Note 11</i>)	(33)	-	(33)
Charge to other comprehensive income	-	2,332	2,332
As at 31 December 2015 and 1 January 2016	26	2,332	2,358
Credited to profit or loss (<i>Note 11</i>)	(21)	-	(21)
Charge to other comprehensive income	-	300	300
As at 31 December 2016 and 1 January 2017	5	2,632	2,637
Credited to profit or loss (<i>Note 11</i>)	(5)	-	(5)
Charge to other comprehensive income	-	282	282
As at 30 June 2017	-	2,914	2,914

As at 31 December 2015 and 2016 and 30 June 2017, the Group has estimated tax losses of approximately Nil, HK\$1,122,000 and HK\$455,000 available for offset against future profits. No deferred tax assets has been recognised as it is uncertain that there will be sufficient future profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

32. SHARE CAPITAL

The Group

For the purpose of the preparation of combined statements of financial position, the balance of share capital of the Group as at 31 December 2015 represents the issued share capital of Zioncom (Hong Kong) Technology Limited prior to the establishment of the company.

As at 31 December 2016, the balance of share capital of the Group represents the issued share capital of Zioncom Holdings Limited and Zioncom (Hong Kong) Technology Limited prior to the completion of reorganisation. As at 30 June 2017, the share capital of the Group represented the share capital of the Company.

The Company

Details of movements of share capital of the Company are as follows:

	Number of Shares	Amount
		<i>HK\$</i>
<i>Authorised:</i>		
Ordinary share of US\$1.00 each upon incorporation (Note a)	50,000	387,500
At 31 December 2016 and 1 January 2017	50,000	387,500
Increased and redenomination of authorised share capital (Note b)	49,999,950,000	499,612,500
Ordinary share of HK\$0.01 each as at 30 June 2017	<u>50,000,000,000</u>	<u>500,000,000</u>
<i>Issued and fully paid:</i>		
Issue of share upon incorporation on 29 January 2016 (Note a)	100	775
As at 31 December 2016 and 1 January 2017	100	775
Issue of shares upon reorganisation (Note b)	1,000	7,750
Redenomination of authorised share capital (Note b)	(1,100)	(8,525)
Issue of shares (Note b)	858,000	8,580
As at 30 June 2017	<u>858,000</u>	<u>8,580</u>

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.

33. RESERVES

The amounts of the Group's reserves and the movements therein for each of the Track Record Period are presented in the combined statements of changes in equity of the Historical Financial Information.

A summary to the Company's reserves is as follows:

	<u>Accumulated loss</u>
	<i>HK\$'000</i>
As at 29 January 2016 (Date of incorporation)	-
Loss and total comprehensive loss for the period	(5,419)
As at 31 December 2016 and 1 January 2017	(5,419)
Loss and total comprehensive loss for the period	(5,173)
As at 30 June 2017	<u>(10,592)</u>

34. PARTICULARS OF SUBSIDIARIES

Upon completion of the Reorganisation and as at the date of this report, the Company had direct and indirect equity interests in the following subsidiaries comprising the Group:

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

All companies now comprising the Group have adopted 31 December as their financial year end date.

Note:

No statutory financial statements have been prepared for the Company and Zioncom BVI which was incorporated in Cayman Islands and BVI respectively, since their respective date of incorporation as there are no statutory audit requirements in the respective jurisdiction.

The statutory financial statements of the Zioncom (Hong Kong) for the years ended 31 December 2015 and 2016 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA and were audited by us.

The statutory financial statements of Zioncom (Vietnam) and Zioncom (Shenzhen), which were incorporated in Vietnam and PRC respectively, for each of the years ended 31 December 2015 and 2016 were prepared in accordance with relevant accounting principles and financial reporting framework applicable to entities incorporated in Vietnam and PRC respectively and were audited by CPA Auditing Company Limited and 深圳計恒會計師事務所有限公司, certified public accountants registered in Vietnam and PRC respectively.

The statutory financial statements of Zioncom (Taiwan) which was incorporated in Taiwan, for each of the years ended 31 December 2015 and 2016 were prepared in accordance with relevant accounting principles and financial reporting framework applicable to entities incorporated in Taiwan and was audited by 文喬會計師事務所有限公司 and 君盈聯合會計師事務所, certified public accountants registered in Taiwan respectively.

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	3,914	6,417	6,693
In the second to fifth years, inclusive	887	20,843	19,374
Over five years	-	1,723	-
	<u>4,801</u>	<u>28,983</u>	<u>26,067</u>

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

36. CAPITAL COMMITMENTS

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

	As at 31 December		As at
	2015	2016	30 June
	HK\$'000	HK\$'000	2017
			HK\$'000
Acquisition of property, plant and equipment	-	-	58
Acquisition of land use right	4,082	-	-
Acquisition of construction in progress	-	4,192	243
	<u>4,082</u>	<u>4,192</u>	<u>301</u>

37. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere in the Prospectus, the Group had also entered into the following material related party transactions during the Track Record Period:

(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 Track Record Period is set out in notes 13 and 14.

(b) Personal guarantee provided by key management personnel

Certain banking facilities available to a subsidiary of the Group were secured by one of the Controlling shareholders of the Group for the year ended 31 December 2015 and 2016 and for the six months ended 30 June 2017. All personal guarantees provided by one of the Controlling shareholders will be released upon Listing.

38. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowing of the Group as follow:

	As at 31 December		As at
	2015	2016	30 June
	HK\$'000	HK\$'000	2017
			HK\$'000
Property, plant and equipment	52,000	48,910	50,449
Available-for-sale financial assets	3,791	5,761	5,868
Other financial assets	11,509	9,854	9,968
Pledged bank deposits	<u>56,799</u>	<u>16,966</u>	<u>19,236</u>
	<u>124,099</u>	<u>81,491</u>	<u>85,521</u>

39. NON-CASH TRANSACTIONS

During the year ended 31 December 2015 and 2016 and for the six months ended 30 June 2017, additions to property, plant and equipment of approximately HK\$5,463,000, HK\$364,000 and HK\$7,453,000 were made under the finance leases which of approximately HK\$1,284,000, HK\$84,000 and HK\$1,440,000 have made by the Group as down payment.

40. LITIGATION

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

III. EVENTS AFTER THE REPORTING PERIOD

On 18 December 2017, the written resolutions as detailed in Appendix IV “Statutory and General Information” in the Prospectus were duly passed.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2017 and up to the date of this report.

The information set out below does not form part of the Accountants' Report received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included in this prospectus for information purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma adjusted net tangible assets of the Group (the "Unaudited Pro Forma Financial Information") attributable to owners of the Company is prepared by the Directors in accordance with Rule 7.31 of the GEM Listing Rules to illustrate purposes only, and is set out below to illustrate the effect of the proposed listing of the Company's share on the Stock Exchange by way of share offer (the "Share Offer") on the combined net tangible assets of the Group attributable to owners of the Company as at 30 June 2017 as if the Share Offer had taken place on 30 June 2017.

The Unaudited Pro Forma Information of the Group is prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Share Offer been completed as at 30 June 2017 or at any future dates.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the combined net tangible assets attributable to owners of the Company as at 30 June 2017 as set out in the combined financial statements contained in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to owners of our Company as at 30 June 2017	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 30 June 2017	Unaudited pro forma adjusted combined net tangible assets of the Group per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i> <i>(Note 3)</i>	<i>HK cents</i> <i>(Note 4)</i>
Based on the Share Offer price of HK\$0.28 per Share	138,694	16,578	155,272	23.53
Based on the Share Offer price of HK\$0.52 per Share	138,694	59,822	198,516	30.08

Notes:

- (1) The audited combined net tangible assets of the Group attributable to owners of our Company as at 30 June 2017 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on the Share Offer Prices of HK\$0.28 and HK\$0.52 per Share respectively after deduction of the estimated underwriting commission and other related fees and expenses (excluding listing expenses which have been accounted for prior to 30 June 2017) payable by the Company.

- (3) No adjustment has been made to the unaudited pro forma adjusted net tangible assets of the Group to reflect any trading results or other transaction of the Group entered into subsequent to 30 June 2017.
- (4) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to the preceding paragraphs and on the basis that 660,000,000 Shares are in issue immediately upon the completion of the Share Offer.

B. REPORT FROM REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus, in connection with the unaudited pro forma financial information.



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

28 December 2017

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN AN INVESTMENT CIRCULAR**TO THE DIRECTORS OF ZIONCOM HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information (the “**Unaudited Pro Forma Financial Information**”) of Zioncom Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the unaudited pro forma statement of adjusted combined net tangible assets of the Group as at 30 June 2017, and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company (the “**Prospectus**”) dated 28 December 2017, in connection with the proposed share offer (the “**Share Offer**”) of shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed Share Offer of shares of the Company on the Group’s financial position at 30 June 2017 as if the proposed Share Offer of shares of the Company had taken place at 30 June 2017. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s financial statements for the year ended 30 June 2017, on which an accountants’ report has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of 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 with reference to Accounting Guideline 7 ‘Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars’ (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Qualities Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”, issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgment, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Wong Sze Wai, Basilia
Practising Certificate Number: P05806
Hong Kong

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 January 2016 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and its Amended and Restated Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 18 December 2017 with effect from the Listing Date. A summary of certain provisions of the Articles is set out below.

(a) *Shares*

(i) **Classes of shares**

The share capital of the Company consists of ordinary shares.

(ii) **Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the SFC.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall

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in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed 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. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

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 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 has been lodged at the head office or at the registration office of the Company. The period for lodgement of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resigns;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;

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- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become

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entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material

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interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) *Alterations to the constitutional documents and the Company's name*

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) *Meetings of member*

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

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Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any

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particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the GEM Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the

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Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

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Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix III.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be

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distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 29 January 2016 subject to the Companies Law. Certain provisions of Companies Laws are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of

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its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

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A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

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Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 8 March 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a U.S. corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 January 2016. Our Company has established a place of business in Hong Kong at Room 1, 6/F, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong, and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 20 June 2016. In connection with such registration, Mr. JY Kim and Mr. Lee Pui Chung have been appointed as the authorised representatives of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operations are subject to the Companies Law and its constitution, which comprises the Memorandum and the Articles. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

- (a) The authorised share capital of our Company as at the date of incorporation was US\$50,000 divided into 50,000 shares of US\$1.00 each, of which one subscriber share was allotted and issued to the subscriber, which was transferred to Lincats on the same day and 99 shares were also allotted and issued to Lincats on the same day.
- (b) 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 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) 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 (c) 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.
- (c) Immediately following the completion of the Capitalisation Issue and the Share Offer, without taking into account any Shares which may be allotted and issued pursuant to any options which may be granted under the Share Option Scheme, the authorised share capital of our Company will be HK\$500,000,000 divided into 50,000,000,000 Shares of HK\$0.01 each, of which 660,000,000 Shares will be allotted and issued, fully paid or credited as fully paid and 49,340,000,000 Shares will remain unissued.

Other than our Shares issuable pursuant to the exercise of any options which may fall to be granted under the Share Option Scheme, or the exercise of the general mandate referred to in “— A. Further information about our Group — 3. Resolutions in writing of our Sole Shareholder passed on 18 December 2017” in this Appendix, our Directors at present have no intention to issue to any party any of the authorised but unissued capital of our Company, and without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no other alterations in the share capital of our Company since its incorporation.

3. Resolutions in writing of our Sole Shareholder passed on 18 December 2017

Pursuant to the written resolutions passed by our Sole Shareholder on 18 December 2017, it was resolved that:

- (a) the Memorandum of Association and the Articles of Association were conditionally approved and adopted with effect from the Listing;
- (b) conditional on all the conditions set out in “Structure and Conditions of the Share Offer” in this prospectus being fulfilled:
 - (i) the Share Offer was approved and our Directors were authorised to effect the same and to allot and issue the Offer Shares;
 - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with Shares issued pursuant thereunder and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme and to vote any matter connected therewith notwithstanding that they or any of them may be interested in the same;
 - (iii) conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the amount of HK\$4,611,420 from the amount standing to the credit of the share premium account of our Company to pay up in full at par 461,142,000 Shares for allotment and issue to the person(s) whose name(s) appears on the register of members of our Company at the close of business on the day immediately preceding the Listing Date;
- (c) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (otherwise than by way of rights issue or an issue of shares upon the exercise of any subscription or conversion rights attached to any warrants or any securities which are convertible into Shares or pursuant to the exercise of any options which may be granted under the Share Option Scheme, any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of its subsidiaries or any other person of share or rights to acquire Shares or any script dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or a specific authority granted by our Shareholders in general meeting) Shares with a total number not exceeding 20% of the aggregate of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of the options which may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;

- (d) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which our Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of the options which may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest on:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or applicable laws of the Cayman Islands to be held; or
 - (iii) the passing of an ordinary resolution of our Shareholders in general meeting, revoking, varying or renewing such mandate;
- (e) the Repurchase Mandate was extended by the addition to the aggregate number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the Repurchase Mandate provided that such extended amount shall not exceed 10% of the aggregate number of Shares in issue immediately following completion of the Share Offer.

4. Reorganisation

The companies comprising our Group underwent a Reorganisation in preparation for the Listing, details of which are set out in “History, Development and Reorganisation — Reorganisation” in this prospectus.

5. Changes in share capital of our subsidiaries

The subsidiaries of our Company are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save as disclosed in “History, Development and Reorganisation” in this prospectus, there has been no alteration in the share capital of our subsidiary within two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

- (i) Shareholders’ approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the resolutions in writing passed by our Sole Shareholder on 18 December 2017, the Repurchase Mandate was granted to our Directors authorising the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue, at any time until (aa) the conclusion of the next annual general meeting of our Company, (bb) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Memorandum and Articles to be held; or (cc) when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

(ii) Source of funds

Any repurchases must be financed out of funds legally available for such purpose in accordance with the Memorandum and Articles and any applicable laws of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 660,000,000 Shares in issue immediately after completion of the Share Offer (but without taking into account of any options which may be granted under the Share Option Scheme), could accordingly result in up to 66,000,000 Shares being repurchased by our Company during the course of the period prior to the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles and the applicable laws and regulations of the Cayman Islands to be held; or
- (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of our Shareholders in general meeting.

(c) Reasons for repurchases

Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or earnings per Share.

(d) Funding of repurchases

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles and the applicable laws and regulations of the Cayman Islands.

Pursuant to the Repurchase Mandate, any repurchase of Shares will be made out of funds of our Company legally permitted to be utilised in this connection, including profits of our Company, share premium or the proceeds from a fresh issue of Shares made for the purpose of the repurchase or, if

authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles and subject to the Companies Law, out of capital of our Company.

Our Company may not repurchase securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(e) Status of repurchased Shares

The listing of all repurchased Shares (whether offered on the Stock Exchange or otherwise) on GEM will automatically be cancelled and the certificates for those Shares shall be cancelled and destroyed.

(f) Trading restrictions

The total number of shares which a listed company may repurchase on GEM is the number of shares representing up to a maximum of 10% of the aggregate number of shares of that company in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or higher than the average closing market price for the five preceding trading days on which its shares were traded on GEM. The GEM Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(g) Suspension of repurchase

A listed company may not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the GEM Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year, half-year or quarter-year under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on GEM if a listed company has breached the GEM Listing Rules.

(h) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price

per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(i) General

There might be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or on its gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the GEM Listing Rules) currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Memorandum, the Articles and the applicable laws of the Cayman Islands.

No connected person (as defined in the GEM Listing Rules) of our Company has notified our Company that he or she has a present intention to sell any Shares to our Company, or has undertaken not to do so, in the event that the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong (the "Code"). As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Code), depending on the level of increase in the interests of the Shareholder(s), could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Code due to any repurchase made pursuant to the Repurchase Mandate immediately after the Listing.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into the ordinary course of business of our Group) had been entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) a sale and purchase agreement dated 3 March 2017 entered into between the Company, Zioncom BVI, Mr. BK Kim, Mr. JY Kim, and Mr. Koo, pursuant to which Mr. BK Kim, Mr. JY Kim and Mr. Koo agreed to transfer their respective interests of approximately 81.8%, 9.1% and 9.1% in the issued share capital of Zioncom HK (representing 100% shareholding interests in Zioncom HK) to the Company, with Zioncom BVI as the entity nominated by the Company to receive the sale shares of Zioncom HK;
- (b) a deed of assignment and capitalisation dated 3 March 2017 entered into between Mr. BK Kim, Mr. JY Kim, Mr. Koo, Zioncom BVI, the Company and Lincats pursuant to which (i) each of Mr. BK Kim, Mr. JY Kim and Mr. Koo assigned to Lincats their respective consideration due from the Company for the sale of their interests in the issued share capital of Zioncom HK pursuant to a sale and purchase agreement dated 3 March 2017, whereby

Lincats then capitalises the amount due to each of Mr. BK Kim, Mr. JY Kim and Mr. Koo by issuing 818 ordinary shares of US\$1.00 each of Lincats, 91 ordinary shares of Lincats and 91 ordinary shares of Lincats to Mr. BK Kim, Mr. JY Kim and Mr. Koo respectively; and (ii) Zioncom BVI agreed to allot and issue 10 shares of US\$1.00 each of Zioncom BVI to the Company at par value credited as fully paid;

- (c) a trademark transfer agreement dated 14 January 2016 entered into between Zioncom Shenzhen and the Relevant Customer, pursuant to which the Relevant Customer agreed to transfer the *TOTOLINK* trademark (No. 9056962) to Zioncom Shenzhen at nil consideration;
- (d) the Deed of Indemnity;
- (e) the Deed of Non-Competition; and
- (f) the Public Offer Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks




- (i) As at the Latest Practicable Date, we had registered the following trademarks which are material in relation to our Group's business:

No.	Trademark	Registered owner	Place of registration	Registration number	Class	Expiry date
1	TOTOLINK	Zioncom Shenzhen	PRC	9056962	9	20 March 2022
2	吉翁	Zioncom HK	Hong Kong	303458403	9	30 June 2025
3	A  (Note 1)	Zioncom HK	Hong Kong	303458421	9	30 June 2025
4	B 	Zioncom HK	Hong Kong	304084209	9	20 March 2027
5	ZIONCOM	Zioncom HK	Hong Kong	304084498	9	21 March 2027
6	TOTO LINK	Zioncom Shenzhen	Vietnam	269481	9	14 October 2024
7	TOTOLINK	Zioncom Shenzhen	E.U.	1177055	9	29 May 2023
8	LINCATS	Zioncom Shenzhen	Vietnam	286871	9	10 December 2025

Note 1: "A" denotes the trademark registered in black and white whereas "B" denotes the same trademark registered in colour in the manner in which they are registered with the Trade Marks Registry, Intellectual Property Department of Hong Kong.

- (ii) As at the Latest Practicable Date, we had applied for registration of the following trademarks:

No.	Trademark	Name of Applicant	Place of application	Application number	Class	Date of filing
1	LINCATS	Zioncom Shenzhen	Indonesia	D002015059388	9	21 December 2015

No.	Trademark	Name of Applicant	Place of application	Application number	Class	Date of filing
2		Zioncom Shenzhen	Brazil	910408050	9	14 December 2015
3		Zioncom Shenzhen	PRC	23238751	9	21 March 2017
4		Zioncom Shenzhen	India	3143785	9	29 December 2015

(b) Patents

As at the Latest Practicable Date, we had registered the following patents which are material in relation to our Group's business:

No.	Patent name	Patent type	Patent number	Patent owner	Place of registration	Effective period
1	Router (TOTOLINK-IP04238) 路由器 (TOTOLINK-IP04238)	Industrial design	ZL 2013 3 0596063.4	Zioncom Shenzhen	PRC	3 December 2013 to 2 December 2023
2	Ceiling-mounted AP (TOTOLINK_N10 AP0154) 吸頂 AP (TOTOLINK_N10 AP0154)	Industrial design	ZL 2014 3 0526868.6	Zioncom Shenzhen	PRC	15 December 2014 to 14 December 2024
3	A type of Wi-Fi switching device switching 5.8G frequency to 2.4 G frequency 一種5.8G頻率 轉2.4G頻率的 WIFI轉換裝置	Utility model	ZL 2012 2 0245771.3	Zioncom Shenzhen	PRC	29 May 2012 to 28 May 2022
4	A new type of router 一種新型路由器	Utility Model	ZL 2013 2 0384473.7	Zioncom Shenzhen	PRC	28 June 2013 to 27 June 2023
5	A type of wireless LAN card to be used on set-top box 一種用於機頂盒上的無線網卡	Utility Model	ZL 2011 2 0274357.0	Zioncom Shenzhen	PRC	29 July 2011 to 28 July 2021
6	A type of wireless AP with separable plug 一種設有可分離插頭的無線AP	Utility model	ZL 2014 2 0539362.3	Zioncom Shenzhen	PRC	18 September 2014 to 17 September 2024
7	Single-channel dual-frequency WLAN card 單通道雙頻無線網卡	Utility model	ZL 2013 2 0071272.1	Zioncom Shenzhen	PRC	7 February 2013 to 6 February 2023
8	Outdoor high-power wireless bridge 室外大功率無線網橋	Utility model	ZL 2012 2 0535161.7	Zioncom Shenzhen	PRC	18 October 2012 to 17 October 2022

No.	Patent name	Patent type	Patent number	Patent owner	Place of registration	Effective period
9	GPON wireless router (TOTOLINK PG03) GPON 無線路由器 (TOTOLINK PG03)	Industrial design	ZL 2015 3 0233138.1	Zioncom Shenzhen	PRC	3 July 2015 to 2 July 2025
10	Wireless router 無線路由器	Industrial design	ZL 2015 3 0277901.0	Zioncom Shenzhen	PRC	29 July 2015 to 28 July 2025
11	A type of wireless AP socket 一種無線AP插座	Utility model	ZL 2015 2 0712431.0	Zioncom Shenzhen	PRC	15 September 2015 to 14 September 2025

(c) Copyright

As at the Latest Practicable Date, we had registered the following copyrights in the PRC which are material in relation to our Group's business:

No.	Copyright name	Registration number	Registrant	Place of registration	Date of registration
1	Zioncom TOTOLINK Wizard APP software V1.0.1	2013SR159956	Zioncom Shenzhen	PRC	27 December 2013
2	Zioncom MT7620WIFI driver adaptive bandwidth switching software V2.7.1.6 (Zioncom 公司 MT7620WIFI 驅動自適應帶寬切換軟件 V2.7.1.6)	2014SR130833	Zioncom Shenzhen	PRC	1 September 2014
3	Zioncom WLAN card antenna detection software V1.4.0 (Zioncom 公司無線網卡天綫檢測軟件 V1.4.0)	2013SR085082	Zioncom Shenzhen	PRC	15 August 2013
4	Zioncom wireless load balancing software V2.0 (Zioncom 公司無線負載均衡軟件 V2.0)	2015SR126674	Zioncom Shenzhen	PRC	7 July 2015
5	Zioncom router transmitting rate detection software V1.4.0 (Zioncom 公司路由器傳輸速率檢測軟件 V1.4.0)	2013SR086098	Zioncom Shenzhen	PRC	16 August 2013
6	Zioncom router signal light detection software V1.0 (Zioncom 公司路由器信號燈檢測軟件 V1.0)	2013SR085480	Zioncom Shenzhen	PRC	15 August 2013

No.	Copyright name	Registration number	Registrant	Place of registration	Date of registration
7	Zioncom router information detection software V1.4.0 (Zioncom 公司路由器信息檢測軟件 V1.4.0)	2013SR086264	Zioncom Shenzhen	PRC	16 August 2013
8	Zioncom router port testing software V1.4.0 (Zioncom 公司路由器端口測試軟件 V1.4.0)	2013SR085209	Zioncom Shenzhen	PRC	15 August 2013

(d) Domain name

As at the Latest Practicable Date, we had registered the following domain name which are material to our Group's business:

No.	Domain name	Registrant	Expiry date	Place of registration
1.	zioncom.net	Zioncom Shenzhen	18 August 2021	Global
2.	zioncom.cn	Zioncom Shenzhen	20 October 2019	PRC
3.	zioncom.tw	Zioncom Shenzhen	20 October 2019	Global
4.	zioncom.hk	Zioncom Shenzhen	20 October 2018	Global
5.	zioncom.vn	Zioncom Vietnam	11 January 2018	Vietnam
6.	totolink.cn	Zioncom Shenzhen	19 November 2021	PRC
7.	totolink.vn	Zioncom Vietnam	13 August 2018	Vietnam
8.	totolink.tw	Zioncom Taiwan	9 June 2018	Taiwan

Save for the aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, intellectual property rights which were material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of interests of our Directors

So far as our Directors are aware, immediately following completion of the Share Offer and, the Capitalisation Issue (taking no account of the options which may be granted under the Share Option Scheme), the interests or short positions of each of our Directors and the chief executives of our Company in our Shares, underlying Shares and the debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions

of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which, once our Shares are listed, will be required pursuant to Chapter 5 of the GEM Listing Rules to be notified to our Company and the Stock Exchange are set out as follows:

(i) *Interest in our Company*

Name	Capacity/Type of interest	Number of Shares held immediately following completion of the Share Offer and the Capitalisation Issue ^(Note 1)	Approximate percentage of shareholding in our Company
Mr. BK Kim	Interest in a controlled corporation ^(Note 2)	462,000,000 (L)	70.0%

Notes:

- (1) *The letter “L” denotes the person’s long position in the Shares.*
- (2) *The entire share capital of Lincats is beneficially owned as to 81.8% by Mr. BK Kim, 9.1% by Mr. JY Kim and 9.1% by Mr. Koo. Under the SFO, Mr. BK Kim is deemed to be interested in the Shares registered in the name of Lincats.*

(b) *Particulars of service contracts*

Each of our executive Directors has entered into a service contract with our 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 provisions on retirement by rotation of our Directors as set out in the Articles. Particulars of the service agreements of our Directors are in all material respects the same. The salary of our executive Directors is subject to review each year. In addition, each of our executive Directors is also entitled to bonus as determined by our Board based on the recommendations made by our remuneration committee.

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

Save as disclosed above, none of our Directors has entered or proposed to enter into any service contract/letter of appointment with our Company or any of our subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

(c) *Directors’ remuneration*

Our Company’s policies concerning remuneration of our executive Directors are:

- (i) the amount of remuneration payable to our executive Directors will be determined on a case-by-case basis depending on the experience, responsibility, workload and the time devoted to our Group by the relevant Director;
- (ii) non-cash benefits may be provided to our Directors under their remuneration package; and

- (iii) our executive Directors may be granted, at the discretion of our Board, share options of our Company, as part of the remuneration package.

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the aggregate emoluments paid and benefits in kind granted by our Group to our Directors were approximately HK\$5.2 million, HK\$3.7 million and HK\$2.2 million, respectively. During the Track Record Period, none of our Directors waived any emoluments. Further information in respect of our Directors' remuneration is set out in note 13 of the Accountants' Report set out in Appendix I to this prospectus.

An aggregate sum of approximately HK\$4.1 million will be paid to our Directors as remuneration and benefits in kind by our Group for the year ending 31 December 2017 under the arrangements in force at the date of this prospectus excluding management bonus.

2. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (taking no account of the options which may be granted under the Share Option Scheme), the following persons (not being a Director or chief executive of our Company) who will have or be deemed or taken to have an interest and/or short position in our Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

Name	Long/short position	Capacity/Type of interest	Number of Shares	Approximate percentage of shareholding in our Company
Lincats ^(Note 1)	Long position	Beneficial interest	462,000,000 Shares	70.0%
Mr. BK Kim ^(Note 1)	Long position	Interest in a controlled corporation	462,000,000 Shares	70.0%

Note:

- (1) The entire issued share capital of Lincats is beneficially owned as to 81.8% by Mr. BK Kim, 9.1% by Mr. JY Kim and 9.1% by Mr. Koo and Mr. BK Kim is deemed to be interested in the Shares held by Lincats pursuant to the SFO.

3. Related party transactions

Our Group entered into certain related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note 37 of the Accountants' Report set out in Appendix I to this prospectus.

4. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive of our Company has any interests or short positions in our Shares, underlying Shares or the debentures of our Company or any of its associated corporations (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein,

or which will be required to be notified to our Company and the Stock Exchange pursuant to Chapter 5 of the GEM Listing Rules once our Shares are listed;

- (b) none of our Directors or experts referred to under the paragraph headed “— E. Other Information — 8. Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors or experts referred to under “— E. Other Information — 8. Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors or their respective close associate or any of our existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any other interest in any of the five largest customers of our Group;
- (e) none of our Directors or their respective close associate or any of our existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any other interest in any of the five largest suppliers of our Group;
- (f) none of our Directors has any existing or proposed service contacts with any member of our Group (excluding contacts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (g) without taking into account of any Shares which may be granted under the Share Option Scheme, none of our Directors knows of any person (not being a director or chief executive of our Company) who will, immediately following completion of the Share Offer and the Capitalisation Issue, have an interest or short position in our Shares, underlying Shares or the debentures of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and
- (h) none of the experts referred to under “— E. Other Information — 8. Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

D. SHARE OPTION SCHEME

For the purpose of this section only, unless the context otherwise requires, the following words shall have the following meanings:

“Adoption Date”	the date on which our Share Option Scheme was conditionally adopted by written resolutions of all our Shareholders;
“Associate”	has the meaning ascribed to it under the GEM Listing Rules;
“Auditors”	the auditors of our Company for the time being;

“Board”	the board of directors of our Company for the time being or a duly authorised committee thereof;
“Business Day”	any day (excluding a Saturday and Sunday) on which banks are generally open for business in Hong Kong;
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961) (as revised) of the Cayman Islands as amended, supplemented and/or otherwise modified from time to time;
“Company”	Zioncom Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 29 January 2016;
“connected person”	has the meaning ascribed to it under the GEM Listing Rules;
“Date of Grant”	in respect of an Option, the Business Day on which our Board resolves to make an Offer, or the grant of an Option to a Participant, whether or not the Offer is subject to Shareholders’ approval on the terms of the Share Option Scheme;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange;
“Grantee”	any Participant who accepts an Offer in accordance with the terms of the Share Option Scheme, or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Grantee, or the personal representative of such person;
“Group”	our Company and our Subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Individual Limit”	the meaning ascribed thereto in paragraph (a)(v)(cc);
“Listing Date”	the date on which dealings in our Shares first commence on the Growth Enterprise Market of the Stock Exchange;
“Offer”	the offer of the grant of an Option;
“Option”	an option to subscribe for Shares pursuant to the Share Option Scheme and for the time being subsisting;
“Option Period”	in respect of any particular Option, the period to be determined and notified by our Board to the Grantee at the time of making an Offer which shall not expire later than ten years from the Date of Grant’
“Participants”	directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of our Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, partners, joint venture business partners, promoters or service providers of any member of our Group who our Board considers, in its sole discretion, have contributed or will contribute to our Group;

“Scheme Limit”	has the meaning ascribed to it in paragraph (a)(v)(ee);
“Scheme Mandate Limit”	has the meaning ascribed to it in paragraph (a)(v)(aa);
“Shareholder(s)”	holder(s) of our Shares;
“Shares”	the shares of par value of HK\$0.01 each in the share capital of our Company or, if there has been a sub-division, reduction, consolidation, reclassification or reconstruction of the share capital of our Company, the shares forming part of the ordinary equity share capital of our Company or such nominal amount as shall result from any such sub-division, reduction, consolidation, reclassification or reconstruction;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option pursuant to paragraph (iv) below;
“Subsidiary”	a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), of our Company, whether incorporated in Hong Kong or elsewhere and “Subsidiaries” shall be construed accordingly;
“Supplementary Guidance”	supplementary guidance on Rule 23.03(13) of the GEM Listing Rules issued by the Stock Exchange dated 5 September 2005; and
“%”	per cent.

(a) Summary of terms

The Share Option Scheme contains the following terms:

(i) Purpose

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

(ii) Who may join

Our Directors may, at their discretion, invite Participants to take up Options at a price calculated in accordance with paragraph (iv) below. 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 our Share Option Scheme is terminated or after the Participant has ceased to be a Participant. An Offer is deemed to be accepted when our Company receives from the Grantee the Offer letter signed by the Grantee specifying the number of Shares in respect of which the Offer is accepted, and a remittance to our Company of HK\$1.00 as consideration for the grant of Option. Such remittance is not refundable in any circumstances. The Offer shall specify the terms on which the Option is granted. Such terms may at the discretion of our Board, include, among other things, (aa) the minimum period for which an Option must be held before it can be exercised; and/or (bb) a performance target that must be reached before the Option can be exercised in whole or in part; and (cc) any other terms, all of which may be imposed (or not imposed) either on a case-by-case basis or generally.

Any Offer may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of a whole board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. To the extent that the Offer is not accepted within 28 days from the date on which the letter containing the Offer is delivered to that Participant in the manner indicated above, it shall be deemed to have been irrevocably declined.

No Offer shall be made to, nor shall any Offer be capable of acceptance by, any Participant at a time when the Participant would or might be prohibited from dealing in our Shares by the GEM Listing Rules or by any other applicable rules, regulations or law.

Our Directors may or may not set performance targets that must be achieved before the options can be exercised, but no such performance targets are presently prescribed under the Share Option Scheme.

The rules of the Share Option Scheme enable our Directors to determine the terms and conditions of any option based in each case on relevant factors as they consider appropriate. Our Directors believe that the authority given to them under the Share Option Scheme to set any minimum holding period and/or performance targets as conditions in any option granted and the requirement for a minimum subscription price as well as the selection criteria prescribed by the rules of the Share Option Scheme will serve to protect the value of our Company and any of its subsidiaries as well as to achieve the purpose of the Share Option Scheme.

(iii) Grant of Options to connected persons or any of their associates

Any grant of Options to any Director, chief executive or substantial shareholder (as such term is defined in the GEM Listing Rules) of our Company, or any of their respective associates under the Share Option Scheme or any other share option schemes of our Company or any of its Subsidiaries shall be subject to the prior approval of our independent non-executive Directors (excluding independent non-executive Directors who are the proposed Grantees of the Options in question). Where any grant of Options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in our Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled or outstanding) to such person in the 12 month period up to and including the date of such grant:

- (aa) representing in aggregate over 0.1% of our Shares in issue on the date of such grant; and
- (bb) having an aggregate value, based on the closing price of our Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant, in excess of HK\$5 million,

such further grant of Options shall be subject to prior approval by resolution of our Shareholders (voting by way of poll). Our Company shall send a circular to our Shareholders in accordance with the GEM Listing Rules and all connected persons of our Company shall abstain from voting in favour of the resolutions at such general meeting of our Shareholders.

(iv) Subscription Price

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

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

- (bb) the average closing price of our 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
- (cc) the nominal value of our Shares.

(v) *Maximum number of Shares*

- (aa) 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 our 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 our Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

Our Company may renew the Scheme Mandate Limit at any time subject to prior Shareholders' approval but in any event, the total 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 our Company under the limit as refreshed must not exceed 10% of our Shares in issue as at the date of the Shareholders' approval of the renewed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

- (bb) Notwithstanding the foregoing, our Company may grant Options beyond the Scheme Mandate Limit to Participants if:
 - (1) separate Shareholders' approval has been obtained for granting Options beyond the Scheme Mandate Limit to Participants specifically identified by our Company before such Shareholders' approval is sought; and
 - (2) our Company, in connection with the seeking of such separate Shareholders' approval, has first sent a circular to Shareholders containing such information as may be required by the GEM Listing Rules then prevailing to be included in such circular.
- (cc) Subject to paragraph (dd) below, 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 our Company other than those options granted pursuant to specific approval by the Shareholders in a general meeting) exceed 1% of our Shares in issue for the time being (the "**Individual Limit**").
- (dd) Where any further grant of Options to a Participant would result in our Shares issued and to be issued upon exercise of all Options granted and to be granted to such person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Participant and his/her associates abstaining from voting. Our Company must send a circular to our Shareholders disclosing the identity of the Participant in question, the number and terms of the Options to be granted (and Options previously granted to such Participant) and such other information required under the GEM Listing Rules.

- (ee) At any time, the maximum number of Shares which may be issued upon exercise of all Options which then have been granted and have yet to be exercised under the Share Option Scheme and any other share option schemes of our Company shall not, in the absence of Shareholders' approval, in aggregate exceed 30% of our Shares in issue from time to time (the "Scheme Limit").

(vi) 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. 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 ten-year period.

(vii) Rights are personal to grantees

An Option is personal to the Grantee and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Option.

(viii) (aa) Rights on termination of employment by dismissal

- (1) If the Grantee ceases to be a Participant by reason of the termination of his employment or directorship on the grounds of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or, has become insolvent or has made any arrangements or compromise with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other grounds on which an employer would be entitled to terminate his employment summarily, his Option will lapse automatically and not be exercisable (to the extent not already exercised) on or after the date of termination of his employment. To the extent that the Grantee has exercised the Option in whole or in part pursuant to paragraph (xxiii) below, but our Shares have not been allotted to him, the Grantee shall be deemed not to have so exercised such Option and our Company shall return to the Grantee the amount of the Subscription Price for the Shares received by our Company in respect of the purported exercise of such Option.
- (2) If the Grantee who is an employee or a Director or another member of our Group ceases to be a Participant for any reason other than his death or termination of his employment or directorship on one or more of the grounds specified in paragraph (viii)(aa)(1) above, the Option shall lapse (to the extent not already exercised) on the date of cessation or termination of his employment (which date shall be the Grantee's last actual working day with our Company or the relevant Subsidiary whether salary is paid in lieu of notice or not) and shall on that day cease to be exercisable.

(bb) Rights on death

If the Grantee ceases to be a Participant by reason of his death before exercising his Option in full and none of the events which would be a ground for termination of his employment as described in paragraph (viii)(aa)(1) above have arisen, his personal representative(s) may exercise the Option up to the Grantee's entitlement as at the date of death (to the extent not already exercised) within a period of 12 months following the date of his death provided that where any of the events set out in paragraphs (x),

(xi), (xii) and (xiii) occurs prior to his death or within such period of six months following his death, then his personal representative(s) may so exercise the Option only within such of the various periods set out in such paragraphs provided further that if within a period of three years prior to the Grantee's death, the Grantee had committed any of the acts specified in paragraph (vii)(aa)(1) which would have entitled our Company to terminate his employment prior to his death, our Board may at any time forthwith terminate the Option (to the extent not already exercised) by written notice to the Grantee's legal personal representative(s) and/or to the extent the Option has been exercised in whole or in part by his legal personal representative(s), but Shares have not been allotted, he shall be deemed not to have so exercised such Option and our Company shall return to him the amount of the Subscription Price for the Share received by our Company in respect of the purported exercise of such Option.

(ix) Effect of alterations to share capital

In the event of an alteration in the capital structure of our Company, whilst any Option remains exercisable, by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or, consolidation of shares, or reduction of the share capital of our Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party), such corresponding adjustments (if any) shall be made to:

- (aa) the number or nominal amount of Shares subject to the Option so far as unexercised; or
- (bb) the Subscription Price,

or any combination thereof, provided that

- (1) any such adjustments give a Grantee the same proportion of the equity capital of our Company as that to which that Grantee was previously entitled; and
- (2) notwithstanding paragraph (ix)(1) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalisation issue shall be made in accordance with the provisions of Chapter 23 of the GEM Listing Rules and the notes thereto and the supplementary guidance on the interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time (including the Supplemental Guidance attached to all issuers relating to share option schemes).

but no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value. In respect of any such adjustments, an independent financial advisor or auditor must confirm to our Directors in writing that the adjustments are in their opinion fair and reasonable.

(x) Rights on a general offer by way of takeover

In the event of a general offer by way of takeover (other than by way of scheme of arrangement) being made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, our Company shall forthwith notify all the Grantees and any Grantee (or his legal personal representative) shall be entitled to exercise the Option in full (to the extent not already exercised) or to the extent as notified by our Company at any time within such period as shall be notified by our Company.

(xi) Rights on a general offer by way of scheme of arrangement

In the event of a general offer by way of scheme of arrangement being made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, our Company

shall forthwith notify all the Grantees and any Grantee (or his legal personal representative) may at any time thereafter, (but before such time as shall be notified by our Company) exercise the Option either to its full extent or to the extent notified by our Company.

(xii) Rights on winding up

In the event a notice is given by our Company to our Shareholders to convene a Shareholders' meeting to consider and, if thought fit, approve a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to all Grantees and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by our Company) exercise the Option either to its full extent or to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot and issue and register in the name of the Grantee such number of Shares to the Grantee which fall to be issued on such exercise.

(xiii) Rights on a compromise or arrangement

In the event a compromise or arrangement (other than a scheme of arrangement) between our Company and its members or creditors is proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice to all the Grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a compromise or arrangement, and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by our Company) exercise the Option either to its full extent or to the extent notified by our Company and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot and issue and register in the name of the Grantee such number of Shares which fall to be issued on such exercise.

(xiv) Rights of Grantee ceasing to be Participant

In the event of a Grantee who is not an employee or a director of our Company or another member of our Group ceasing to be a Participant as and when determined by our Board by resolution for any reason other than his death our Board may by written notice to such Grantee within one month from the date of such cessation determine the period within which the Option (or such remaining part thereof) shall be exercisable following the date of such cessation.

(xv) Ranking of Shares

The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of our Memorandum of Association and Articles of Association for the time being in force and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which these Shares are allotted on exercise of the Option and accordingly shall entitle the holders to participate in all dividend or other distributions paid or made after the date on which our Shares are allotted other than any dividends or distributions previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the date on which our Shares are allotted.

(xvi) Period of the Share Option Scheme

The Share Option Scheme was adopted for a period of ten years commencing from the Adoption Date.

(xvii) Alterations to the Share Option Scheme

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of Participants, and changes to

the authority of our Board in relation to any alteration of the terms of the Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 23 of the GEM Listing Rules.

(xviii) Conditions of the Share Option Scheme

The Share Option Scheme shall take effect subject to:

- (aa) the passing of the resolution by our Shareholders to approve and adopt the Share Option Scheme and to authorise our Board to grant Options thereunder and to allot and issue Shares pursuant to the exercise of any Options;
- (bb) the Listing Division (as defined in the GEM Listing Rules) of the Stock Exchange granting approval of the listing of and permission to deal in our Shares which fall to be issued pursuant to the exercise of Options; and
- (cc) the commencement of trading of our Shares on the Growth Enterprise Market of the Stock Exchange.

(xix) Lapse of Option

An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:

- (aa) the expiry of the Option Period;
- (bb) the expiry of the periods referred to in paragraphs (viii)(aa), (viii)(bb), (x), (xi), (xii), (xiii) and (xiv) above respectively;
- (cc) the expiry of the period referred to in paragraph (x) above, subject to any court of competent jurisdiction making an order to prohibit the offeror from acquiring the remaining Shares in the Offer, the relevant period within which Options may be exercised shall not begin to run until the discharge of the order in question or unless the Offer lapses or is withdrawn before that date;
- (dd) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (xi) above;
- (ee) the date of commencement of the winding-up of our Company;
- (ff) the date on which the Grantee ceases to be a Participant as referred to in paragraph (viii)(aa)(1) above;
- (gg) the date on which the Grantee commits a breach by selling, transferring, charging, mortgaging, encumbering or creating any interest in favour of any third party over or in relation to any Option; and
- (hh) subject to paragraph (viii)(aa)(2) above, the date the Grantee ceases to be a Participant for any other reason.

(xx) Termination of the Share Option Scheme

Our Company by ordinary resolution in general meeting or our Board may at any time terminate the Share Option Scheme and in such event no further Options may be granted but in all other respects the

Share Option Scheme shall remain in full force and effect in respect of Options which are granted during the life of the Share Option Scheme and which remain unexpired immediately prior to termination of the operation of the Share Option Scheme.

(xxi) Restriction on grant of Option

In addition, a grant of Options may not be made after inside information has come to its knowledge until such inside information has been published in the newspapers or in such other manner as prescribed by the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (aa) the date of the board meeting of our Company (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or, any other interim period (whether or not required under the GEM Listing Rules); and
- (bb) the deadline for our Company to publish an announcement of its results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules);

and ending on the date of the results announcement, no Option may be granted.

(xxii) Cancellation

Any Options granted but not exercised may be cancelled if the Participant so agrees and new Options may be granted to the Grantee provided that such new Options fall within the limits prescribed by paragraph (v), excluding the cancelled Options, and are otherwise granted in accordance with the terms of the Share Option Scheme.

(xxiii) Exercise of Options

- (aa) An Option may, subject to the provisions of paragraph (v), be exercised in whole or in part (but if in part only, in respect of a board lot in which our Shares are traded on the Stock Exchange from time to time or an integral multiple thereof) in the manner set out in paragraphs (vi), (viii), (x), (xi), (xii), (xiii) and (xiv) by the Grantee (or, as the case may be, his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Subscription Price multiplied by the number of Shares in respect of which the notice is given. Within ten (10) Business Days after receipt of the notice and the remittance of the full amount of the relevant aggregate Subscription Price and, where appropriate, receipt of the Auditors' certificate or the certificate from the independent financial adviser to our Company pursuant to paragraph (v), our Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or, as the case may be, his legal personal representative(s)) credited as fully paid and issue to the Grantee (or, as the case may be, his legal personal representative(s)) share certificates in respect of our Shares so allotted.
- (bb) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto our Board shall make available sufficient authorised but unissued share capital of our Company to meet subsisting requirements on the exercise of Options.

- (cc) The Options do not carry any right to vote in general meeting of our Company, or any right, dividend, transfer or any other rights, including those arising on the liquidation of our Company.
- (dd) No Grantee shall enjoy any of the rights of a shareholder by virtue of the grant of an Option pursuant to the Share Option Scheme, unless and until Shares are actually issued to the Grantee pursuant to exercise of such Option.

(b) Present status of the Share Option Scheme

As at the Latest Practicable Date, no Option had been granted or agreed to be granted pursuant to the Share Option Scheme.

E. OTHER INFORMATION

1. Estate duty, tax and other indemnities

Our Controlling Shareholders (the “**Indemnifiers**”) have entered into the Deed of Indemnity in favour of our Company (for itself and as trustee of other members of our Group (the “**Group Member(s)**”) pursuant to which, each of the Indemnifiers has agreed and undertaken, jointly and severally, that he/it will indemnify and at all times keep each of the Group members indemnified on demand on a full indemnity basis against any depletion in or reduction in value of their respective assets, or increase in their respective liabilities, or any payment made or required to be made by any of the Group Members, or any increase in the liabilities, or loss, modification, cancellation, reduction or deprivation of any relief, at any of the Group Members, as a direct or indirect consequence of, and in respect of any amount which the Group Members or any of them may thereafter become liable to pay, being:

- (a) any amount which is or hereafter becomes payable by a Group Member by virtue of Section 35 of the Estate Duty Ordinance (Chapter 111 of the laws of Hong Kong) (“**Estate Duty Ordinance**”) (or equivalent thereof under the laws of any jurisdiction outside Hong Kong) under the provisions of Section 43 of the Estate Duty Ordinance (or equivalent thereof under the laws of any jurisdiction outside Hong Kong) by reason of the death of any person and by reason of the assets of any of the Group Members or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his or her death by reason of that person making or having made a transfer of any property other than an interest limited to cease on his death or property which he transferred in a fiduciary capacity as provided in Section 35 of the Estate Duty Ordinance interpreted in accordance with the provisions contained in Section 3 of the Estate Duty Ordinance (a “**Relevant Transfer**”) to any of the Group Members;
- (b) any amount recoverable or recovered (now or hereafter) against a Group Member under the provisions of Section 43(7) of the Estate Duty Ordinance in respect of any duty payable under Section 43(1)(c) or 43(6) (or equivalent thereof under the laws of any jurisdiction outside Hong Kong) of the Estate Duty Ordinance by reason of the death of any person and by reason of any assets of any of the Group Members being deemed for the purpose of estate duty to be included in the property passing on his death by reason of that person making or having made a Relevant Transfer to any of the Group Members;
- (c) any amount which a Group Member is obliged or hereafter becomes obliged to pay by virtue of Section 43(1)(c) of the Estate Duty Ordinance or in respect of the death of any person in any case where any assets of another company are deemed for the purpose of estate duty to be included in the property passing on that person’s death by reason of that person making or

having made a Relevant Transfer to that other company and by reason of any of the Group Members having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance (or equivalent thereof under the laws of any jurisdiction outside Hong Kong), but only to the extent to which any of the Group Members is unable to recover an amount or amounts in respect of that duty from any other person under the provisions of Section 43(7)(a) of the Estate Duty Ordinance (or equivalent thereof under the laws of any jurisdiction outside Hong Kong); and

- (d) any claim which has arisen or may arise wholly or partly in respect of or in consequence of any act or omission occurring on or before the date upon which the Deed of Indemnity becomes unconditional (the “**Relevant Date**”).

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of the Cayman Islands, the BVI, Hong Kong, PRC or Taiwan, being jurisdictions in which one or more of the companies comprising our Group were incorporated.

Each of the indemnifiers has also agreed and undertaken, jointly and severally, to indemnify and at all times keep each of the Group Members indemnified, on demand, against any taxation claim wholly or partly resulting from, or relating to, or in consequence of any act or omission of any of the Group Members regarding inter-companies transactions, any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the Relevant Date or any event, occurring or deemed to occur on or before the Relevant Date, whether alone or in conjunction with any other event, whenever occurring and whether or not the relevant taxation is chargeable against or attributable to any other person including any and all taxation resulting from the receipt by any Group Member of any amount payable by the Indemnifier the Deed of Indemnity.

The Indemnifiers will, however, not be liable for any taxation or taxation claim to the extent that, among others:

- (a) to the extent (if any) that provision has been made for such taxation in the audited accounts of our Group for the Track Record Period; or
- (b) to the extent that liability for such taxation would not have arisen but for some act or omission of, or transaction entered into by a Group Member (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the Indemnifier otherwise than in the course of normal day to day operations or carried out, made or entered into pursuant to a legally binding commitment created on or before Listing; or
- (c) to the extent that any provisions or reserve made for taxation in the audited accounts of our Group up to 30 June 2017 is finally established to be an over-provision or an excessive reserve; or
- (d) to the extent that such taxation arises or is incurred as a consequence of any change in the law having retrospective effect and coming into force after the Relevant Date or to the extent that such taxation arises or is increased by an increase in rates of taxation after the Relevant Date with retrospective effect.

The Indemnifiers irrevocably covenant with the Group Members that they will at all times fully and effectively indemnify and keep indemnified each and all of the Group Members on demand (and this shall constitute an independent primary obligation) from and against all actions, proceedings, claims, demands,

losses, liabilities, penalties, damages, costs, charges and expenses of whatever nature which any of the Group Members may incur, suffer or sustain directly or indirectly in connection with or arising out of any of the following matters, circumstances, events or things (including, without limitation, all losses, liabilities and costs incurred as a result of defending or settling a claim alleging such a liability):

- (a) there being or occurring any breach under or non-compliance with any law or regulation in or of any relevant jurisdiction on the part of the Indemnifiers or any matter arising from or in connection with the investment made by the Indemnifiers in any Group Member and/or the reorganisation of the share capital structure and shareholdings of any of our Company or its subsidiaries prior to the Relevant Date which would have any direct or indirect adverse effect on the business or financial condition of any of the Group Members; or
- (b) there being or occurring (or deemed to be or occur) any act, omission, event, default, breach or any other event of default or any event in relation to the Indemnifiers which has or, by the passage of time or the giving of notice of both or otherwise, would have the effect of accelerating or permitting the acceleration (by notice or otherwise) of the repayment of any indebtedness or giving rise to an obligation or liability or right of enforcement of such obligation or liability of any of the Group Members under any loan and/or security documents or arrangements relating to such indebtedness.

Each of the indemnifiers has also agreed and undertaken to indemnify and keep indemnified each of the Group Members, on demand and hold each of the Group Members harmless from and, against all or any actions, claims, losses, damages, costs, charges and expenses which may be made against, suffered or reasonably incurred by any of the Group Members in respect of or arising, directly or indirectly, from or in connection with any taxation or any taxation claim which is covered by the indemnities given above, all reasonable costs (including all legal costs), expenses or other liabilities which any of the Group Members may properly incur in connection with:

- (a) the investigation, assessment or the contesting of any taxation claim;
- (b) the settlement of any taxation claim and any claim under the Deed of Indemnity;
- (c) any legal proceedings in which any of the Group Members claims under or in respect of the Deed of Indemnity and in which judgment is given for any of the Group Members; or
- (d) the enforcement of any such settlement or judgment.

Furthermore, each of the Indemnifiers has agreed and undertaken, jointly and severally, to indemnify and keep indemnified our Group, on demand, against any actions, claims, losses, damages, costs, charges and expenses which may be made against, suffered or reasonably incurred by any of the Group Members in respect of or arising, directly or indirectly, from or in connection with any damages arising from or in connection with any property claims or third party claims or claims by the government of Hong Kong, the PRC, Vietnam, Taiwan and any other countries or mortgagee of the property owned or leased by our Group prior to the Relevant Date and arising out of (i) any breach or non-compliance of any applicable Hong Kong law, PRC law, Taiwan law, Vietnam law and other countries' law, rules and/or regulations affecting any such property; and/or (ii) of the occupier or user of any such property; and/or (iii) any breach or non-compliance of other terms, conditions, covenants, restrictions of the relevant agreement (including but not limited to mortgage, legal charge and tenancy agreement) or of any (if any) land use right sale and purchase agreement or holding of any defective real estate title certificate or any other title documents in respect of any such property.

2. Litigation

To the best knowledge of our Directors, as at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claims of material importance was pending or threatened against our Company or any of our subsidiaries.

3. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus, including any Shares falling to be issued pursuant to the Share Offer and the Capitalisation Issue or pursuant to any options which may be granted under the Share Option Scheme.

Neither the Sole Sponsor nor any of its associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

- (a) by way of sponsorship, financial advisory and documentation fee to be paid to the Sole Sponsor for acting as the sole sponsor of the Listing;
- (b) by way of the compliance advisory fee to be paid to Lego Corporate Finance Limited as our Company's compliance adviser pursuant to the requirements under Rule 6A.19 of the GEM Listing Rules; and
- (c) by way of underwriting commission and/or other underwriting fees as stipulated in the Underwriting Agreements and the auxiliary documents related thereto to be paid to the Sole Sponsor and/or its associates.

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Listing, any interest in any class of securities of our Company or any of its subsidiaries. None of the directors and employees of the Sole Sponsor has any directorship in our Company or any other companies comprising our Group. The Sole Sponsor is independent from our Group under Rule 6A.07 of the GEM Listing Rules.

4. Preliminary expenses

The preliminary expenses of our Company are approximately HK\$37,107 and have been paid by our Company.

5. Sole Sponsor's fees

The Sole Sponsor's fees of our Company are approximately HK\$4.5 million and are payable by our Company.

6. Promoter

We do not have any promoter for the purpose of the GEM Listing Rules.

7. Qualifications of experts

The following are the qualifications of the experts who have been given opinion or advise which are contained in this prospectus:

Name	Qualification
Lego Corporate Finance Limited	A corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Beijing Dentons Law Office, LLP (Shenzhen)	Legal advisers to our Company as to PRC laws
Lee and Li, Attorneys-at-Law	Legal advisers to our Company as to Taiwan laws
VNA Legal	Legal advisers to our Company as to Vietnam laws
Bae, Kim & Lee LLC	Legal advisers to our Company as to Korea laws
Mr. Matthew Ho, barrister-at-law	Legal advisers to our Company as to certain aspects of Hong Kong laws
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Appleby	Cayman Islands attorneys-at-law
Frost & Sullivan International Limited	Independent industry consultant

8. Consents of experts

Each of experts referred to in “7. Qualifications of experts” has given and has not withdrawn its/his written consent to the issue of this prospectus with the inclusion of its report and/or letters and/or valuation certificates and/or legal opinion (as the case may be) and the references to their name included herein in the form and context in which they are respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. Agency fees or commission received

The Sole Sponsor and the Underwriters will receive an underwriting commission and/or other underwriting fees as stipulated in the Underwriting Agreements and the auxiliary documents related thereto, and the Sole Sponsor will receive sponsorship, documentation and financial advisory fee for acting as the sole sponsor of the Listing and compliance advisory fee as our Company’s compliance adviser pursuant to the requirements under Rule 6A.19 of the GEM Listing Rules.

11. No material adverse change

Our Directors confirm that there has not been any material adverse change in the financial or trading position or prospects of our Group since 30 June 2017 (being the date to which the latest audited combined financial statements of our Group were made up) and up to the date of this prospectus.

12. Compliance Adviser

We have appointed Lego Corporate Finance Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules.

Further details are set out in “Directors, Senior Management and Employees — Compliance Adviser” in this prospectus.

13. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share, warrant or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) our Group has no outstanding convertible debt securities or debentures;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - (v) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;
 - (vi) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;
- (b) none of the persons named in “— E. Other Information — 8. Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the last 24 months;
- (d) the principal register of members of our Company will be maintained in Cayman Islands by Estera Trust (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s branch share register in Hong Kong and may not be lodged for registration with the principal share registrar in the Cayman Islands;
- (e) no member of our Group is presently listed on any stock exchange or traded on any trading system;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (h) all necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.

14. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). The English text of this prospectus shall prevail over the Chinese text.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (a) copies of the **WHITE** and **YELLOW** Application Forms; (b) copies of the written consents referred to in “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix IV to this prospectus; and (c) copies of material contracts referred to in “Statutory and General Information — B. Further information about our business — 1. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Stephenson Harwood at 18th Floor, United Centre, 95 Queensway, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles of our Company;
- (b) the Accountants’ Report prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of our Group during the Track Record Period;
- (d) the letter prepared by HLB Hodgson Impey Cheng Limited relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (e) the Frost & Sullivan Report;
- (f) the letter of advice prepared by Appleby summarising certain aspects of the Cayman Islands company law as referred to in Appendix III to this prospectus;
- (g) the legal opinions issued by Beijing Dentons Law Office, LLP (Shenzhen), the PRC Legal Advisers;
- (h) the legal opinion issued by Lee and Li, Attorneys-at-Law, the Taiwan Legal Advisers;
- (i) the legal opinion issued by VNA Legal, the Vietnam Legal Advisers;
- (j) the legal opinion issued by Bae, Kim & Lee LLC, the Korea Legal Advisers;
- (k) the legal opinions issued by Mr. Matthew Ho, barrister-at-law in Hong Kong, legal advisers to our Company as to certain aspects of Hong Kong laws;
- (l) the Companies Law;
- (m) the material contracts referred to in “Statutory and General Information — B. Further information about our business — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (n) the written consents referred to in “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix IV to this prospectus;
- (o) the rules of the Share Option Scheme; and
- (p) the service contracts and letters of appointment referred to in “Statutory and General Information — C. Further information about our Directors and substantial Shareholders — 1. Directors — (b) Particulars of service contracts” in Appendix IV to this prospectus.

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