

Vertical
International Holdings Limited
弘浩國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8375

SHARE OFFER

Sole Sponsor and Joint Lead Manager



VINCO CAPITAL LIMITED

Sole Bookrunner and Joint Lead Manager



Pacific Foundation Securities Limited

IMPORTANT

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

VERTICAL INTERNATIONAL HOLDINGS LIMITED

弘浩國際控股有限公司

(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

Total number of Offer Shares : 200,000,000 New Shares
under the Share Offer
Number of Public Offer Shares : 20,000,000 Shares (subject to reallocation)
Number of Placing Shares : 180,000,000 Shares (subject to reallocation)
Offer Price : Not more than HK\$0.30 per Offer Share and
expected to be not less than HK\$0.25 per
Offer Share plus brokerage of 1%, SFC
transaction levy of 0.0027% and Stock
Exchange trading fee of 0.005% (maximum
Offer Price payable in full on application in
Hong Kong dollars and subject to refund)
Nominal value : HK\$0.01 per Share
Stock code : 8375

Sole Sponsor and Joint Lead Manager



Vinco Capital Limited

Sole Bookrunner and Joint Lead Manager



Pacific Foundation Securities Limited

Co-Managers

Ample Orient Capital Limited

Frontpage Capital Limited

Nuada Limited

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 with the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" 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 document referred to above.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including but not limited to the risk factors set out in the section headed "Risk factors" of this prospectus.

The Offer Price is expected to be determined by agreement between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about Monday, 6 November 2017 (Hong Kong time). The Offer Price will not be more than HK\$0.30 and is currently expected to be not less than HK\$0.25 per Offer Share, unless otherwise announced. If, for any reason, 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 by 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 will not proceed and will lapse. In such case, an announcement will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.verticaltech.com.cn.

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range stated in this prospectus at any time on or prior to the Price Determination Date. In such case, a notice of such reduction will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.verticaltech.com.cn. Further details are set out in the section headed "Structure and conditions of the Share Offer" of this prospectus.

Prospective investors should take note that the obligations of the Underwriters under the Underwriting Agreements 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 forth in the section headed "Underwriting — Public offer underwriting arrangements — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. It is important that you refer to that section for further details.

31 October 2017

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 of the Stock Exchange 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 newspapers. 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

If there is any change to the following expected timetable of the Share Offer, we will publish an announcement on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.verticaltech.com.cn

Date⁽¹⁾
2017

Latest time for completing electronic applications under HK eIPO White Form through the designated website at www.hkeipo.hk ⁽²⁾	11:30 a.m. on Friday, 3 November
Application lists open ⁽³⁾	11:45 a.m. on Friday, 3 November
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Friday, 3 November
Latest time for completing payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 3 November
Application lists close ⁽³⁾	12:00 noon on Friday, 3 November
Expected Price Determination Date ⁽⁵⁾	on Monday, 6 November
Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allotment of the Public Offer Shares to be published on our Company's website at www.verticaltech.com.cn and the website of the Stock Exchange at www.hkexnews.hk on	Friday, 10 November
Results of allocation in the Public Offer (with Hong Kong Identity Card/passport/Hong Kong business registration numbers of successful applicants, where appropriate) to be made available through a variety of channels as described in the section headed "How to apply for Public Offer Shares — 11. Publication of results" in this prospectus on	Friday, 10 November
Results of allocations in the Public Offer will be available at www.tricor.com.hk/ipo/result with a "search by ID Number/Business Registration Number" function on	Friday, 10 November

EXPECTED TIMETABLE

Date⁽¹⁾
2017

Despatch/collection of share certificates in respect of wholly or partially successful applications pursuant to the Public Offer⁽⁷⁾ on or before
Friday, 10 November

Despatch/collection of **HK eIPO White Form** e-Auto refund payment instructions/refund cheques in respect of wholly or partially successful applications (in the event that the final Offer Price is less than the maximum Offer Price payable on application) and wholly or partially unsuccessful applications pursuant to the Public Offer^(6 to 9) on or before
Friday, 10 November

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on Monday, 13 November

Notes:

1. All times and dates refer to Hong Kong local time and date. Details of the structure of the Share Offer, including its conditions and grounds for termination are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.
2. You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 3 November, 2017, the application lists will not open and close on that day. Further information is set out in the section headed “How to apply for Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. Applicants who apply by giving electronic application instructions to HKSCC via CCASS should refer to the section headed “How to apply for Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is scheduled at 6:00 p.m. on Monday, 6 November, 2017 (or such other date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters)). 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 on the Price Determination Date (or such other date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters)), the Share Offer will not proceed and will lapse.

EXPECTED TIMETABLE

6. e-Auto Refund payment instruction/refund cheque(s) will be issued to you, or if you are joint applicants, to the first-named applicant on your Application Form in respect of wholly or partially unsuccessful applications and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the maximum Offer Price payable on application. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque.
7. Applicants who apply on **WHITE** Application Forms or through the **HK eIPO White Form Service** for 1,000,000 Shares or more under the Public Offer and have provided all required information may collect refund cheques and (where applicable) share certificates in person from the Hong Kong Branch Share Registrar at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 10 November, 2017. Identification and (where applicable) authorisation documents acceptable to the Hong Kong Branch Share Registrar must be produced at the time of collection.
8. Applicants who apply on **YELLOW** Application Forms for 1,000,000 Shares or more under the Public Offer and have provided all required information may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms is the same as that for **WHITE** Application Form applicants.
9. For applicants who have applied through the **HK eIPO White Form Service** and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to their application payment bank account in the form of e-Refund payment instructions on Friday, 10 November 2017. For applicants who have applied through the **HK eIPO White Form Service** and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) will be despatched on or before Friday, 10 November, 2017 by ordinary post at their own risk. Please refer to the section headed "How to apply for Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" in this prospectus for details.
10. Uncollected share certificates and refund cheques (if any) 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 in the section headed "How to apply for Public Offer Shares — 13. Refund of application monies" in this prospectus.

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Share Offer has become unconditional; and (ii) the right of termination as described in the section headed "Underwriting — Public Offer underwriting arrangements — Grounds for termination" in this prospectus has not been exercised and has lapsed. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

For details of the structure of the Share Offer, including the conditions thereof, please refer to the section headed "Structure and conditions of the Share Offer" of this prospectus. If the Underwriting Agreements does not become unconditional or is terminated in accordance with the terms and conditions contained therein, our Company will make an announcement as soon as possible.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is used 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 invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers and the Underwriters, any of our or their respective directors, advisers, officers, employees, agents, affiliates or representatives of any of them or any other person or party involved in the Share Offer. Information contained in our website, located at www.verticaltech.com.cn, does not form part of this prospectus.

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SUMMARY AND HIGHLIGHTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document 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 forth in the section headed “Risk factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

Our Group’s core business is the manufacturing of chip type and radial lead type aluminum electrolytic capacitors. This core business is complemented by the trading of (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors; and (ii) LED and LED lighting products.

Our Group’s manufacturing process of aluminum electrolytic capacitors utilised its own patented manufacturing method, developed by our Group’s in-house research and development team. As at the Latest Practicable Date, our Group held 11 utility model patents registered and had filed applications for the registration of five utility model patents and one invention patent in the PRC with respect to the manufacturing method of its aluminum electrolytic capacitors.

As at the Latest Practicable Date, our Group manufactured all of its products in the production plant located in Dongguan, Guangdong Province, the PRC and our Group had a total of 147 employees in the Dongguan production plant. Our Group operates a sales office in Hong Kong. The Hong Kong sales office oversees our Group’s sales and marketing operations.

The revenue of our Group (i) increased from approximately HK\$75.8 million for the year ended 31 December 2015 to approximately HK\$92.8 million for the year ended 31 December 2016, representing an increase of approximately 22.4%, or HK\$17.0 million; and (ii) increased from approximately HK\$20.0 million for the four-month period ended 30 April 2016 to approximately HK\$32.5 million for the four-month period ended 30 April 2017, representing an increase of approximately 62.7% or HK\$12.5 million. The gross profit margin of our Group remained steady at approximately 20.8%, 22.8%, 17.7% and 21.0% for the two years ended 31 December 2016 and the four-month periods ended 30 April 2016 and 30 April 2017, respectively. Our Group’s profit for the year increased from approximately HK\$6.7 million for the year ended 31 December 2015 to HK\$9.1 million for the year ended 31 December 2016, representing an increase of approximately HK\$2.4 million or 37.2%. However, the profit for the period decreased from approximately HK\$1.0 million for the four-month period ended 30 April 2016 to a loss of approximately HK\$3.7 million for the four-month period ended 30 April 2017, representing a decrease of approximately HK\$4.7 million, or 485.4% primarily due to the listing expenses of

SUMMARY AND HIGHLIGHTS

approximately HK\$7.4 million incurred in the four-month period ended 30 April 2017. Please refer to the section headed “Financial information — Comparison of results of operations” on pages 207 to 213 of this prospectus for details.

The table below sets forth a breakdown of our Group’s revenue during the Track Record Period by business segments:

	Year ended 31 December 2015		Year ended 31 December 2016		Four-month period ended			
	HK\$'000	%	HK\$'000	%	30 April 2016 HK\$'000 (unaudited)	%	30 April 2017 HK\$'000	%
Sales of manufactured aluminum electrolytic capacitors	38,451	50.7%	57,199	61.7%	11,245	56.2%	20,889	64.2%
Trading of electronic components	37,315	49.3%	35,575	38.3%	8,748	43.8%	11,641	35.8%
Total	75,766	100.0%	92,774	100.0%	19,993	100.0%	32,530	100.0%

The table below sets forth a geographical breakdown of our Group’s revenue during the Track Record Period by distribution regions:

	Year ended 31 December 2015		Year ended 31 December 2016		Four-month period ended			
	HK\$'000	%	HK\$'000	%	30 April 2016 HK\$'000 (unaudited)	%	30 April 2017 HK\$'000	%
Hong Kong	9,976	13.2%	24,741	26.7%	3,246	16.2%	7,533	23.2%
PRC	36,322	47.9%	50,160	54.1%	12,089	60.5%	18,907	58.1%
Malaysia <i>(Note 1)</i>	24,691	32.6%	10,407	11.2%	2,036	10.2%	4,421	13.6%
Other Asian regions <i>(Note 2)</i>	4,777	6.3%	7,466	8.0%	2,622	13.1%	1,669	5.1%
Total	75,766	100.0%	92,774	100.0%	19,993	100.0%	32,530	100.0%

Notes:

1. Our Group’s sales to our Malaysian customer were conducted on “Free on Board” terms in Hong Kong and as a result, we were not responsible for customs clearance in Malaysia, and Malaysian laws and regulations would not be applicable to our Group.
2. Revenue generated from the Asian regions, other than Hong Kong, PRC and Malaysia mainly derived from the sales to Japan, Singapore, South Korea, Macau and Indonesia based customers.

During the Track Record Period, the Group has experienced an increase in demand of the Group’s products which is the result of orders placed by new customers and the increased demand of the Group’s product from recurring customers. Although the revenue attributable to each new customer was small, in absolute dollar term, the revenue attributable to these new customers for manufacturing business amounted to approximately HK\$10.4 million and HK\$9.9 million in 2015 and 2016, respectively, and had significantly contributed to the revenue growth of our Group in 2015 and 2016. The other driver behind the increase in demand of the Group’s product is because the whole PRC market is growing for reasons set out in the section headed “Industry overview” on pages 58 to 76 of this prospectus, in which the market size of chip type and radial lead type aluminum electrolytic capacitors had been growing at a CAGR of 14.06% and 13.19%, respectively, between 2012

SUMMARY AND HIGHLIGHTS

and 2016. For further details on the reasons behind the increase in demand of the Group's products, please refer to the section headed "Financial information — Principal components of results of operations — Revenue" on pages 196 to 198 of this prospectus.

In addition, as a result of higher production volume, we were able to (i) take advantage of our bargaining power against raw material suppliers for a lower unit price; and (ii) allocate other direct costs (being mainly employees' benefits expenses and overhead) over a greater quantity of products, which means a lower cost of sales per unit that allows us to lower our product prices, whilst maintaining a stable gross profit margin for the year ended 31 December 2016. For further details, please refer to the section headed "Financial information — Accumulated losses" on pages 228 to 231 of this prospectus.

The following table sets out revenue, gross profit margin, sales volume and average sales prices of our Group's principal manufactured products during the two years ended 31 December 2016 and the four-month period ended 30 April 2017:

	For the year ended 31 December										(Decrease)/ Increase rate of average sales price between the years ended 31 December 2015 and 2016	For the four-month period ended 30 April 2017					Increase/ (Decrease) rate of average sales price between the year ended 31 December 2016 and the four-month period ended 30 April 2017
	2015					2016											
	Revenue	% of revenue	Gross Profit Margin	Units sold	Average sales price HK\$ per thousand units	Revenue	% of revenue	Gross Profit Margin	Units sold	Average sales price HK\$ per thousand units		Revenue	% of revenue	Gross Profit Margin	Units sold	Average sales price HK\$ per thousand units	
HK\$'000	%	'000	units	HK\$'000	%	'000	units	%	HK\$'000	%	'000	units	%				
Chip type aluminum electrolytic capacitors																	
— General purpose series	32,418	84.3	28.9	249,753	130	46,972	82.1	31.9	408,949	115	(11.5)	18,062	86.5%	25.3	199,586	90	(21.7)
— Others	1,632	4.2	28.1	7,963	205	2,354	4.1	28.2	14,383	164	(20.0)	763	3.7%	25.3	4,221	181	10.4
Radial lead type aluminum electrolytic capacitors																	
— General purpose series	4,391	11.4	14.8	114,931	38	7,717	13.5	15.8	243,405	32	(15.8)	2,034	9.6%	18.7	64,052	32	—
— Others	10	0.1	10.0	55	182	156	0.3	12.8	742	210	15.4	30	0.2%	14.0	183	164	(9.3)

Aluminum electrolytic capacitors (both chip type and radial lead type) produced by our Group are generic products and are readily available from other suppliers. The average selling price for aluminum electrolytic capacitor in the PRC had decreased from RMB0.2 per unit in 2012 to RMB0.18 per unit in 2016. Although demand is expected to grow but price is expected to continue to fall in the near future due to the rapid advancement of China's technology in manufacturing aluminum electrolytic capacitors at a lower cost and higher efficiency, which will likely increase pressure to reduce cost and increase production efficiency to maintain price competitiveness. For more details, please refer to the sections headed "Industry overview" on pages 58 to 76 and "Business — Market and competition" on pages 107 to 108 of this prospectus.

The reasons for the steeper decrease in the average sales prices of each of our Group's general purpose series of its chip type and radial lead type aluminum electrolytic capacitors as compared with the overall price decrease of aluminum electrolytic capacitors in the PRC market is due to our Group lowering its prices to attract more customers for our products. For details please refer to the section headed "Business — Products of our Group" on pages 119 to 124 of this prospectus.

SUMMARY AND HIGHLIGHTS

The table below sets out the information on the maximum design production capacity, actual production volume and utilisation rate of our Group's production lines during the Track Record Period:

	For the year ended 31 December						For the four-month period ended 30 April		
	2015			2016			2017		
	Maximum design production capacity	Actual production volume	Utilisation rate	Maximum design production capacity	Actual production volume	Utilisation rate	Maximum design production capacity	Actual production volume	Utilisation rate
	(note 1) Thousand units	(note 1) Thousand units	(note 3) %	(note 1) Thousand units	(note 1) Thousand units	(note 3) %	(note 2) Thousand units	(note 2) Thousand units	(note 3) %
Chip type aluminum electrolytic capacitors	457,090	276,284	60.4	479,381	427,305	89.1	205,918	197,489	95.9
Radial lead type electrolytic capacitors	32,636	13,867	42.5	199,870	91,865	46.0	110,068	61,786	56.1

Note:

1. The maximum design production capacity is calculated based on 290 and 296 operating days in each of the two years ended 31 December 2016, respectively.
2. The maximum design production capacity for a four-month period is calculated based on 103 operating days.
3. The utilisation rate is calculated by comparing the actual production of complete products against the maximum design production capacity for complete products, and therefore does not take into account the actual production of products which did not go through the complete production process at the request of our customers.

The increase in the actual production volumes of our Group's production equipment for aluminum electrolytic capacitors for the year ended 31 December 2016 as compared with those of the prior year was mainly due to the expansion of our Group's production capacity through addition of new production equipment and higher utilisation rates.

We sold more radial lead type products than we produced in the two years ended on 31 December 2016 and the four-month period ended 30 April 2017 because we also produced radial lead type products which did not go through the complete production process at the request of our customers. In order not to cause confusion, these products are not counted as part of the products completely produced by our Group and are not taken into account in the calculation of the utilisation rate. For details please refer to the section headed "Financial information — Principal components of results of operations — Revenue" on pages 196 to 198 of this prospectus.

SUMMARY AND HIGHLIGHTS

CUSTOMERS AND SUPPLIERS

Our Group's top five customers, accounted for approximately 41.8%, 41.5% and 55.2% of our total revenue for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively, while approximately 32.6%, 14.2% and 15.6% of our Group's total revenue were attributable to our largest customer for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively. During the Track Record Period, our manufactured products were sold to three main types of clients:

1. Resellers who resell our products to end-users;
2. End-users who are manufacturers of various electronic products ranging from household appliances, audio/visual equipment, personal computers, automotive electronic products, communications equipment and toys; and
3. OEM clients in aluminum electrolytic capacitor industry.

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, the percentage of our Group's total purchases from our Group's largest supplier amounted to approximately 51.2%, 17.3% and 20.7% of the total purchases from suppliers, respectively, while the percentage of our Group's total purchases from our Group's five largest suppliers amounted to approximately 67.9%, 51.6% and 55.6% of the total purchases from suppliers, respectively.

COMPETITIVE STRENGTHS

The Directors believe the following competitive strengths contribute to our Group's continued success and potential for growth:

- Reputation as a high-quality manufacturer of aluminum electrolytic capacitors.
- Strong technology expertise.
- Dedicated and strong research and development capabilities for manufacturing and product development and enhancement.
- Strong management team with extensive industry experience.
- Strong emphasis on stringent quality control.
- Strong customer base.
- Providing supplementary products to our customers.

SUMMARY AND HIGHLIGHTS

FINANCIAL INFORMATION

The financial information set out below should be read in conjunction with the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and the section headed "Financial information" on pages 187 to 243 of this prospectus.

The table below sets forth selected information and analysis from the consolidated statements of profit or loss and other comprehensive income of our Group:

Results of operations during the Track Record Period

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Revenue	75,766	92,774	19,993	32,530
Gross Profit	15,749	21,149	3,538	6,822
Profit before taxation	9,038	11,433	1,341	(3,489)
Profit (loss) for the year/ period	6,650	9,126	960	(3,700)

Our revenue increased by approximately 22.4% or HK\$17.0 million, from approximately HK\$75.8 million for the year ended 31 December 2015 to approximately HK\$92.8 million for the year ended 31 December 2016. The increase in revenue was mainly due to increased demand for the aluminum electrolytic capacitors manufactured by our Group. Demand of the Group's products has been strong despite the excess capacity and intense competition in the industry. For a more detailed analysis on our revenue growth and demand for our products, please refer to the sections headed "Financial information — Principal components of results of operations — Revenue" on pages 196 to 198 and "Business — Customers" on pages 137 to 144 of this prospectus. As a result of our increased revenue, our gross profit and profit for the year ended 31 December 2016 also increased by 34.3% and 37.2%, respectively, when compared with the year ended 31 December 2015.

Our revenue increased by approximately 62.7%, or HK\$12.5 million, from approximately HK\$20.0 million for the four-month period ended 30 April 2016 to HK\$32.5 million for the four-month period ended 30 April 2017. The increase in total revenue was mainly due to the increased demand for the aluminum electrolytic capacitors manufactured by our Group. As a result of our increased revenue, our gross profit increased by approximately 92.8%, or HK\$3.3 million, from approximately HK\$3.5 million for the four-month period ended 30 April 2016 to approximately HK\$6.8 million for the four-month period ended 30 April 2017. However, profit before taxation decreased from approximately HK\$1.3 million for the four-month period ended 30 April 2016 to a loss before taxation in the sum of approximately HK\$3.5 million for the four-month period ended 30 April 2017, representing a decrease of approximately HK\$4.8 million, or 360.2%. The decrease was mainly due to the listing expenses in the sum of approximately HK\$7.4

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million which were incurred in the four-month period ended 30 April 2017. Similarly, the profit for the period decreased from approximately HK\$1.0 million for the four-month period ended 30 April 2016 to the loss of approximately HK\$3.7 million for the four-month period ended 30 April 2017, representing a decrease of approximately HK\$4.7 million, or 485.4% primarily due to the listing expenses of approximately HK\$7.4 million incurred in the four-month period ended 30 April 2017.

The table below sets forth selected information from the consolidated statements of financial position of our Group:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Current assets	48,359	54,629	50,772
Current liabilities	43,912	44,826	36,954
Non-current assets	20,367	22,126	21,491
Non-current liabilities	167	178	158
Net current assets	4,447	9,803	13,818
Total equity	24,647	31,751	35,151

We have net current assets as at 31 December 2015, 31 December 2016 and 30 April 2017. Our net current assets increased from approximately HK\$4.4 million as at 31 December 2015 to approximately HK\$9.8 million as at 31 December 2016, as a result of (i) an increase in trade, bills receivables, deposits, prepayments and other receivables balance as at 31 December 2016 by approximately HK\$4.8 million; (ii) the increase in bank balances and cash by approximately HK\$4.1 million due to increase in operating cash flow; which partially offset by (iii) an increase in trade and other payables of approximately HK\$2.2 million; and (iv) increase in tax payables of approximately HK\$0.8 million. Our net current assets increased from approximately HK\$9.8 million as at 31 December 2016 to approximately HK\$13.8 million as at 30 April 2017. Such increase was mainly due to (i) full settlement of the amount due to a shareholder of approximately HK\$6.6 million; (ii) decrease in the amount of tax payable of approximately HK\$2.0 million; and (iii) increase in bank balances and cash of approximately HK\$2.2 million, partially offset by a decrease in trade and bills receivables of approximately HK\$6.9 million. For details on the fluctuation of such items, please refer to the section headed “Financial information — Net current assets” on pages 218 to 219 of this prospectus.

We had accumulated losses as at 1 January 2015 mainly due to the relocation of all our production lines in 2014, with our full production only resumed in the second half of 2014. We managed to generate profits in the Track Record Period by focusing more on the sales of our self-manufactured aluminum electrolytic capacitors which have higher profit margin than our trading business, and due to the higher efficiency and lower cost of our production process as well as higher bargaining power against suppliers and higher utilisation rate as a

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result of our increased production volume. For more details, please refer to the section headed “Financial information — Accumulated losses” on pages 228 to 231 of this prospectus.

The table sets forth selected information from the consolidated statements of cash flows of our Group:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
Operating cash flows before movements in working capital	12,687	14,425	2,245	(2,623)
Net cash from operating activities	602	9,293	1,590	2,494
Net cash used in investing activities	(3,767)	(2,126)	(152)	(6)
Net cash from (used in) financing activities	3,680	(2,629)	1,850	(586)
Net increase in cash and cash equivalents	515	4,538	3,288	1,902
Cash and cash equivalents at the beginning of year/period	1,804	2,178	2,178	5,969
Effect of foreign exchange rate changes	(141)	(747)	37	290
Cash and cash equivalent at the end of year/period	2,178	5,969	5,503	8,161

We generated net cash from operating activities in the two years ended on 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, respectively. Our net cash generated from operating activities increased from approximately HK\$0.6 million during the year ended 31 December 2015 to approximately HK\$9.3 million during the year ended 31 December 2016, which is in line with our increase in gross profit and profit for the year during the same period. Our net cash generated from operating activities increased from approximately HK\$1.6 million during the four-month period ended 30 April 2016 to approximately HK\$2.5 million during the four-month period ended 30 April 2017, which was mainly due to the decrease in trade and bills receivables of approximately HK\$7.2 million. For more details, please refer to the section headed “Financial information — Liquidity and capital resources — Cash flows” on pages 214 to 216 of this prospectus.

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We have a negative operating cash flow before movements in working capital for the four-month period ended 30 April 2017. This is due to the non-recurring listing expenses of approximately HK\$7.4 million incurred in the same period. Excluding the effect of this non-recurring item, our operating cash flow before movements in working capital for the four-month period ended 30 April 2017 will be approximately HK\$4.8 million.

Key financial ratios

The following table sets out the key financial ratios of our Group during the Track Record Period.

	For the year ended		For the
	31 December		four-month
	2015	2016	period
			ended
			30 April
			2017
Return on total assets ⁽¹⁾	9.7%	11.9%	N/A ⁽⁷⁾
Return on equity ⁽²⁾	27.0%	28.7%	N/A ⁽⁷⁾
Interest coverage ⁽³⁾	20.0	41.3	N/A ⁽⁸⁾
	As at 31 December		As at
	2015	2016	30 April
			2017
Current ratio ⁽⁴⁾	1.1	1.2	1.4
Quick ratio ⁽⁵⁾	0.9	1.0	1.2
Gearing ratio ⁽⁶⁾	0.23	0.20	0.16

Notes:

- (1) Return on total assets is calculated based on profit for the relevant year divided by total assets as at the end of the respective years;
- (2) Return on equity is calculated based on profit for the relevant year divided by total equity as at the end of the respective years;
- (3) Interest coverage ratio is calculated based on profit before interest and tax for the relevant year divided by interest expenses for the same year;
- (4) Current ratio is calculated based on current assets divided by current liabilities as at the end of respective years/four-month period;
- (5) Quick ratio is calculated based on current assets less inventories divided by current liabilities as at the end of respective years/four-month period;
- (6) Gearing ratio is calculated based on interest bearing bank borrowings divided by total equity as at the end of respective years/four-month period.

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- (7) Such ratios for the four-month period ended 30 April 2017 are not meaningful and potentially misleading as the underlying income statement measures do not reflect a full year of results of operations.
- (8) Such ratios for the four-month period ended 30 April 2017 are not applicable as our Group was loss-making during the period.

Our Group's return on total assets increased from approximately 9.7% for the year ended 31 December 2015 to approximately 11.9% for the year ended 31 December 2016, which was mainly due to the increase in profit for the year. Our interest coverage increased because our interest expenses decreased during the year ended 31 December 2016 when compared with the corresponding period in 2015. For the two years ended 31 December 2016, our gearing ratio decreased from 0.23 times to 0.20 times because our total equity increased as a result of our net profits in the two years ended 31 December 2016. The gearing ratio of our Group decreased further from 0.20 times as at 31 December 2016 to 0.16 times as at 30 April 2017 due to the repayment of bank borrowings of approximately HK\$0.5 million. Please refer to the section headed "Financial information — Key financial ratios" on pages 231 to 233 of this prospectus for further information.

SHAREHOLDING OF OUR COMPANY

Immediately following the completion of the Share Offer and Capitalisation Issue, Vertical Investment, which is 100% owned by Mr. Boon, will hold 75% of the enlarged issued share capital of our Company (without taking into account any Shares that may be issued upon the exercise of any options which may be granted under the Share Option Scheme), and Mr. Boon together with Vertical Investment will be our Controlling Shareholders. Please refer to the section headed "Substantial shareholders" on pages 185 to 186 of this prospectus for further information.

RISK FACTORS

There are certain risks involved in the business and operation of our Group, some of which are beyond our Group's control. Our Group believes that the following are some of the major risks that may have a material adverse effect on our Group:

- i. Reliance on the sales of major product
- ii. Reliance on the PRC market
- iii. Our Group relies on the stable operation of our Group's production facility
- iv. Global economic downturn and deteriorating market conditions could adversely affect our Group's operations and financial performance.

You should read the entire "Risk factors" section on pages 29 to 47 of this prospectus carefully.

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RECENT DEVELOPMENT

Subsequent to the Track Record Period and up to the date of this prospectus, our Group has secured more orders from our customers for our manufactured products, which was approximately two times more, in terms of the number of aluminum electrolytic capacitors pieces ordered, compared to the comparable period in 2016.

The increase in orders is attributable to orders secured from new customers since the end of the Track Record Period up to the date of this prospectus, as well as orders placed by our recurring customers after the Track Record Period, which are bigger in terms of number of units ordered when compared with the comparable period in 2016 because of the growth of the overall PRC market, the details of which are set out in the Industry overview section of this prospectus.

Save for the listing expenses, our Group did not have any significant non-recurring items in its consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period.

LISTING EXPENSES

The total estimated listing expenses in connection with the Share Offer is approximately HK\$25.5 million (based on the Offer Price of HK\$0.275 per Offer Share, being the midpoint of the indicative Offer Price range). For the year ended 31 December 2016 and the four-month period ended 30 April 2017, we recognised listing expenses of approximately HK\$2.2 million and HK\$7.4 million, respectively. By the completion of the Share Offer, we expect to further incur listing expenses of approximately HK\$15.9 million, among which an estimated amount of approximately HK\$6.7 million is to be recognised as expenses and the remaining estimated listing expenses of approximately HK\$9.2 million is expected to be accounted for as a deduction from equity under the relevant accounting standards. Therefore, our financial results for the year ending 31 December 2017 will be significantly and adversely affected by the expenses in relation to the Share Offer. For further information, please refer to the section headed “Financial information — Listing expenses” on page 241 of this prospectus.

OUR STRATEGIES AND USE OF PROCEEDS

Our short term business strategy is to maintain our competitiveness in terms of pricing through the expansion of our capacity which leads to economy of scale and lower costs. Our long term business strategy is to increase brand awareness, increase resources for our research effort to help maintain our competitiveness in terms of reputation and product quality. For details please refer to the section headed “Business — Business strategies” on pages 112 to 116 of this prospectus.

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The net proceeds from the Share Offer to be received by our Group after deducting listing expenses are estimated to be approximately HK\$29.5 million (based on the Offer Price of HK\$0.275 per Offer Share, being the midpoint of the indicative Offer Price range). The Directors intend to apply such net proceeds from the Share Offer as follows:

	From the Latest Practicable Date to 31 December 2017 <i>HK\$'million</i>	For the six months ending				As a percentage of total net proceeds
		30 June 2018 <i>HK\$'million</i>	31 December 2018 <i>HK\$'million</i>	30 June 2019 <i>HK\$'million</i>	Total <i>HK\$'million</i>	
To increase the production capacity of our Group's chip type aluminum electrolytic capacitors	12.4	1.5	3.1	1.2	18.2	61.7%
To establish the second production plant in Dongguan, Guangdong Province, the PRC	—	2.5	2.4	0.7	5.6	19.0%
To continue research and development effort	—	1.9	0.2	—	2.1	7.1%
To promote our branded products	0.5	0.6	0.6	0.3	2.0	6.8%
General working capital	0.2	0.5	0.5	0.4	1.6	5.4%

The commercial rationale for the increase in production capacity is to meet increasing demand, capitalise on the higher gross profit margin of self-manufactured products, increase bargaining power with suppliers and to achieve economy of scale to keep prices down. For more details, please refer to the section headed “Business — Business strategies — To increase the production capability of our Group's aluminum electrolytic capacitors” on pages 112 to 113 of this prospectus.

Please also refer to the sections headed “Business — Business strategies” on pages 112 to 116 and “Future plans and use of proceeds — Reasons for the Share Offer and use of proceeds — Analysis on use of proceeds” on pages 249 to 253 of this prospectus for an analysis of how our plan to expand our production capacity fits into our short term and long term business strategies.

For the short term and long term impacts of our expansion plan on our business operation (which covers the short term impact on production capacity due to relocation of existing product lines), cost base, product mix and profitability, please refer to the section headed “Business — Business strategies — To establish second production plant in the PRC” on pages 113 to 115 of this prospectus.

For further information, including the basis and key assumptions for the attainability of our Group's business objectives, please refer to the section headed “Future plans and use of proceeds” on pages 244 to 253 of this prospectus.

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DIVIDENDS

No dividends have been declared by our Company or the subsidiaries now comprising our Group to their then equity owners during the Track Record Period nor has any dividend been proposed after 30 April 2017. Declaration of dividends is subject to the discretion of the Directors, depending on results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Directors may consider relevant.

In addition, any declaration and payment as well as the amount of dividends will also be subject to the Memorandum and Articles of Association and the Companies Law. Any future declarations and payments of dividends may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of the Directors. Currently, our Company does not have any predetermined dividend payout ratio.

For further details, please refer to the section headed “Financial information — Dividend” on pages 240 to 241 of this prospectus.

STATISTICS OF THE SHARE OFFER

	Audited consolidated net tangible assets of our Group attributable to the owner of our Company as at 30 April 2017 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owner of our Company as at 30 April 2017 <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owner of our Company as at 30 April 2017 <i>per Share</i> <i>HK\$</i> <i>(Note 3)</i>	Market Capitalisation <i>HK\$'000</i> <i>(Note 4)</i>
Based on Offer Price of HK\$0.25 per Offer Share	35,151	34,441	69,592	0.09	200,000
Based on Offer Price of HK\$0.30 per Offer Share	35,151	43,741	78,892	0.10	240,000

Notes:

- The audited consolidated net tangible assets of our Group attributable to the owner of our Company as at 30 April 2017 is based on the consolidated net assets of our Group attributable to the owner of our Company amounted to approximately HK\$35,151,000, extracted from the Accountants' Report set out in Appendix I to this prospectus.

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2. The estimated net proceeds from the Share Offer are based on 200,000,000 Offer Shares at the Offer Price of HK\$0.25 and HK\$0.30 per Offer Share, after deduction of the estimated underwriting fees and other related fees and expenses incurred or expected to be incurred by our Group (excluding approximately HK\$9,585,000 of listing expenses which have been charged to profit or loss up to 30 April 2017 by our Group). It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by our Company pursuant to our Company's general mandates, as referred to in the sections headed "Share capital — General mandate to issue Shares" on pages 182 to 183 or "Share capital — General mandate to repurchase Shares" on page 183 of this prospectus.
3. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owner of our Company as at 30 April 2017 per Share has been arrived at after making the adjustments referred to in note 2 above and on the basis of 800,000,000 Shares are in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 30 April 2017. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Share which may be issued or repurchased by our Company pursuant to our Company's general mandates, as referred to in the sections headed "Share capital — General mandate to issue Shares" on pages 182 to 183 or "Share capital — General mandate to repurchase Shares" on page 183 of this prospectus.
4. The calculation of the market capitalisation of our Company is based on 800,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue.
5. No adjustment have been made to the unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to the owner of our Company to reflect any trading results or other transactions of our Group entered into subsequent to 30 April 2017.

NO MATERIAL ADVERSE CHANGE

Save for the listing expenses, the Directors confirm that, 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 since 30 April 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared), and there is no event since 30 April 2017 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

DEFINITIONS

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

“Acceptance Date”	the last day for lodging applications under the Public Offer
“Application Form(s)”	WHITE, YELLOW and GREEN Application Form(s), or where the context so requires, any of them, used in the Public Offer
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 24 October 2017 to take effect on the Listing Date a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“CEPA”	Mainland and Hong Kong Closer Economic Partnership Arrangement
“Capitalisation Issue”	the issue of 599,999,900 new Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the section headed “Statutory and General Information — A. Further information about our Company and our subsidiaries — 3. Written resolutions of our sole Shareholder passed on 24 October 2017” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person permitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person permitted to participate in CCASS as a custodian participant
“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

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“CCASS Operational Procedure”	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 Participants”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CG Code”	the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules
“China” or “PRC”	the People’s Republic of China and for the purposes of this prospectus only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan
“close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) 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”	Vertical International Holdings Limited (弘浩國際控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 3 January 2017
“Co-Managers”	Ample Orient Capital Limited, a corporation licensed to engage in Type 1 (dealing in securities) regulated activities under the SFO, Frontpage Capital Limited, a corporation licensed to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and Nuada Limited, a corporation licensed to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the GEM Listing Rules

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“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and in the context of this prospectus, refers to Vertical Investment and Mr. Boon
“core connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Crowe Horwath”	Crowe Horwath (HK) Consulting & Valuation Limited, an independent professional industry consultant
“Crowe Horwath Report”	a market research report commissioned by our Company and prepared by Crowe Horwath on the aluminum electrolytic capacitor market
“Deed of Indemnity”	the deed of indemnity dated 24 October 2017 entered into by the Indemnifiers in favour of our Group relating to, among other matters, the tax liabilities of our Group, particulars of which are set out in the section “Statutory and General Information — E. Other information — 1. Estate duty, tax and other indemnity” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 24 October 2017 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries from time to time) regarding the non-competition undertakings as more particularly set out in the section headed “Relationship with our Controlling Shareholders — Deed of Non-competition” in this prospectus
“Director(s)”	the director(s) of our Company from time to time
“Dongguan Shouke”	東莞首科電子科技有限公司 (Dongguan Shouke Electronics Technology Limited*), a company established in the PRC with limited liability on 23 December 2013 and an indirect wholly-owned subsidiary of our Company after the Reorganisation
“EIT”	enterprise income tax
“EPR”	Electrical Products (Safety) Regulation (Chapter 406G of the Laws of Hong Kong)
“EU”	the European Union
“Executive Director(s)”	the Executive Director(s) of 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

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“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended, supplemented or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Government”	the Government of Hong Kong
“ GREEN Application Form(s)”	the Application Form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or any of them or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, its present subsidiaries or entities which carried on the business currently operated by such subsidiaries at the relevant time or (as the case may be) their predecessors
“HK eIPO White Form Service”	the application of Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HK\$” and “cents”	the Hong Kong dollar(s) and cent(s), the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar of our Company in Hong Kong
“IEO”	Imports and Exports Ordinance (Chapter 60 of the Laws of Hong Kong)

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“IER (strategic commodities)”	Import and Export (Strategic Commodities) Regulations (Chapter 60G of the Laws of Hong Kong)
“IER (registration)”	Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong)
“IER (electronic cargo information)”	Import and Export (Electronic Cargo Information) Regulation (Chapter 60L of the Laws of Hong Kong)
“IRO”	Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)
“Indemnifiers”	our Controlling Shareholders
“Independent Third Party(ies)”	individual(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are not connected with (within the meaning of the GEM Listing Rules) our Company or its connected person
“Joint Lead Managers”	Pacific Foundation Securities Limited and Vinco Capital Limited
“Latest Practicable Date”	23 October 2017, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus
“Listing”	the listing and the commencement of dealings of the Shares on GEM
“Listing Date”	the date on which the Shares are listed and dealings in the Shares first commence on GEM, which is expected to be on or about Monday, 13 November 2017
“Listing Division”	the Listing Division of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted on 24 October 2017 a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
“MERS”	Middle East respiratory syndrome
“MOFCOM”	Ministry of Commerce of the PRC
“Mr. Boon”	Mr. Boon Ho Yin Henry (溫浩然), an Executive Director and chief executive officer of our Company, one of our Controlling Shareholders
“Mr. Chik”	Mr. Chik Kin Man Paul (戚健民), an independent non-executive Director

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“Ms. Chow”	Ms. Chow Cheung Chu (周祥珠), an Executive Director
“Mr. Liu”	Mr. Liu Kwan (劉筠), an independent non-executive Director
“Mr. Wong”	Mr. Wong Wai Leung (黃偉樑), an independent non-executive Director
“New Shares”	200,000,000 new Shares being offered by our Company for subscription under the Share Offer
“Offer Price”	the final price per Offer Share (exclusive of brokerage, Stock Exchange trading fee and SFC transaction levy) which will be no more than HK\$0.30 and is expected to be not less than HK\$0.25, such price is to be determined in the manner as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Offer Shares”	together the Public Offer Shares and the Placing Shares
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price, as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	180,000,000 New Shares being offered at the Offer Price for subscription under the Placing subject to reallocation and the terms and conditions as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters of the Placing, whose names are set out under the section headed “Underwriting — Underwriters — Placing Underwriters” in this prospectus
“Placing Underwriting Agreement”	the conditional underwriting agreement dated 30 October 2017 relating to the Placing and entered into by our Company, our Executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers and the Placing Underwriters, as further described in the section headed “Underwriting — Placing” in this prospectus
“PPI”	the Producer Price Index
“PRC Legal Advisers”	Hills & Co., the legal advisers to our Company as to the PRC laws
“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

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“Price Determination Agreement”	the agreement expected 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 Monday, 6 November 2017 or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree, on which the Offer Price will be fixed for the purpose of the Share Offer
“Public Offer”	the offer by our Company of the Public Offer Shares for subscription to the public in Hong Kong as described in the section headed “Structure and conditions of the Share Offer” at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto
“Public Offer Shares”	20,000,000 New Shares initially offered by our Company for subscription pursuant to the Public Offer (subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Public Offer Underwriters”	the underwriters of the Public Offer, whose names are set out under the section headed “Underwriting — Underwriters — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 30 October 2017 relating to the Public Offer and entered into by our Company, our Executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Lead Managers, the Sole Bookrunner, the Co-Managers and the Public Offer Underwriters, as further described in the section headed “Underwriting — Public Offer underwriting arrangements” in this prospectus
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of our Group for the purpose of the Listing, particulars of which are set out in the section headed “History, development and reorganisation — Reorganisation” in this prospectus

DEFINITIONS

“Repurchase Mandate”	the general mandate to repurchase Shares given to our Directors by our sole Shareholder, particulars of which are summarised in the section headed “Statutory and General Information — A. Further information about our Company and our subsidiaries — 3. Written resolutions of our sole Shareholder passed on 24 October 2017” in Appendix IV to this prospectus
“RMB”	Renminbi yuan, the lawful currency of the PRC
“SARS”	Severe acute respiratory syndrome
“SCNPC”	the Standing Committee of the National People’s Congress 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
“Shaoguan Hongfeng”	韶關弘峰電子有限公司 (Shaoguan Hongfeng Electronics Limited*), a company established in the PRC with limited liability on 28 November 2006 and an indirect wholly-owned subsidiary of our Company after the Reorganisation
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Offer”	the Public Offer and the Placing
“Sole Bookrunner”	Pacific Foundation Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 9 (asset management) regulated activities under SFC
“Sole Sponsor”	Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited (stock code: 8340), a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO
“State Council”	the State Council of the PRC (中國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the GEM Listing Rules

DEFINITIONS

“substantial shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules and the details of which are set out in the section headed “Substantial shareholders” in this prospectus
“TDO”	Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs, issued by the SFC and as amended, modified and supplemented from time to time
“Track Record Period”	the two financial years ended 31 December 2016 and the four-month period ended 30 April 2017
“Underwriters”	together, the Placing Underwriters and the Public Offer Underwriters
“Underwriting Agreement”	together, the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
“USA”	United States of America
“US\$”, “USD” or “US dollars”	United States dollars, the lawful currency of the USA
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“Vertical (BVI)”	Vertical Technology (B.V.I.) Limited, a company incorporated under the laws of BVI with limited liability on 23 December 2015, a direct wholly-owned subsidiary of our Company after the Reorganisation
“Vertical Engineering”	Vertical Engineering Company Limited (弘峰工程有限公司), a company incorporated under the laws of Hong Kong with limited liability on 16 January 2015 and an indirect wholly-owned subsidiary of our Company after the Reorganisation
“Vertical Investment”	Vertical Technology Investment Limited, a company incorporated under the laws of BVI with limited liability on 19 December 2016, which is wholly-owned by Mr. Boon and is one of our Controlling Shareholders
“Vertical Technology”	Vertical Technology Company Limited (弘峰科技有限公司), a company incorporated under the laws of Hong Kong with limited liability on 7 June 2006 and an indirect wholly-owned subsidiary of our Company after the Reorganisation

DEFINITIONS

“ WHITE Application Form(s)”	the application form(s) for the Public Offer Shares for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“ YELLOW Application Form(s)”	the application form(s) for the Public Offer Shares for use by the public who require(s) such Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“kg”	kilogrammes
“m ² ” or “sq.m.”	square metre
“sq.ft.”	square feet
“%”	per cent.

The English names of the PRC entities mentioned in this prospectus which are marked with “” are translated, or transliterated from their Chinese names and are for identification purposes only. All English translations of the PRC laws and regulations in this prospectus are unofficial translations and provided for identification purposes only. If there is any inconsistency between the Chinese name of the PRC laws and regulations or PRC entities mentioned in this prospectus and their English translations, the Chinese version shall prevail.*

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this prospectus in connection with our Group and our Group's business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

“AC”	alternating current
“capacitance”	the ability of a capacitor to store an electric charge
“capacitor”	a key component in the electronics circuitry which is used to store electric charge and to provide reactance in AC circuits. In essence, a capacitor consists of two conducting plates separated by a thin layer of insulated material called dielectric. When an electrical voltage is applied to the conducting plates of a capacitor, an electric charge is stored in the capacitor
“CD”	compact disc
“dielectric”	a substance that is highly resistant to the flow of electric current
“diode”	a semiconductor device with two terminals, typically allowing the flow of current in one direction only
“DVD”	digital video disc
“electrolytic capacitor”	a capacitor which dielectric is an oxide film formed on the plates by the solid electrolytic action
“ISO”	International Organisation for Standardisation, a worldwide federation of national standards bodies
“ISO 14001:2015”	an environmental management system published by ISO for organisations to enhance their environmental performance through more efficient use of resources and reduction of waste
“ISO 9001:2015”	a quality management system model published by ISO for quality assurance in design, development, production, installation and servicing
“LED”	light-emitting diode, a two-lead semiconductor light source
“OEM”	original equipment manufacturer — a manufacturer that markets and sells products under its own brand or outsources the manufacturing of the products it sells to a manufacturing services provider
“OHSAS18001:2007”	a framework for an occupational health and safety management system published by British Standards Institution

GLOSSARY OF TECHNICAL TERMS

“PCBs”	printed circuit boards
“REACH”	standard issued by EU concerning the registration, evaluation, authorisation and restriction of chemicals
“RoHS”	standard issued by the EU concerning the restriction of hazardous substances, and restriction of use of certain hazardous substances in electrical and electronic equipment
“TV”	television
“QC080000:2012”	hazardous substance process management system requirements published by International Electrotechnical Commission intended for use by, amongst others, manufacturers of products to develop processes to identify, control, quantify, and report the amounts of hazardous substances in the products they manufacture

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to our current expectations and views of future events. These forward-looking statements are contained principally in the sections headed “Summary and highlights”, “Risk factors”, “Future plans and use of proceeds”, “Industry overview”, “Business” and “Financial information” of this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk factors” of this prospectus, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

The words and expressions such as “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “predict”, “project”, “seek”, “shall”, “should”, “will”, “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements include statements relating to:

- our business prospects, strategies, plans, objectives and goals;
- our capital expenditure plans and future capital requirements;
- the amount and nature of, and potential for, future development of our business;
- our operations and the business opportunities that we may pursue;
- the general regulatory environment of the industry in which we are operating;
- future developments, trends and conditions in the industry and markets in which we operate;
- the performance of global financial market, including changes in our ability to access the capital markets and changes in the level of interest rates;
- our ability to control costs;
- the actions and developments of our competitors;
- changes in general political, economic, legal, market and business conditions;
- other statements in this prospectus which are not historical facts; and
- certain statements in the section headed “Financial information” of this prospectus with respect to trends in prices, operations, margins, overall market trends and risk management.

These forward-looking statements are subject to certain risks, uncertainties and assumptions, some of which are beyond our control. Further, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of our future performance. Actual results may differ materially from the information

FORWARD-LOOKING STATEMENTS

contained in the forward-looking statements as a result of a number of uncertainties and factors, including the risk factors set out in the section headed “Risk factors” of this prospectus.

The forward-looking statements made in this prospectus relate only to events or information as at the date on which the statements are made in this prospectus. Subject to the requirements of applicable laws and regulations, we undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus (whether as a result of new information, future events or developments or otherwise) after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus completely with the understanding that our actual future results or performance may be materially different from what we expect.

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Potential investors of the Offer Shares should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with an investment in our Company before making any investment decisions in relation to our Company. If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected and the market price of the Offer Shares could fall significantly.

This prospectus contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results may differ materially from those as discussed in this prospectus. Factors that could contribute to such differences are set out below as well as in other parts in this prospectus.

There are certain risks involved in the business and operation of our Group, some of which are beyond our Group's control. These risks can be categorised into (i) risks relating to our Group's business; (ii) risks relating to the aluminum electrolytic capacitor industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to the Share Offer and the Shares; and (v) risks relating to statements in this prospectus.

RISKS RELATING TO OUR GROUP'S BUSINESS

Reliance on the sales of major product

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, approximately 50.7%, 61.7% and 64.2%, of our Group's total revenue, respectively, were derived from the sales of our Group's self-manufactured chip type and radial lead type aluminum electrolytic capacitors. Continued and increasing market acceptance of these products is therefore crucial to the prospects of our Group. If the demand for chip type and radial lead type aluminum electrolytic capacitors decreases significantly, or if the price of these product declines significantly, the business, financial condition and prospects of our Group may be materially and adversely affected.

Reliance on the PRC market

For each of the two years ended 31 December 2016 and the four-month period ended 30 April 2017, approximately 47.9%, 54.1% and 58.1% of our Group's revenue, respectively, was generated from customers in the PRC. Any adverse change and uncertainty in the economic, social and political conditions in the PRC may affect the purchasing power of our Group's PRC customers, which in turn may have an adverse impact on the business, prospects, financial condition and profitability of our Group.

Our Group relies on the stable operation of our Group's production facility

Our Group's turnover is dependent on the continued operation of our Group's production facility. Our Group's production facility is subject to inspection, maintenance and part replacement during which production capacity may be affected. Our Group may require maintenance services or equipment to be purchased from external vendors who may

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or may not provide timely services, equipment or parts. Our Group has not experienced any material disruption in production due to inspection, maintenance and machinery and part replacement of the production facility during the Track Record Period. However, frequent or prolonged occurrence of any of the aforesaid events may adversely affect our Group's operations and financial position.

Our Group is dependent on a few major suppliers for its trading business

In addition to our Group's manufacturing business, our Group is also engaged in the business of trading electronic components such as aluminum electrolytic capacitors, diodes, transistors, integrated circuits, LED and LED lighting products to customers as well as directly to the end-users, being electronic appliances manufacturers. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, the revenue from our Group's business of electronic components trading constituted 49.3%, 38.3% and 35.8% of our Group's total revenue, respectively.

Our Group is dependent on a few major suppliers for its trading business. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, the amount of purchases from the five largest suppliers for our Group's trading business accounted for approximately 67.9%, 51.6% and 55.6%, respectively, of our Group's total purchases during the respective year/period. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, purchases from our Group's largest supplier for its trading business accounted for approximately 51.2%, 17.3% and 20.7%, respectively, of our Group's total purchases during the respective year/period. As a result, our Group heavily relies on the continued supply of trading components from a few major suppliers for its trading business. In the event that our Group's existing business relationships with these suppliers are terminated, interrupted, or adversely modified, so that our Group is unable to obtain adequate supplies of the necessary electronic components in a timely manner, or if there is a significant increase in the costs of the electronic components which our Group cannot pass on to our Group's customers, our Group's operation and financial position could be adversely affected.

Our Group's top five customers accounted for a significant portion of our Group's revenue. Furthermore, we generally do not enter into long-term agreements with our customers.

Our Group's top five customers accounted for approximately 41.8%, 41.5% and 55.2% of our Group's revenue for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively. In particular, approximately 32.6%, 14.2% and 15.6% of our Group's total revenue were attributed to its largest customer for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively. The top five customers are not obligated in any way to continue to provide our Group with new businesses in the future at a level similar to that in the past or at all. Moreover, if any of our Group's key customer reduces, delays or cancels its orders to our Group, or the financial condition of any of our Group's key customer deteriorates, our Group's business, financial position and results of operations may be adversely affected.

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Relatively short business relationship with some customers

During the Track Record Period, our Group has endeavoured to expand its customer base and cultivate business relationship with medium to large-sized companies. As a result of such endeavours, some of our Group's customers are new customers which have less than one year's business relationship with our Group. There is no guarantee that such new customers will continue to place orders with our Group or that if they do, the volume of their orders placed with our Group will not be reduced substantially in the future. In the event that any of such new customers of our Group does/do not continue their business relationship with our Group, our Group's operations and profitability will be adversely affected.

Furthermore, we generally do not enter into long-term agreements with our customers, as we typically enter into individual purchase orders with our customers, which means our customers could change their order levels or stop placing orders altogether with little or no notice. Our Group cannot assure that our Group will be able to obtain orders from other customers or new customers to cover such unpredictable reduction in orders, and a failure to do so may adversely affect our Group's business, financial position and results of operations.

Our Group may be unable to offset increased labour costs

Our Group relies on its PRC employees for our Group's manufacturing and operating activities. The average labour cost in the PRC manufacturing industry has been increasing in the past few years and may continue to increase as a result of the macroeconomic and other policies of the PRC government. If our Group fails to offset the increase in our Group's labour cost by way of automation or otherwise or effectively pass along the increased labour cost to its customers, our Group's operation and financial position may be adversely affected.

Our Group's operation is highly dependent on its key management personnel and skilled and qualified employees

Our Group's success depends on the collective experience of our Group's technically skilled employees, primarily the experienced executives, Mr. Boon and Ms. Chow, research and development technician, Mr. Yi Hong Gui, production technician, Ms. Zhang Jing, and other skilled employees, in our Group's manufacturing process to operate, maintain and troubleshoot the assembly equipment, as well as overseeing our Group's quality control process in the production plant in Dongguan, the PRC. Moreover, the research and development technicians develop new production methods, support and diagnose production yield issues. If our Group is unable to retain our Group's existing personnel or attract, assimilate and retain new experienced personnel in the future, our Group's operations may be adversely affected and the growth of our Group's business could be delayed or restricted.

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Material fluctuations in foreign exchange rates may adversely affect our Group's business and performance

Our Group's products are sold into the PRC, Hong Kong, Malaysia and other Asian regions. Most of our Group's sales and some of the purchases, expenses and payments are denominated in US\$ and RMB and therefore our Group is subject to currency risks. In the two years ended 31 December 2015 and 2016 and the four-month period ended 30 April 2017, approximately 84.0%, 70.4% and 74.5% of our Group's sales were settled in RMB and USD, respectively. For more details, please refer to the paragraph headed "Business — Hedging" in this prospectus. The exchange rates of different currencies are subject to fluctuations affected by international political and economic conditions and changes in the relevant government's economic and monetary policies. Any possible material fluctuations in foreign exchange rates may adversely affect our Group's business and performance.

The credit risks of our Group's customers

Our Group's management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. However, our Group's customers are subject to market conditions and their own business risks. Our Group cannot assure that the creditworthiness of our Group's customers will not change because there could be unanticipated adverse changes in the economy or extraordinary events adversely affecting specific customers, industries or markets. If the credit quality of our Group's customer base decreases as a result of economic conditions or if our Group's allowance for credit losses is not adequate, our Group's operations and financial performance may be adversely affected.

Potential liability in connection with accidents at our Group's production facility

As our Group's production process involves the operation of tools, equipment and machinery which are potentially dangerous, industrial accidents resulting in personal injuries or even deaths may occur. Our Group cannot assure that industrial accidents at our Group's production facility, whether due to malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. In such event, our Group may be held liable for the personal injuries or deaths and subject to monetary losses, fines or penalties or other forms of legal liability as well as business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures. Occurrence of any aforesaid events may adversely affect our Group's business operations and financial performance.

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Any health epidemics and other outbreaks, adverse weather conditions, natural disasters and other catastrophes may severely disrupt our Group's business operations

Our Group's business could be adversely affected by epidemics, adverse weather conditions, natural disasters and other catastrophes. The spread of the H1N1 or H7N9 virus or any prolonged recurrence of avian influenza, SARS, MERS, or other adverse public health developments in the PRC could require the temporary closure of our Group's production facility. Such closures may severely disrupt our Group's operations.

Guangdong province being a coastal province is always subject to the threat of typhoons. Adverse weather conditions associated with typhoons may cause damage to power station or other infrastructure such as highway system, and may cause airport or seaport to shut down, which in turn may adversely affect our Group's operations in Dongguan.

Our Group may not be able to renew the necessary regulatory permits or approvals, or our certifications of aluminum electrolytic capacitors products and production systems, and our business and results of operations may be materially and adversely affected

Our Group's operation is regulated by the government and is subject to various laws and regulations in the PRC. For example, we are required to obtain permits in relation to environmental matters and pollution discharge for our production processes. Failure to maintain or renew such permits, licences, registrations, certificates or approvals could have a material adverse effect on our business, profitability and prospects. Furthermore, extensive government regulations and delays in granting relevant approvals can significantly hinder our introduction of new products.

We have received various certifications for our aluminum electrolytic capacitors products and production systems, including, ISO 9001:2015. Most of these certifications are subject to renewal every year or after a period of time in accordance with the standards set by the relevant issuing organisations and authorities. In the event of non-renewal, delay in renewal or revocation of any of these certifications, our Group's business and results of operations may be materially and adversely affected.

We face intense competition

Our Group faces competition from a number of domestic and international companies in the aluminum electrolytic capacitors industry which may have more financial resources, research and development and marketing capabilities. The pressure that our Group faces, like other players in the market, may principally come from (i) the generic nature of aluminum electrolytic capacitors, which are also readily available from other suppliers in the market, (ii) our Group's existing competitors which continue to improve the design and quality of their products, seek price reduction and introduce new products with much advanced technology, or which are able to adapt to the ever-changing market trend, and (iii) our Group's existing and prospective customers who constantly review the performance of our Group's products. Therefore, an effective quality assurance system and our Group's ability to lower costs through the efficiency of our production processes is critical to the success of our Group's business. The effectiveness of our Group's quality assurance system

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depends on a number of factors, including the design of our Group's quality assurance procedures and our Group's ability to ensure that our Group's employees adhere to our Group's quality assurance policies and guidelines while the efficiency of our Group's production processes depends on our Group's research and development efforts and our economies of scale. There is no assurance that our Group's quality assurance system will be effective in maintaining our Group's product quality nor assurance that our Group's research and development and economies of scale will continue to produce a higher efficiency. If our Group fails to maintain our Group's competitive edges in terms of the quality and pricing of our Group's products, our Group could experience loss of existing customers or difficulty in establishing new customer relationships. As such, our Group's operation and financial position may be adversely affected.

We may lose our competitiveness in terms of efficiency and cost advantage if our competitors develop their own patented methods to improve their efficiency

Although our patented manufacturing methods enable us to improve our cost efficiency without compromising on product quality, we cannot guarantee that this competitive strength will continue going forward, as it is industry norm for manufacturers to develop their own patents, some of which may allow them to improve their cost efficiency, which in turn will allow them to offer their products at more competitive prices and thereby increase their competitiveness in the market.

Failure to protect our Group's intellectual property rights may undermine our Group's competitive position, and litigation to protect such rights may be costly and may not be resolved in our Group's favour

Our Group mainly relies on patent laws to establish, protect and maintain its propriety intellectual property, technologies and other confidential information. As at the Latest Practicable Date, our Group held 11 utility model patents and had filed applications for the registration of five utility model patents and one invention patent in the PRC. The existence of a patent, however, may not necessarily protect our Group from competition, as any granted patent may be challenged, invalidated or held unenforceable. In the event that our Group's granted patents or other intellectual property rights do not adequately describe, enable or otherwise provide coverage for our Group's products, technologies or designs, our Group would not be able to prevent its competitors from developing or commercialising these products, technologies or designs. Competitors may successfully challenge our Group's patents, develop similar manufacturing methods that do not infringe our Group's patents or utilise such manufacturing methods in countries that do not recognise our Group's patents. Further, changes in either the patent laws or in the interpretation of patent laws may diminish the value of our Group's intellectual property. The occurrence of any of these events could harm our Group's competitive position and decrease our Group's revenue.

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Moreover, our Group's brand and trademarks are critical to our Group's success. Given the large geographic coverage to which our Group sells its products, monitoring and preventing unauthorised use are difficult. Any unauthorised use of our Group's brand, trademarks and other intellectual property rights could harm our Group's competitive advantages, goodwill and business.

Litigation may be necessary in the future to enforce our Group's intellectual property rights, the costs for which could be substantial. Enforcement of intellectual property rights may be more difficult and/or less effective in the PRC compared to other jurisdictions, such as the USA or the EU, that have a longer history of recognising and enforcing such rights. Any adverse outcome in litigation or similar proceedings could adversely affect our Group's business, operation and financial performance.

Our Group's business could be adversely affected by any dispute on production know-how or intellectual property rights

Our Group may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties in relation to its production and/or products which is outside the scope of our Group's registered patents. The defence and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our Group's technical and management personnel. An adverse determination in any such litigation or proceeding to which our Group may become a party may adversely affect our Group's business, financial position and results of operations, as it would subject our Group to significant liability to third parties, require our Group to obtain licences from third parties, pay ongoing royalties or redesign our Group's production machinery, equipment and methods or subject our Group to injunctions prohibiting the use of our Group's manufacturing method or the use of our Group's technologies. Protracted litigation could also result in our Group's customers or potential customers deferring or limiting their purchase of our Group's products until resolution of such litigation.

Our Group may be unable to constantly anticipate and respond to trends in technology development and evolving industry standards in an efficient and timely manner

The aluminum electrolytic capacitor industry and its downstream industries have historically been characterised by rapid technological changes and evolving industry standards. Our Group may not be able to accurately predict what technologies will be required by our Group's customers in the future, and therefore may not be able to utilise suitable capital expenditures to enhance our Group's technology development in an efficient and timely manner. This may result in our Group losing customers and market share.

In addition, a mature product based on old technology can only compete with more advanced products on pricing, which means a lower gross profit margin. Accordingly, unless our Group continually upgrades its technology level and produces new products that

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the end users require, it may need to reduce the average sales prices of its products in order to maintain their competitiveness, which in turn may adversely affect our Group's business operations and financial performance.

Our Group's insurance coverage may not be sufficient to cover potential significant product liability claims which may adversely affect our Group's operations and financial position

Our Group's products may contain defects that are detected only when the end products that contains our Group's products are in use. Our Group and our Group's customers may experience defects which may require significant product recalls, reworks and/or repairs which may consume a substantial amount of time, effort and expense to resolve. Furthermore, such defects could have a serious impact on the end users of our Group's products, which could harm our Group's customer relationships and expose our Group to liability. There is no assurance that there will not be any material product liability claims against our Group in relation to defective products in the future. Any successful assertion of product liability claims against our Group may require our Group to pay significant monetary damages and/or subject our Group to product recall. If any such claims are made, our Group's reputation and relationships with its customers may also be adversely affected, which may lead to loss of future business and may adversely affect our Group's operations and financial position. Any aforesaid losses not adequately covered by the insurance policy of our Group will directly impact our Group's financial position.

The costs of raw materials account for a significant portion of our Group's cost of sales and any fluctuations in their prices may affect our Group's profitability.

For our aluminum electrolytic manufacturing business, the total costs of raw materials accounted for approximately 27.0%, 33.2% and 37.6% of our Group's total cost of sales for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively. The prices of raw materials are subject to fluctuations as a result of various factors beyond our Group's control, such as global economic and financial conditions. Any significant price fluctuation of the raw materials will affect our Group's financial performance, as it is difficult for our Group to transfer the increase in raw material costs to its customers, given the intense market competition and the commodity nature of our Group's products. For the sensitivity analysis in relation to changes in costs, please see the section headed "Financial information — Principal components of results of operations — Cost of sales — Sensitivity analysis" in this prospectus.

We rely on third-party logistic service providers to deliver our products, and their failure to provide quality courier services to our customers may negatively impact our customers' satisfaction, our reputation and materially and adversely affect our business and results of operations.

We rely on third-party logistic service providers to deliver products to our customers. Interruptions to or failures in these logistic services could prevent the timely or successful delivery of our products. These interruptions may be due to unforeseen events that are beyond our control or the control of these third-party logistic service providers, such as inclement weather, natural disasters or labour unrest. If our products are not delivered on

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time or are delivered in a damaged state, customers may refuse to accept our products and have less confidence in our services. Thus, we may lose customers, and our financial condition and market reputation could suffer.

Our Group's production requirements and the inventory level of finished products are determined with reference to the market intelligence collected by the marketing and sales staff, which may not be accurate

Our Group's production requirements and the inventory level of finished products are determined with reference to the market intelligence collected by our parts and materials control department, through their communications with the end users, marketing studies, and their industry experience. If the market intelligence turns out to be inaccurate and the customers do not place orders with our Group at the expected level, the products produced in excess will have a negative impact on our Group's cash flow, and may have to be disposed of at a price which is less than the market price, and our Group's business, results of operations and financial performance may be adversely affected.

Our Group's operations may be subject to transfer pricing adjustment

During the Track Record Period, the Group carried out certain intra-group related party transactions in Hong Kong and China. Please refer to the section headed "Business — Business model" in this prospectus for further details of the Group's business flows.

The Group has engaged an independent tax adviser, which is an affiliate of an international professional accounting firm in Hong Kong, to conduct a transfer pricing analysis on the related party transactions based on, among other things, the applicable regulations and guidance on transfer pricing in the PRC. Based on the transfer pricing analysis prepared by the independent tax adviser, the Directors are of the view that the Group's exposure to transfer pricing should not be material.

However, there is no assurance that the relevant tax authorities in the PRC and Hong Kong will hold the same view as the Directors, and it may make adjustment to the tax payable by the Group in respect of such related party transactions. In such event, in addition to reputation risks, the Group may also need to incur additional expenses and direct management resources to deal with the relevant tax authorities.

There are long term and short term uncertainties and risks associated with our expansion plan, and our Group may not succeed in our strategy to lower production cost enough to achieve price competitiveness

We have set out our expansion plan in the section headed "Business — Business strategies — To establish second production plant in the PRC" in this prospectus. The implementation plan requires us to establish a second production plant in Dongguan, Guangdong Province, the PRC to relocate the existing production lines of the radial lead type aluminum electrolytic capacitors to the new production plant, so that the existing Dongguan production plant will have the necessary space to install new machinery for the expansion of our chip type aluminum electrolytic capacitor production. We expect that there will be disruption to our production and sales to a certain extent in the short term, as

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the installation and optimisation of the new production lines for our chip type aluminum electrolytic capacitors and the relocation of our production lines for radial lead type aluminum electrolytic capacitors is estimated to take 1–2 months. In the long term, more machines mean higher depreciation charges, as further described in the section headed “Risk factors — The future capital expenditure of our Group for the purchase of equipment and machinery will result in an increase in the depreciation expenses of our Group” below.

As we need more workers to operate the new production lines, any fluctuation in market wages will have a bigger impact on us than before.

In addition, we cannot guarantee that we will be able to complete our expansion plan within budget or on schedule or at all. Our expansion plan could be adversely affected by factors such as lack of personnel, unexpected technical problems, natural disasters and inability to obtain the required governmental permits and approvals, problems with establishment of new production facilities, logistical difficulties and any unforeseen legal or regulatory impediments imposed by the PRC government. If there is any delay in our expansion plan, we may not be able to deliver our products demanded by our customers and as a result, our reputation and future business opportunities may be adversely affected.

The utilisation rate of our production facilities primarily depends on the demand for our products, which may be affected by market trends, customers’ plans and preferences and other factors beyond our control. If we do not receive sufficient orders from our customers to effectively utilise our expanded production facilities, we may be subject to low utilisation rate of production capacity, and we may not be able to maintain a comparable level of profit and profit margin in the future. Furthermore, the lower the utilisation rate, the higher the production cost per unit, and this will affect our ability to maintain competitive prices for our products. If our expansion plan is not successful, not completed in a timely manner or does not result in the anticipated benefits, our business, financial condition, results of operations and prospects could be materially and adversely affected.

The future capital expenditure of our Group for the purchase of equipment and machinery will result in an increase in the depreciation expenses of our Group

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, our Group has incurred capital expenditure mainly for the purchase of equipment and machinery amounting to approximately HK\$6.7 million, HK\$5.0 million and HK\$10,000, respectively. Our Group currently plans to use approximately HK\$12.4 million and HK\$4.6 million of the net proceeds from the Share Offer to be received by our Group during the years ending 31 December 2017 and 2018, respectively, to primarily purchase equipment and machinery after Listing. Please refer to the section headed “Financial information — Capital expenditures” in this prospectus for details of our Group’s capital expenditure plans. Such addition of equipment and machinery will result in increase in depreciation of equipment and machinery in the sum of approximately HK\$0.2 million and approximately HK\$1.5 million in each of the two years ended 31 December 2018, respectively, and, may therefore adversely affect our Group’s future results of operations and financial performance. Furthermore, any unexpected requirement for the acquisition of additional

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equipment and machinery would have a negative impact to the cash level of our Group and the relevant depreciation expenses may adversely affect our Group's financial performance in the future.

We may not be able to enjoy preferential tax treatments after Listing

Since 1 January 2016, one of our wholly owned subsidiaries, namely Dongguan Shouke enjoyed EIT preferential tax treatment after obtaining qualification as a High and New Technology Enterprise. According to the applicable PRC laws and regulations, High and New Technology Enterprise enjoys a preferential EIT rate of 15%. The current certificate of qualification will expire on 30 November 2019. If we fail to renew the certificate when it expires, the effective income tax rate of Dongguan Shouke could increase significantly, and such increase in the income tax rate could have an adverse effect on our business, results of operations and financial condition. In addition, there can be no assurance as to when, if ever, such preferential tax treatment would be changed or become less favourable to us. If there is any revocation of or unfavourable change to the above preferential tax treatment currently enjoyed by us as a result of any change in the governmental policy or law in the PRC or otherwise, the tax payable by our Group may be materially increased which will have an adverse impact on the profitability and financial position of our Group.

RISKS RELATING TO THE ALUMINUM ELECTROLYTIC CAPACITOR INDUSTRY

Global economic downturn and deteriorating market conditions could adversely affect our Group's operations and financial performance

The end users of aluminum electrolytic capacitors use the product to manufacture a variety of electronic products. As a result, the demand for aluminum electrolytic capacitor is dependent on the overall consumer demand for the end-products which utilise aluminum electrolytic capacitor. The overall consumer demand in turn is affected by various factors, including consumer confidence, level of inflation, unemployment level, and interest rates, etc.. An expectation of a slowdown or a continuous deterioration in global economic conditions may affect consumer confidence and spending. If the demand for the end products declines as a result of changes in global economic conditions, the demand for aluminum electrolytic capacitor may be adversely affected, which will have a negative impact on our Group's operations and financial performance.

Furthermore, the uncertain global economic conditions could make it difficult for our Group's customers, our Group's suppliers and our Group to accurately forecast and plan their future business activities, which could cause the end users to slow down spending on the aluminum electrolytic capacitor, thus delaying and lengthening the sales cycles.

Technological advance may render aluminum electrolytic capacitor or its current production method obsolete

The technology involved in the electronic industry has been developing at a rapid pace in the past. Although aluminum electrolytic capacitor is considered the building blocks of all electronic appliances according to the Crowe Horwath Report, there is no guarantee that it will not be replaced or rendered obsolete in the future due to technological advance.

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Our Group also cannot assure that its current production machinery, equipment and production methods will not be replaced by other newer and more efficient production machinery, equipment and methods due to advancement of technologies. In such event, our Group will have to invest substantial amount in new production machinery and equipment to cater for changes in production technologies, which in turn will have a negative impact on our Group's financial condition and results of operations.

The financial performance of our Group may be adversely affected by a global shortage of key raw materials

The major raw materials used in the aluminum electrolytic capacitor industry are aluminum foil, electrolyte, electrolytic paper, aluminum case, lead wires, and sealing rubber, etc. Any global shortage of the aforesaid major raw materials may affect the production of all industry players, including our Group, and our Group may be unable to produce enough products to meet the demand from its customers. Hence, our Group's business operations and financial performance may be adversely affected.

Excess capacity in the aluminum electrolytic capacitor industry may reduce our Group's revenue, earnings and profit margin

The selling prices that the manufacturers of electrolytic capacitor can charge for their products are subject to a number of factors, including the overall worldwide supply of aluminum electrolytic capacitors. Global excess production capacity will put pressure on the pricing of our Group's product, or our Group may have to operate at significantly less than full capacity to save production costs. This may adversely affect our Group's revenue, earnings and profit margins.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The economic and political conditions in the PRC may adversely affect our Group's business operations and financial condition

Our Group conducts a part of its business in the PRC. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, approximately 47.9%, 54.1% and 58.1%, respectively, of our Group's revenue were generated from the PRC, and a significant portion of our Group's assets are located in the PRC. Accordingly, our Group's results of operations, financial conditions and prospects are subject to a significant degree to the economic and political developments in the PRC.

Uncertainties with respect to the PRC legal system may adversely affect our Group

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in introducing laws and regulations when dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. As these laws, regulations and legal requirements are not fully developed and are subject to change, interpretation and enforcement of such laws and

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regulations remain uncertain. These uncertainties could limit the reliability of the legal protections available to our Group and may negatively affect our Group's business operation and financial performance.

We rely on dividends paid by our PRC subsidiaries for our cash needs, and limitations on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our business, prospects, financial condition and results of operations.

We are a holding company incorporated in the Cayman Islands and conduct a substantial part of our operations through our PRC subsidiaries. We will rely on dividends paid by our PRC subsidiaries for our future cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. Regulations in the PRC currently permit payment of dividends by a PRC subsidiary only out of accumulated profits as determined in accordance with the PRC generally accepted accounting principles. According to applicable PRC laws and regulations, our PRC subsidiaries are required to set aside at least 10% of its after-tax profit based on the PRC generally accepted accounting principles each year for its statutory reserves until the amount of such reserves reach 50% of its registered capital. These reserves are not distributable as dividends. Contributions to such reserves are made from our PRC subsidiary's net profit after taxation. In addition, if our PRC subsidiaries incur debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. As a result, our PRC subsidiaries are restricted in their ability to transfer their net profit to us in the form of dividends. If our PRC subsidiaries cannot pay dividends due to government policy and regulations or contractual restrictions, or because they cannot generate the requisite cash flow, we may not be able to pay dividends, service our debt or pay our expenses, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

PRC regulations relating to loans and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the net proceeds of the Share Offer to contribute additional capital or make loans to our PRC subsidiaries

We are an offshore holding company conducting our operations in the PRC through our PRC subsidiaries. In utilising the net proceeds we expect to receive from the Share Offer for the purposes described in the section headed "Future plans and use of proceeds" in this prospectus, we may make loans or additional capital contributions to our PRC subsidiaries. Any loans to any of our PRC operating subsidiaries that are treated as a foreign invested enterprise under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, such loans cannot exceed statutory limits and must be registered with SAFE or its local counterpart. We may also determine to finance our PRC subsidiaries by means of capital contributions. We are required under PRC laws to complete the relevant filings at MOFCOM or its local counterpart. We cannot assure you that MOFCOM or its local counterpart will approve our filing in a timely manner, with respect to future loans or capital contributions by us to our PRC subsidiaries. If MOFCOM or its local counterpart refuses to approve our filing or does not approve it in a timely manner,

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our ability to use the net proceeds from the Share Offer to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Our global income may be subject to PRC taxation

Pursuant to the EIT Law, which became effective on 1 January 2008 and amended on 24 February 2017, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered as “resident enterprises” and will generally be subject to a uniform EIT at a rate of 25% on their global income. Pursuant to the Enterprise Income Tax Implementation Regulations of the PRC (中華人民共和國企業所得稅法實施條例) (“EITIR”), which also became effective on 1 January 2008, “de facto management bodies” is defined as bodies having material and overall management control over the business, personnel, accounts, properties and other aspects of an enterprise. Currently, we are conducting business in the PRC through our PRC subsidiaries and some members of our management are still based in the PRC. It is not entirely clear as to whether the tax authorities will deem us as a PRC resident enterprise. Depending on the interpretation, application and enforcement of the EIT Law and the EITIR by the PRC tax authorities, we may be treated as a PRC resident enterprise for EIT purposes, in which case, we may be subject to EIT at a rate of 25% on our worldwide income.

We may be subject to civil claims or administrative sanctions for our operations or potential harm to employees caused by our operations and may not be able to meet the increasingly stringent environmental protection requirements imposed by the PRC government

Our production process involves the use of hazardous substance, such as electrolyte solution, which, if handled inappropriately, could be detrimental to the health of our employees as well as the environment. We are subject to extensive and changing environmental, health and safety laws and regulations that affect our operations, facility and products in the PRC.

We are required to obtain and maintain various permits for the construction and operation of our production facility in the PRC. We cannot assure you that we will be able to obtain or renew all the relevant permits. If we fail to obtain or renew any required permit, we may be subject to civil and administrative claims that may result in potentially significant monetary damages and fines or suspension of our operations.

As our production may affect the health of our employees and the surrounding environment, our failure to control the pollutants generated as a by-product of our production could subject us to potential civil and administrative claims and may result in potentially significant monetary damages and fines or suspension of our business operations, which may harm our results of operations. If more stringent regulations are enacted in the future, the related compliance costs could be substantial and our results of operations and future prospects may be materially and adversely affected. Any failure to comply with any present or future environmental, health and safety laws and regulations could result in the imposition of fines and other sanctions against us, which could disrupt, limit or result in the suspension of the operations of our Group.

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It may be difficult to effect service of process or to enforce foreign judgements in the PRC

Since a significant portion of our Group's assets are located in the PRC, investors could encounter difficulties in effecting service of process from outside the PRC upon our Group. Moreover, it is understood that the enforcement of foreign judgements in the PRC is subject to uncertainties. A judgement of a court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if the judgements of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in the PRC of judgements of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Any laws and regulations applicable to our Group may change, and failure by our Group to comply with any of these developments may result in legal liabilities for our Group

Our Group's operations are subject to the PRC laws and regulations, which include but are not limited to laws and regulations governing, foreign investment, labour and insurance matters, tax, levy, tariff, foreign exchange and environmental protection. Any significant change in the scope or application of these laws or regulations or any promulgation of new laws and regulations may increase our Group's costs of production and have an adverse effect on our Group's results of operations and financial position. Furthermore, PRC production safety and environmental laws and their implementation regulations govern the operations of our Group's business. Any failure to comply with such laws and regulations could result in fines, suspension of operations, loss of licences, penalties or lawsuits. There can also be no assurance that the PRC government will not impose additional or stricter laws or regulations in the future, which could give rise to significant compliance costs that our Group may be unable to pass on to its customers and, as a result, adversely affect our Group's business operations and financial performance. For details of the PRC laws and regulations which our Group is subject to, please refer to the section headed "Regulatory overview — PRC regulatory framework — Laws and regulations in the PRC" in this prospectus.

Fluctuations in the value of the RMB may have a material adverse effect on your investment

The value of the RMB against the US dollars and other currencies may fluctuate and is affected by, among others, changes in political and economic conditions. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the US dollars. Under the new policy, the RMB was permitted to fluctuate within a managed band based on market supply and demand and by reference to a basket of certain foreign currencies. However, PBOC regularly intervenes in the foreign exchange market to achieve policy goals. In August 2015, the PRC devalued the RMB's daily reference rate to the US dollars. In the future, the PRC government may adopt a more flexible currency policy, which could lead to the RMB experiencing more substantial revaluation against foreign currencies. If the RMB fluctuates against the US dollars, these fluctuations may result in

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exchange losses or gains, or positively or negatively affect our Group's overseas sales. It is difficult to predict how RMB exchange rates may change going forward and such fluctuation may have an adverse impact on our Group's business operations and financial performance.

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for the Shares and the liquidity, market price and trading volume of the Shares may be volatile

Prior to the Listing, there is no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Share Offer. Factors such as variations in our Group's revenues, earnings and cash flows, strategic alliances or acquisitions made by our Company or our Group's competitors, industrial or environmental accidents suffered by our Group, loss of key personnel, litigation or fluctuation in the market prices for our Group's products or raw materials, the liquidity of the market for the Shares, the general market sentiment regarding the industry could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, you may not be able to sell the Shares at or above the Offer Price.

Investors may experience dilution if our Company issues additional Shares in the future

Our Company may issue additional Shares upon exercise of the options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, our Company may need to raise additional funds in the future to finance business expansion or new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

Substantial future sales or the 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 Joint Lead Managers, the Sole Bookrunner, the Sole Sponsor, the Co-Managers and the Public Offer Underwriters that, except pursuant to the Share Offer and the Capitalisation Issue, any Shares held by them will be subject to lock-up for certain period after the Listing in addition to the requirements under the GEM Listing Rules, unless with the prior written

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consent of the Joint Lead Managers (for themselves and on behalf of the Sole Bookrunner, the Sole Sponsor, the Co-Managers and the Public Offer Underwriters) (for details, please refer to the section headed “Underwriting — Undertakings pursuant to the Public Offer Underwriting Agreement — Undertaking by our Controlling Shareholders” in this prospectus). However, in the event that such voluntary lock-up undertaking is waived by the Joint Lead Managers (for themselves and on behalf of the Sole Bookrunner, the Sole Sponsor, the Co-Managers and the Public Offer Underwriters) without recommendation or approval of our independent non-executive Directors or the independent Shareholders in such regard, our Shares held by our Controlling Shareholders will be tradable in the market. Moreover, there is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Listing. Our Group cannot predict the effect, if any, of any future sales of the Shares by any of our Controlling Shareholders, or that the availability of the Shares offered by any of our Controlling Shareholders for purchase may have on the market price of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

Investors for our Shares may face difficulties in protecting their interests under Cayman Islands law, which may provide different remedies to minority shareholders when compared with the laws of Hong Kong or other jurisdictions

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For detailed information, please refer to the section headed “Summary of the constitution of our Company and the Cayman Islands Company Law” in Appendix III to this prospectus.

Termination of the Underwriting Agreements

Prospective investors of the Offer Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreements by the Joint Lead Managers (for themselves and on behalf of the Underwriters) giving written notice to the Company upon the occurrence of any of the events stated in the section headed “Underwriting — Public Offer Underwriting Arrangements — Grounds for termination” in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitations, any act of God, war, riot, public disorder, civil commotion, fire, flood, epidemic, terrorism, strike or lock-out.

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RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

Statistics and industry information contained in this prospectus may not be accurate and should not be unduly relied upon

Certain facts, statistics, and data presented in the section headed “Industry overview” and elsewhere in this prospectus relating to the industry in which our Group’s operation have been derived, in part, from various publications and industry-related sources prepared by government officials or Independent Third Parties. Our Company believes that the sources of the information are appropriate sources for such information, and the Sole Sponsor and the Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus. In addition, our Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers and the Underwriters, their respective affiliates or advisers nor any parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside Hong Kong. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

The future results could differ materially from those expressed or implied by the forward-looking statements.

Included in this prospectus are various forward-looking statements that are based on various assumptions. The future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed “Forward-looking statements” in this prospectus.

Investors should read this entire prospectus carefully and our Company strongly cautions you not to place any reliance on any information (if any) contained in press articles or other media regarding our Group and the Share Offer including, in particular, any financial projections, valuations or other forward looking statement

Prior to the publication of this prospectus, there may be press or other media, which contains certain information referring to our Group and the Share Offer that is not set out in this prospectus. Our Company wishes to emphasise to potential investors that neither our Company nor any of the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers, the Underwriters, our Directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the “Professional Parties”) involved in the Share Offer has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by our Company or any of the Professional Parties. Neither our Company nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or

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completeness of any such information. Our Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, our Company disclaims any responsibility or liability whatsoever in connection therewith or resulting therefrom.

Accordingly, prospective investors should not rely on any such information in making your decision as to whether to invest in the Offer Shares. You should rely only on the information contained in this prospectus.

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 (WUMP) 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 Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive; and
- there are no other matters the omission of which would make any statement in this prospectus misleading.

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Share Offer which is sponsored by the Sole Sponsor. The Offer Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreements, subject to the determination on the Offer Price agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on or about the Price Determination Date. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" of this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on or about the Price Determination Date. The Price Determination Date is expected to be on or about Monday, 6 November 2017 (Hong Kong time) or such later date as may be agreed between the parties.

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 by the Price Determination Date or such later date as may be agreed between the parties, the Share Offer will not proceed and will lapse.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required to, or be deemed by his/her acquisition of the Offer Shares to, confirm that he/she is aware of the restrictions on the offer of the Offer Shares described in this prospectus and that he/she is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction other than Hong Kong or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

We have not authorised anyone to provide any information or to make any representation in connection with the Share Offer not contained in this prospectus. You should not rely on any information or representation not contained in this prospectus as having been authorised by us, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers and the Underwriters or any of our or their respective directors, agents, advisers, employees, personnel or any other persons or parties involved in the Share Offer. No representation is made that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as at any date subsequent to the date of this prospectus.

Prospective investors should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. They should inform themselves of the relevant legal requirements for applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Further details of the structure and conditions of the Share Offer are set out in the section headed “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus.

APPLICATION FOR LISTING OF SHARES ON GEM

We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer as mentioned herein (including the Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme).

No part of our Shares or loan capital is listed, traded on or dealt in on any other stock exchange and other than the application mentioned in the paragraph above, no such listing or permission to list is being or proposed to be sought on the Stock Exchange or any other stock exchange as at the date of this prospectus.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of listing and at all times thereafter, we must maintain the minimum prescribed percentage of at least 25% of the our total issued share capital in the hands of the public.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Accordingly, a total of 200,000,000 Offer Shares representing 25% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be issued upon exercise of any options which may be granted under the Share Option Scheme) will be made available under the Share Offer.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application list, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by or on behalf of the Stock Exchange.

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

DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Monday, 13 November 2017. Shares will be traded in board lots of 10,000 Shares and are freely transferable. The stock code of the Shares is 8375.

We will not issue any temporary documents or evidence of title.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued. Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and 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 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 Rules of CCASS. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements as such arrangements will affect their rights and interests.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers for the taxation implications of subscribing for, purchasing, holding, disposal of or dealing in the Shares or exercising rights attached to them. We, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers and the Underwriters or any of our or their respective directors, agents, advisers, employees, personnel or any other

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

persons or parties involved in the Share Offer do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Shares or exercising any rights attached to them.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by Conyers Trust Company (Cayman) Limited in the Cayman Islands and our Hong Kong branch register of members will be maintained by Tricor Investor Services Limited in Hong Kong.

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

LANGUAGE

If there is any inconsistency between this prospectus and the Application Forms and the Chinese translation of the same, the English version of this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
------	---------	-------------

Executive Directors

Boon Ho Yin Henry (溫浩然)	Flat B, 9/F Block 3 Marinella 9 Welfare Road Wong Chuk Hang Hong Kong	Chinese
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Chow Cheung Chu (周祥珠)	Flat G, 27/F Tower 6, The Reach 11 Shap Pat Heung Road Yuen Long, New Territories Hong Kong	Chinese
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Independent non-executive Directors

Liu Kwan (劉筠)	Unit 7B Honey Court 88 Pokfulam Road Hong Kong	Chinese
---------------	---	---------

Chik Kin Man Paul (戚健民)	Flat B, 24/F Block 3 Hillsborough Court 18 Old Peak Road Mid-level, Hong Kong	Chinese
-------------------------	---	---------

Wong Wai Leung (黃偉樑)	House 19 Boulevard Du Palais The Beverly Hills 23 Sam Mun Tsai Road Tai Po, New Territories Hong Kong	Chinese
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For further information on the profile and background of our Directors, please refer to the section headed “Directors and senior management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

Vinco Capital Limited
Units 4909–4910, 49/F
The Center
99 Queen's Road Central
Hong Kong

Joint Lead Managers

Pacific Foundation Securities Limited
11/F New World Tower II
16–18 Queen's Road Central
Hong Kong

Vinco Capital Limited
Units 4909–4910, 49/F
The Center
99 Queen's Road Central
Hong Kong

Sole Bookrunner

Pacific Foundation Securities Limited
11/F New World Tower II
16–18 Queen's Road Central
Hong Kong

Public Offer Underwriters

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Pacific Foundation Securities Limited
11/F New World Tower II
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Ample Orient Capital Limited
Room A, 17/F, Fortune House
61 Connaught Road Central
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Frontpage Capital Limited
26th Floor, Siu On Centre
188 Lockhart Road
Wan Chai, Hong Kong

Nuada Limited
Unit 1805–08, 18/F
OfficePlus @Sheung Wan
93–103 Wing Lok Street
Sheung Wan, Hong Kong

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Placing Underwriters

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Co-Managers

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Frontpage Capital Limited

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Nuada Limited

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Sheung Wan, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to our Company

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Solicitors, Hong Kong
23/F, Shui On Centre
6–8 Harbour Road
Hong Kong

As to Cayman Islands law
Conyers Dill & Pearman
Cayman Islands attorneys-at-law
Cricket Square
Hutchins Drive
P.O. Box 2681
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Cayman Islands

As to PRC law
Hills & Co.
PRC attorneys-at-law
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Shenzhen, the PRC

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

As to Hong Kong law
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Solicitors, Hong Kong
Room 1012, Wing On Centre
111 Connaught Road Central
Hong Kong

Auditor and Reporting Accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Internal Control Review Accountant

Baker Tilly Hong Kong Risk Assurance Limited
2/F, 625 King's Road
North Point
Hong Kong

Receiving Bank

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Unit 9, 27/F W50 50 Wong Chuk Hang Road Hong Kong
Website of our Company	www.verticaltech.com.cn/ <i>(the content of this website do not form part of this prospectus)</i>
Company secretary	Cheung Yuet Fan (張月芬) Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Compliance officer	Boon Ho Yin Henry (溫浩然)
Authorised representatives (for the purpose of the GEM Listing Rules)	Boon Ho Yin Henry (溫浩然) Flat B, 9/F Block 3 Marinella 9 Welfare Road Wong Chuk Hang Hong Kong Cheung Yuet Fan (張月芬) Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Audit committee	Wong Wai Leung (黃偉樑) (<i>Chairman</i>) Liu Kwan (劉筠) Chik Kin Man Paul (戚健民)
Remuneration committee	Chik Kin Man Paul (戚健民) (<i>Chairman</i>) Liu Kwan (劉筠) Boon Ho Yin Henry (溫浩然)
Nomination committee	Boon Ho Yin Henry (溫浩然) (<i>Chairman</i>) Liu Kwan (劉筠) Chik Kin Man Paul (戚健民)

CORPORATE INFORMATION

Principal banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Central Hong Kong
The principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Compliance adviser	Vinco Capital Limited Units 4909–4910, 49/F The Center 99 Queen's Road Central Hong Kong

INDUSTRY OVERVIEW

This section contains certain information which is derived from official government publications and industry sources as well as a report our Company commissioned from Crowe Horwath, an Independent Third Party. Our Company believes that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from above sources has not been independently verified by our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers, the Underwriters or any other party involved in the Share Offer.

The information from official government publications may not be consistent with information available from other sources. Our Company, its affiliates or advisers, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers, the Underwriters or their affiliates or advisers, Crowe Horwath or any party involved in the Share Offer do not make any representation as to the accuracy, completeness or fairness of such information from official government publications and, accordingly, you should not unduly rely on such information from official government publications.

This section contains information extracted from the commissioned report from Crowe Horwath which reflects research estimates of the market size, rankings and performance from publicly available secondary sources and trade survey analysis of the opinions and perspectives of industry players, and is prepared primarily as a market research tool. Research by Crowe Horwath should not be considered as the opinion of Crowe Horwath as to the value of any security or the advisability of investing in our Company and accordingly, such information should not be relied upon.

SOURCES OF INFORMATION

Crowe Horwath

Crowe Horwath provides independent and objective audit, tax, industry research and advisory services. Crowe Horwath provides consultancy services such as financial modelling, market survey, sensitivity analysis, feasibility study, and industry study services such as market share analysis, supply and demand projection, and market trend study. Our Company commissioned Crowe Horwath to conduct market analysis of the aluminum electrolytic capacitors industry, and produce the Crowe Horwath Report at a total fee of HK\$330,000. Our Directors consider that such fee reflects market rates.

Crowe Horwath Report

The Crowe Horwath Report was prepared based on a top-down approach, in which both primary and secondary research were utilised, and Crowe Horwath attempted to cross check each significant finding with multiple sources. Crowe Horwath's primary research included site visits, management interviews and consultation with industry experts to verify information from third party sources and data collection and cleansing. Secondary research included internet research and articles, publications and knowledge base search. Any

INDUSTRY OVERVIEW

projections in the Crowe Horwath Report were done utilising a mix of both qualitative and quantitative analysis. Whenever applicable, a set of historical data was used as a basis for its projections, and if necessary, adjustments were subsequently made by Crowe Horwath for projection purposes and to ensure data relevancy and accuracy.

Analysis and forecasts contained in the Crowe Horwath Report are based on the following assumptions at the time of compiling of such report:

- i. there will not be substantial incidents such as political, administrative developments or natural disasters causing the economic condition to differ significantly from the forecasts, or adversely affect the aluminum electrolytic capacitor industry in PRC and the global market; and
- ii. the economy of PRC will not experience significant and substantial recession in the near future.

After taking reasonable care, the Directors confirm that to their knowledge there is no adverse change in the market information since the date of the Crowe Horwath Report which may qualify, contradict or have a material impact on the information in this section.

OVERVIEW

A capacitor is an electronic component that stores electrical charge. It is comprised of two electrodes separated by a layer of insulating dielectric. When voltage is applied across the electrodes, electrical charge is stored in the electrodes of the capacitor. Capacitors form an indispensable part of all electronic circuits and are found in a wide range of appliances, including audio/visual equipment, computers, automotive electronic products and home appliances.

There are various types of capacitors, including (i) ceramic capacitors, (ii) aluminum electrolytic capacitors, (iii) thin film capacitors, and (iv) other types of capacitors, to be applied in different, but specific, end products. According to the Crowe Horwath Report, global consumption value for all capacitors totalled approximately USD37.3 billion in 2016, with approximately 4 billion units consumed, and aluminum electrolytic capacitors accounted for approximately 20.6% of the overall consummation value for applications.

Aluminum electrolytic capacitors

Aluminum electrolytic capacitors are capacitors that use aluminum oxide film as the dielectric, and consist of anode aluminum foil, cathode aluminum foil, electrolyte, electrolytic paper, spacer paper, lead wires and an aluminum case. According to the Crowe Horwath Report, aluminum electrolytic capacitors accounted for about 34% of the total PRC capacitor production volume in 2016.

Compared with other types of capacitors, aluminum electrolytic capacitors offer higher capacitance and voltage-resistance characteristics, and are smaller in size and have a lower production cost, all of which are important factors that contribute to aluminum electrolytic capacitors becoming dominant in the capacitor market.

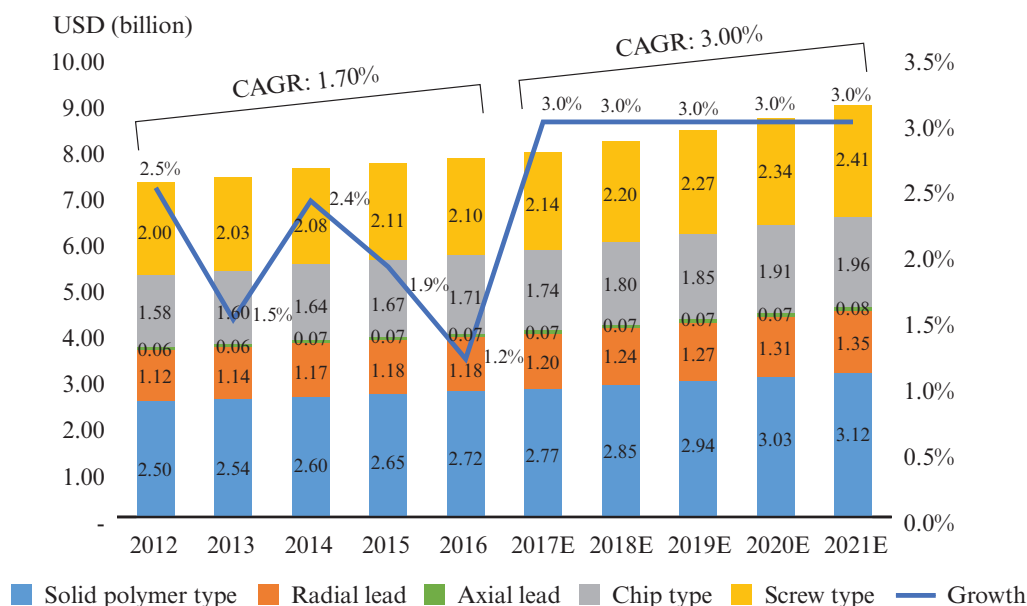
INDUSTRY OVERVIEW

There are four types of aluminum electrolytic capacitors, namely (i) chip type, (ii) lead type (which can be further divided into radial lead type and axial lead type), (iii) screw type and (iv) solid polymer type. Our Group manufactures predominately the chip type, followed by the radial lead type.

MARKET SIZE OF ALUMINUM ELECTROLYTIC CAPACITORS

Global market

The market size of aluminum electrolytic capacitor industry — Global



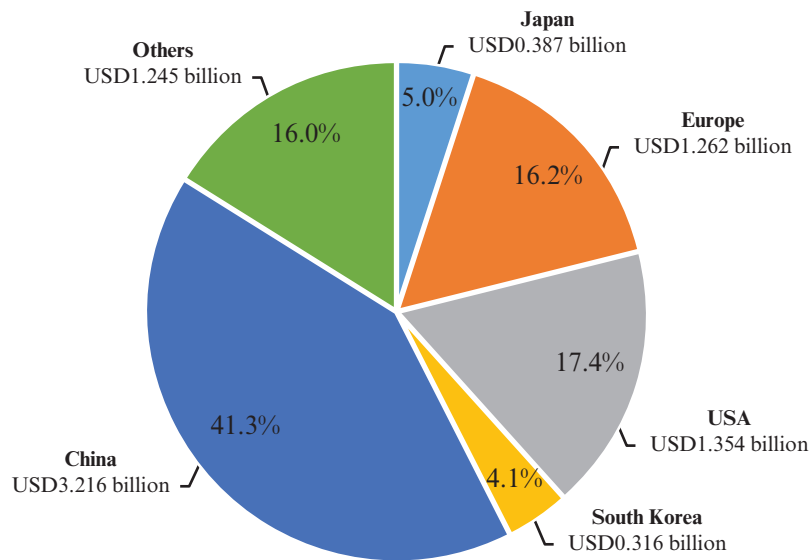
Source: Crowe Horwath Report

In 2016, the growth of aluminum electrolytic capacitor slowed down due to the sluggishness of the global economy. The lowered production of traditional notebook computers, desktop computers, televisions and home video equipment had negative impact on the demand for aluminum electrolytic capacitors. However, there are multiple development trends that favour the growth of demand for aluminum electrolytic capacitors, these are the rapid development of renewable energy, such as wind power and solar power; new generations of communication equipment and smart phones; upgrade of LED lighting; and rising spending on automotives. Driven by the increasing downstream demand, the global market of aluminum electrolytic capacitor showed a stable growth. The global market size of aluminum electrolytic capacitor increased from US\$7.26 billion to US\$7.78 billion during the period from 2012 to 2016.

INDUSTRY OVERVIEW

The global market size of chip type aluminum electrolytic capacitors and radial lead type aluminum electrolytic capacitors reached around USD1.71 billion and USD1.18 billion in 2016 respectively. In the period of 2012–2016, the 2.08% CAGR of chip type aluminum electrolytic capacitors and the 1.30% CAGR of radial lead type aluminum electrolytic capacitors were close to the 1.70% CAGR of the overall aluminum electrolytic capacitors. Both chip type and radial lead type aluminum electrolytic capacitors had grown proportionately with the overall aluminum electrolytic capacitor's growth rate, which was due to the increasing demand of end-user markets as mentioned before. This upward trend is likely to continue which both chip type and radial lead type aluminum electrolytic capacitor will each have approximately 3% CAGR on the global market size in the 2017–2021 period.

The market size segment of aluminum electrolytic capacitor in 2016



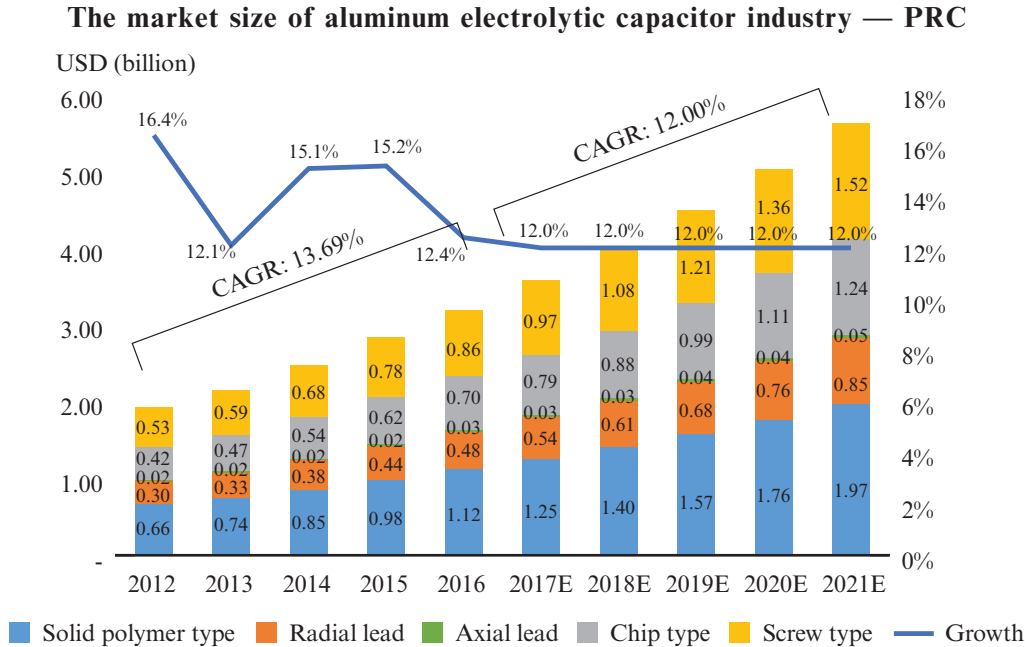
Source: Crowe Horwath Report

As the world's largest electronics manufacturer, China has the largest consumption of aluminum electrolytic capacitors in the world, with 41.3% market share in 2016. The United States is the world's major aluminum electrolytic capacitor market, with 17.4% market share in 2016. The aluminum electrolytic capacitors in the American market are mainly imported from Japan. With a recovering market after the European debt crisis in 2016, the market size of European aluminum electrolytic capacitor increased and accounted for 16.2% of the global market. Affected by the domestic economic environment, the market size of Japan's aluminum electrolytic capacitor declined by 1.3% and dropped to 0.387 billion US dollars in 2016, and accounted for 5.0% of the global market. South Korea plays a significant role in the global aluminum electrolytic capacitor industry, with 4.1% market share in 2016. The aluminum electrolytic capacitors produced in South Korea are mainly exported to the Chinese market.

INDUSTRY OVERVIEW

For reasons set out below in the paragraph headed “PRC market”, namely the low labour cost, low manufacturing cost and sufficient natural resources in the PRC, the transfer of the global aluminum electrolytic capacitor industry to the PRC has been accelerated. The Japanese, European, South Korean and Taiwanese markets are expected to underperform going forward and are expected to lose market shares.

PRC market



Source: Crowe Horwath Report

The market size of aluminum electrolytic capacitor in China reached around USD3.2 billion in 2016, which accounted for 41% of the global aluminum electrolytic capacitor market. Currently, China’s aluminum electrolytic capacitors are mainly used in the manufacturing of flat-panel TVs, monitors, DVD player, electronic ballasts, computers, audio equipment and general industrial products. China’s enterprises develop rapidly by manufacturing high-quality capacitor and electrode foil, and play a significant role in the international competition of comprehensive strength and technical level. The advantages of low labour cost, low manufacturing cost, and sufficient natural resources in China have accelerated the transfer of the global aluminum electrolytic capacitor industry to China radically, and have enlarged the market size of China aluminum electrolytic capacitor as a result. The market size of chip type aluminum electrolytic capacitor and radial lead type aluminum electrolytic capacitor in China reached around USD0.70 billion and USD0.48 billion in 2016 respectively. In the period of 2012–2016, the 14.06% CAGR of chip type aluminum electrolytic capacitor and the 13.19% CAGR of radial lead type aluminum electrolytic capacitor were close to the 13.69% CAGR of overall aluminum electrolytic capacitor. Both chip type and radial lead type aluminum electrolytic capacitor had grown proportionately with the overall aluminum electrolytic capacitor’s growth rate, which was due to the advantages of low labour cost, low manufacturing cost, and sufficient natural

INDUSTRY OVERVIEW

resources in China. This upward trend is likely to continue which both chip type and radial lead type aluminum electrolytic capacitor will each have approximately 12% CAGR in the Chinese aluminum electrolytic capacitor market size in the 2017–2021 period.

Chip type aluminum electrolytic capacitor is becoming more popular because there is an increasing need for higher degrees of integration in electronic products. The surface mount method, where chip type aluminum electrolytic capacitors are soldered using the reflow method and solder paste is applied to the connection points of the component, is the most suitable way to mount highly miniaturised components. The chip type aluminum electrolytic capacitors are shaped such that they are easier to mount on components subjected to the reflow method, which is widely applied to higher end electronic products such as smart phone and personal computer.

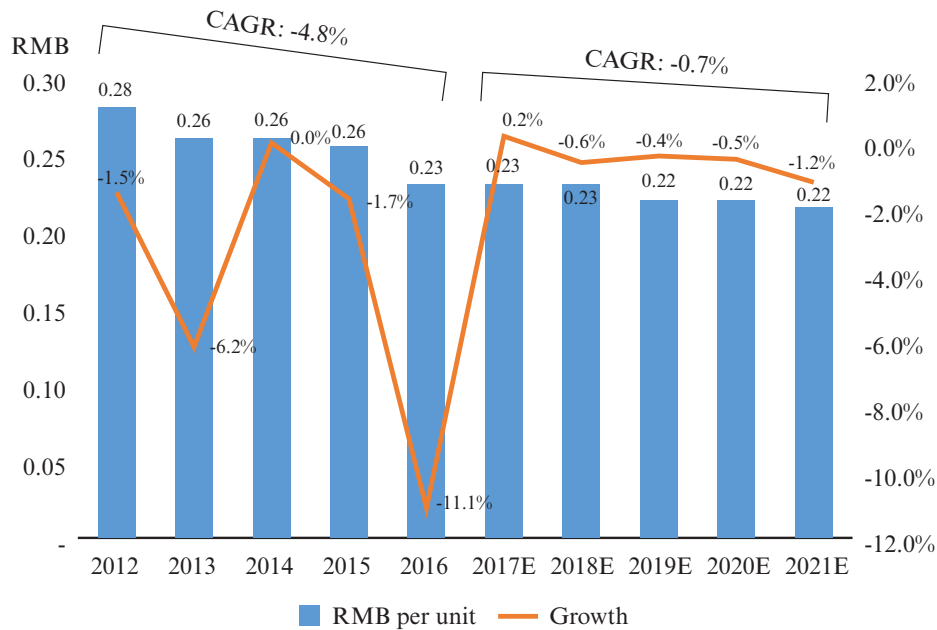
Moreover, according to the Crowe Horwath Report, from 2017 to 2021, due to the rapid advancement of China's technology in manufacturing aluminum electrolytic capacitors, domestic manufactured aluminum electrolytic capacitors are expected to replace imported aluminum electrolytic capacitors. Furthermore, from a cost control point of view, it would be more economical for electronic appliance manufacturers to source aluminum electrolytic capacitors from local aluminum electrolytic capacitors manufacturers rather than importing from overseas. The import quantity of aluminum electrolytic capacitors in China is expected to drop from 35.54 thousand tons in 2017 to 23.70 thousand tons in 2021 with a CAGR of -9.23% in the 2017–2021 period; whereas the export quantity of aluminum electrolytic capacitors in China is expected to rise from 40.28 thousand tons in 2017 to 55.69 thousand tons in 2021 with a CAGR of 13.9% in the 2017–2021 period. This creates further opportunities for domestic aluminum electrolytic capacitors producers in China as electronic appliance manufacturers continue to source their aluminum electrolytic capacitors from domestic aluminum electrolytic capacitors manufacturers in China rather than importing them from overseas.

From 2017 to 2021, the PRC market is expected to grow at a CAGR of 12.0%, which will outperform the projected growth rate of the global market at a CAGR of 3.0%, on the basis that (i) the PRC's GDP growth rate is expected to be higher than the global GDP growth rate and therefore a higher growth in the demand for consumer electronics is expected; (ii) the transfer of production from overseas to the PRC; and (iii) domestic manufactured aluminum electrolytic capacitors are expected to replace imported products as explained above.

PRICE TRENDS OF ALUMINUM ELECTROLYTIC CAPACITORS

Global market

Aluminum electrolytic capacitors — Global price trend



Source: Crowe Horwath Report

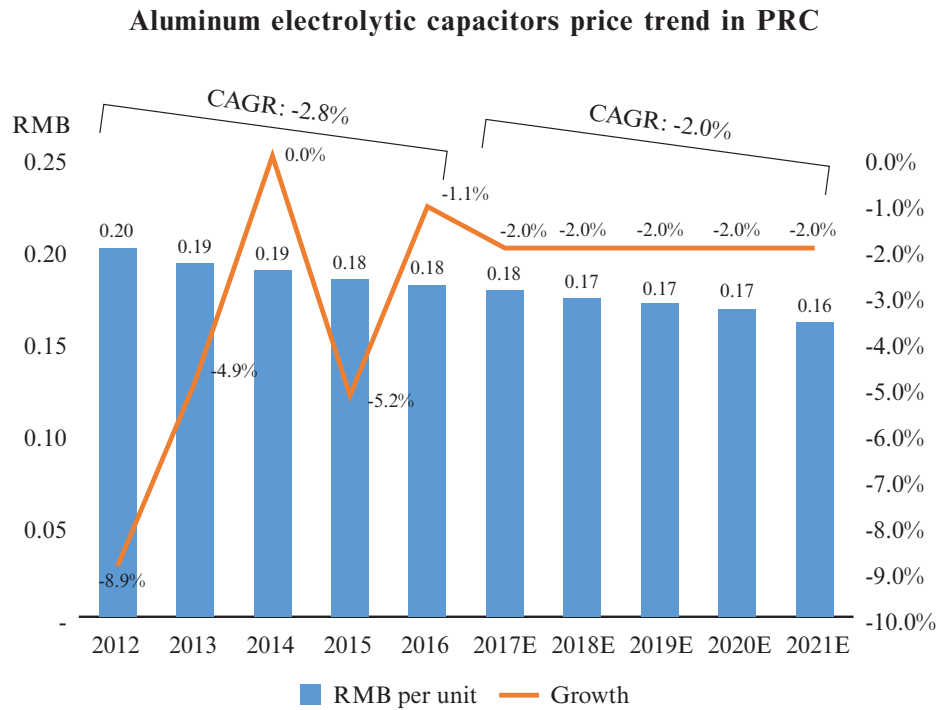
From 2012 to 2016, there was a downward trend in the global average price of aluminum electrolytic capacitors. The average price of aluminum electrolytic capacitors was RMB0.28 per unit in 2012 and RMB0.23 per unit in 2016, with a CAGR of -4.8%. This was due to the advancement of technology in manufacturing aluminum electrolytic capacitors at a lower cost and higher efficiency.

The sudden price decrease in 2016 is due to the depreciation of the Japanese yen against the US dollars. The changes in Japanese yen is important to the aluminum electrolytic capacitors industry because many of the top vendors of aluminum electrolytic capacitors in the world are from Japan.

For the five years from 2017 to 2021, the downward trend is expected to persist with a slower CAGR at -0.7%. The downward pressure on global average price is attributable to (i) continuing advancement of technology in manufacturing aluminum electrolytic capacitors, and (ii) companies achieving economies of scale to compete at a lower price.

INDUSTRY OVERVIEW

PRC market

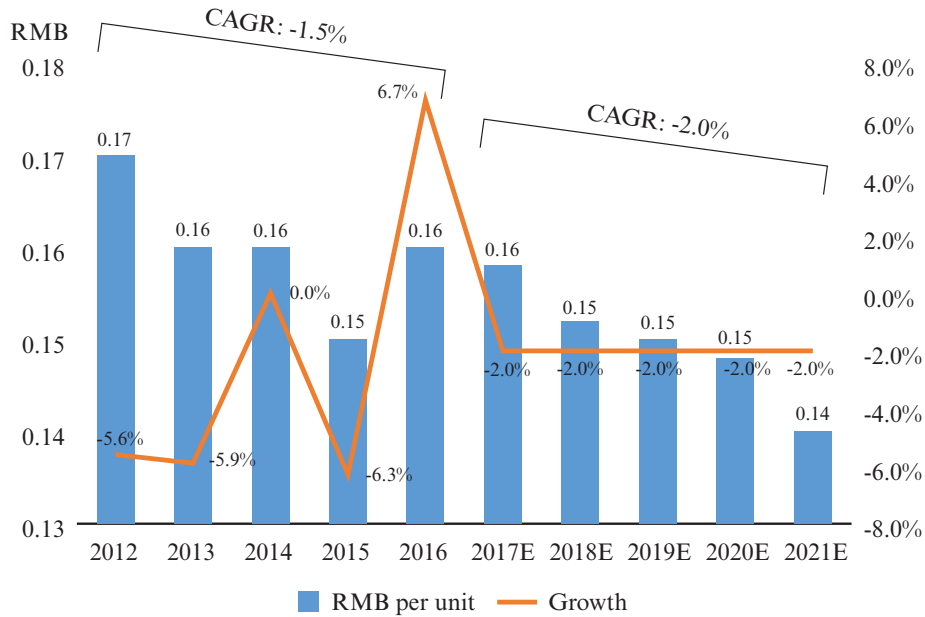


Source: Crowe Horwath Report

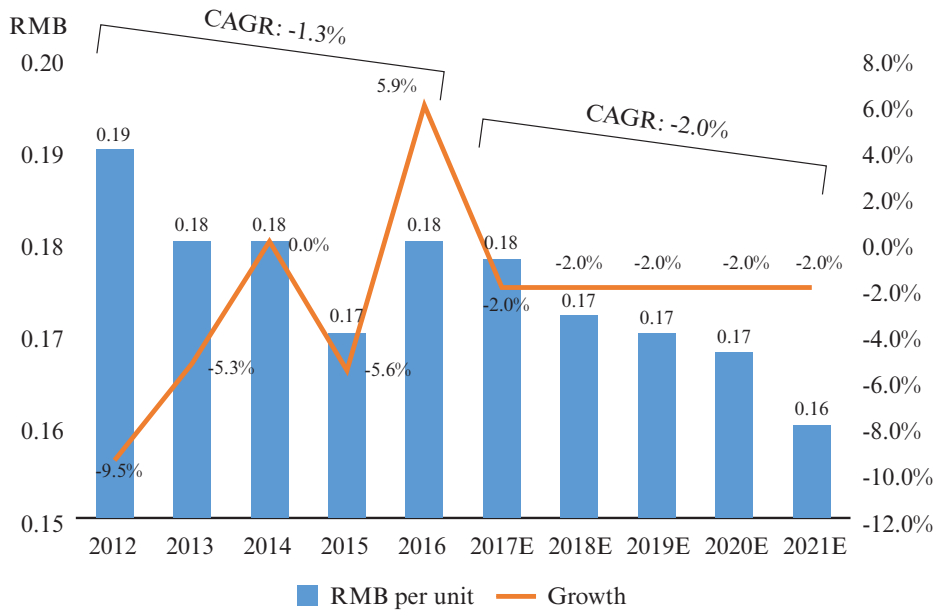
From 2012 to 2016, there had been a downward trend in the domestic average price of aluminum electrolytic capacitors in the PRC. The average price of aluminum electrolytic capacitors was RMB0.20 per unit in 2012 and RMB0.18 per unit in 2016 with a CAGR of -2.8%. According to the Crowe Horwath Report, the price of aluminum electrolytic capacitors in the PRC is expected to follow the continuing downward trend with a general growth rate of -2%, and the price is expected to reach RMB0.16 per unit in 2021. The greater projected decrease in price in the PRC than the global market is due to the rapid advancement of China's technology in manufacturing aluminum electrolytic capacitors at a lower cost and higher efficiency, which will likely increase the future supply and drive the price down at a rate greater than the global market's.

INDUSTRY OVERVIEW

Price of aluminum electrolytic capacitor (chip type)



Price of aluminum electrolytic capacitor (radial lead type)



Source: Crowe Horwath Report

INDUSTRY OVERVIEW

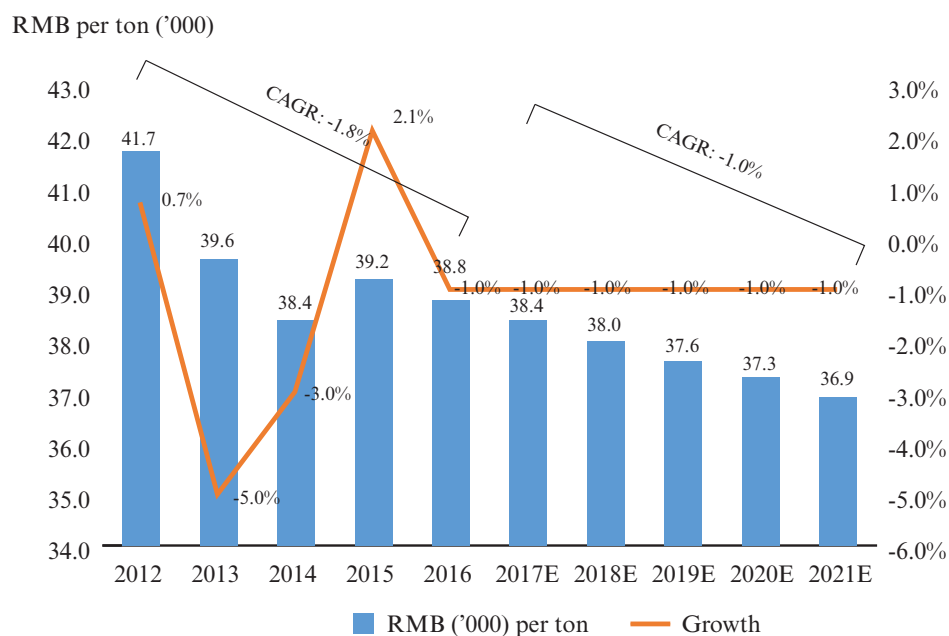
The price of aluminum electrolytic capacitor, both chip type and radial lead type, kept declining during the time period from 2012 to 2016, with a CAGR of -1.5% and -1.3%, respectively. The key factors affecting the price of aluminum electrolytic capacitor were increasing number of competitors, a price-oriented market, and the falling price of aluminum foil, which is a major raw material for aluminum electrolytic capacitors. The projected decrease in price for both the chip type and lead type for the period from 2017 to 2021 is also due to the advancement of China's technology in manufacturing aluminum electrolytic capacitors at a lower cost and higher efficiency, which will likely increase the future supply.

COST OF RAW MATERIALS IN PRC

The three major raw materials consumed by our Group for the manufacturing business during the Track Record Period were aluminum foil, aluminum case and sealing rubber. They accounted for 5.3%, 4.8% and 3.9%, respectively, of our Group's total costs of sales in the year ended 31 December 2015, and 7.9%, 6.3% and 4.9%, respectively, of our Group's total costs of sales in the year ended 31 December 2016.

Aluminum foil price trends

Aluminum foil price trend in China



Source: Crowe Horwath Report

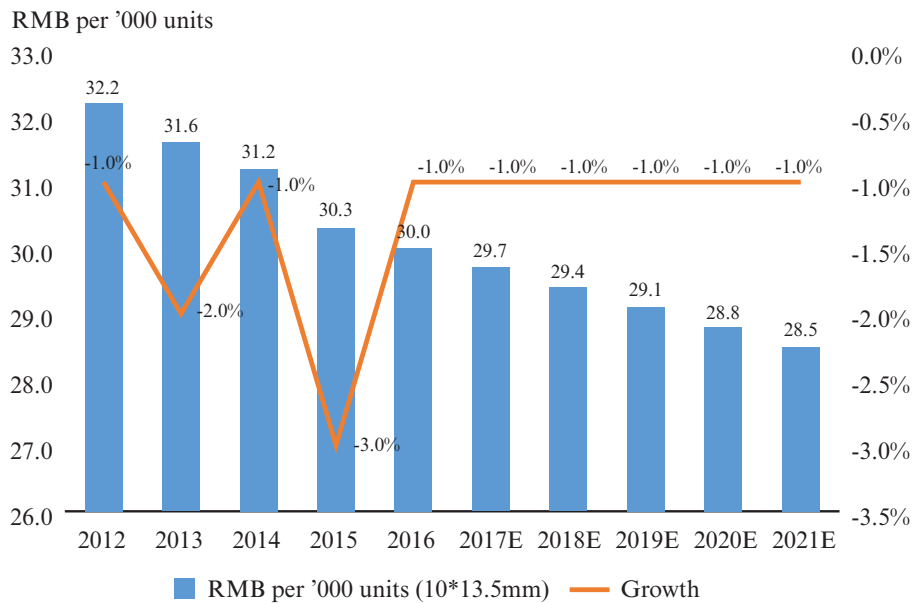
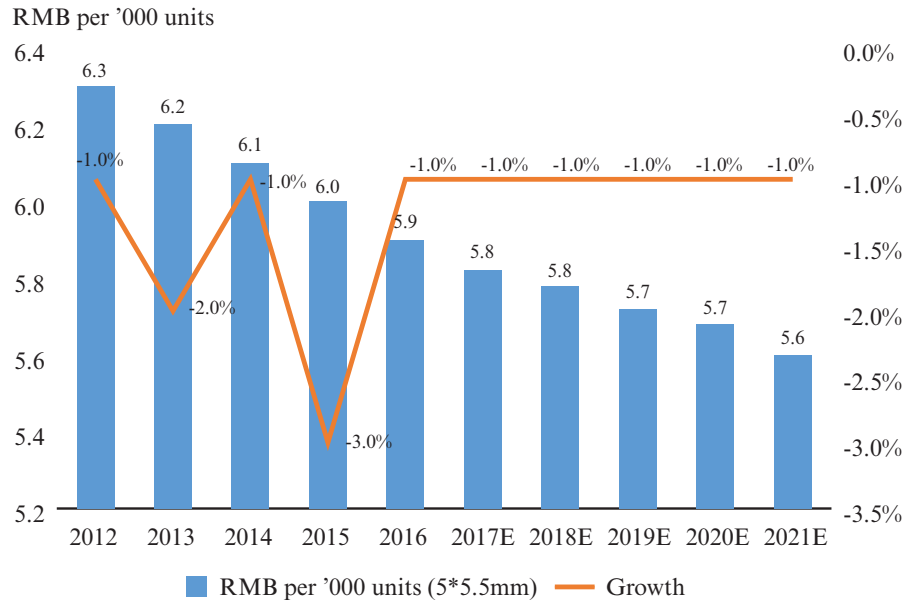
From 2012 to 2016, the aluminum price had seen a downward trend due to the high aluminum inventory and continuous over-production of aluminum in China. As the major raw material of aluminum foil is aluminum, the price of aluminum foil had dropped from RMB41,700 per ton in 2012 to RMB38,800 per ton in 2016, representing a CAGR of -1.8%. The downward trend is expected to continue at a CAGR of -1.0% from 2017 to 2021. The

INDUSTRY OVERVIEW

growth rate of the price of aluminum foil is expected to follow this trend for the period from 2017 to 2021 with a general negative 1% growth rate as a result of the high supply and overproduction in China continuing to suppress the price of aluminum foil.

Aluminum case price trends

Aluminum case in China



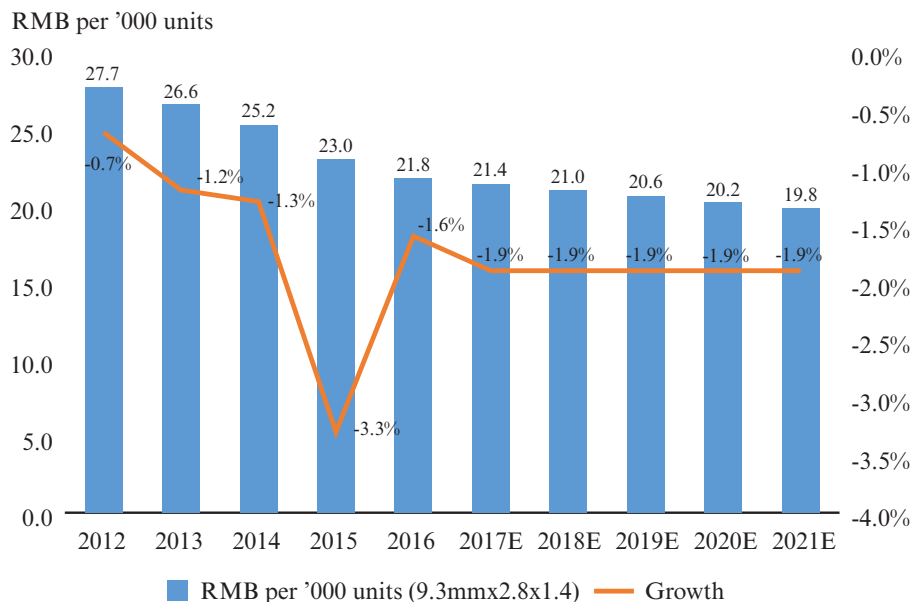
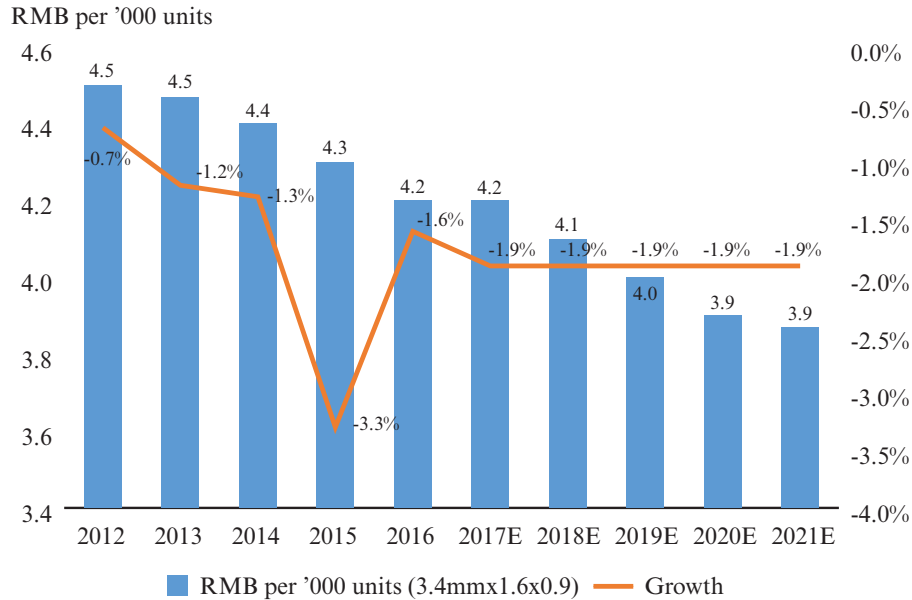
Source: Crowe Horwath Report

INDUSTRY OVERVIEW

The aluminum case of aluminum electrolytic capacitor is an alloy made of manganese, copper, magnesium, silicon and iron. From 2012 to 2016, there was a downward trend of the price of aluminum case. This was mostly due to the decrease in the price of aluminum. The growth rate of the price of aluminum case is expected to follow this trend for the period from 2017 to 2021 with a general negative 1% growth rate.

Sealing rubber price trends

Sealing rubber in China



Source: Crowe Horwath Report

INDUSTRY OVERVIEW

The major raw material of the sealing rubber of aluminum electrolytic capacitor is polyphthalamide (PPA), which is a type of nylon with high heat resistance. Polyphthalamide is produced from polyamides. A commonly used form of polyamide is polyamide-6 (PA6). A natural constituent of crude oil, benzene, is a key chemical component in the production of polyamides. From 2012 to 2016, there was a downward trend of the price of sealing rubber. This was largely the consequence of the decrease in the price of crude oil. The growth rate of the price of sealing rubber is expected to follow this trend for the period from 2017 to 2021 with a general negative 1.9% growth rate. High supply and overproduction would continue to suppress the price of sealing rubber in China.

COMPETITIVE LANDSCAPE

The tables below set forth the top 10 aluminum electrolytic capacitors manufacturers, globally and in the PRC, respectively, for 2016 in terms of sales revenue (in approximate millions of US\$).

Rank	Company	Country/ Region	Sales revenue of aluminum electrolytic capacitors (USD million) in 2016	Market share
1	Market player A	Japan	776	10.0%
2	Market player B	Japan	617	7.9%
3	Market player C	Japan	513	6.6%
4	Market player D	Japan	301	3.9%
5	Market player E	China	203	2.6%
6	Market player F	South Korea	199	2.6%
7	Market player G	Japan	165	2.1%
8	Market player H	China	158	2.0%
9	Market player I	Hong Kong	148	1.9%
10	Market player J	Taiwan	133	1.7%
	Others		<u>4,568</u>	58.7%
	Total		<u><u>7,781</u></u>	

Source: Crowe Horwath Report

INDUSTRY OVERVIEW

The global market size of aluminum electrolytic capacitor industry was about 7.8 billion US dollars in 2016. The top 10 companies accounted for 41.3% of the market share, which reflects a fragmented market. Among the top 10 companies, there were five Japanese companies, which accounted for 30.5% of the market share. The Japanese electrolytic capacitor industry had a remarkable leverage over the global market. According to the Crowe Horwath Report, our Group accounted for approximately 0.4% of the market share globally in terms of chip type aluminum electrolytic capacitors.

Rank	Company	Region	Sales revenue of aluminum electrolytic capacitors (RMB million) in 2016	Market share
1	Market player E	Hunan province	1,412	6.4%
2	Market player H	Jiangsu province	1,101	5.0%
3	Market player J	Taiwan	943	4.2%
4	Market player I	Hong Kong	883	4.0%
5	Market player K	Jiangsu province	723	3.3%
6	Market player L	Fujian province	611	2.8%
7	Market player M	Shandong province	554	2.5%
8	Market player N	Jiangsu province	508	2.3%
9	Market player O	Guangdong province	455	2.0%
10	Market player P	Jiangsu province	421	1.9%
	Others		<u>14,604</u>	65.7%
	Total		<u><u>22,216</u></u>	

Source: Crowe Horwath Report

Note: Market players J and I have production facilities in the PRC and are therefore regarded as market players in the PRC.

The market size of aluminum electrolytic capacitor industry in the PRC was about RMB22.2 billion in 2016. According to the Crowe Horwath Report, the top 10 companies accounted for 34.3% of the market share, which reflected a fragmented PRC market.

INDUSTRY OVERVIEW

The table below sets forth the top 10 chip type aluminum electrolytic capacitors manufacturers in the PRC for 2016 in terms of sales revenue:

Rank	Company	Region	Sales revenue of aluminum electrolytic capacitors (Chip) (RMB million) in 2016	Market share
1	Market player E	Hunan province	247	5.1%
2	Market player K	Jiangsu province	145	3.0%
3	Market player P	Jiangsu province	141	2.9%
4	Market player N	Jiangsu province	126	2.6%
5	Market player J	Taiwan	105	2.2%
6	Market player M	Shandong province	95	1.9%
7	Market player I	Hong Kong	93	1.9%
8	Market player H	Jiangsu province	82	1.7%
9	Market player L	Fujian province	60	1.2%
10	Our Group	Hong Kong	44	0.9%
	Others		3,724	76.6%
	Total		4,861	

Note: Market players J, I and our Group have production facilities in the PRC and are therefore regarded as market players in the PRC.

The PRC market size of chip type aluminum electrolytic capacitors reached around RMB4,861 million in 2016. The top 10 companies accounted for only 23.4% of the market share, which reflected a fragmented PRC market. According to the Crowe Horwath Report, our Group is ranked as the 10th company in the chip type aluminum electrolytic capacitor market in the PRC in 2016, and accounted for approximately 0.9% market share of the chip type aluminum electrolytic capacitor market in the PRC in 2016.

The market players who ranked higher than our Group in 2016 on the table above are all manufacturers of high-end aluminum electrolytic capacitors. High-end manufacturers compete favourably against the other manufacturers due to better quality and better performance of their products in terms of stability.

As for competition among the manufacturers of high-end aluminum electrolytic capacitors, those who can control their costs and keep their prices low will have a competitive advantage over the other high-end manufacturers.

Entry barriers

The aluminum electrolytic capacitor industry is technology intensive and new entrants have to overcome (i) barrier of proven track record, (ii) barrier of technology and R&D, and (iii) barrier of production scale. Details of these barriers are set out below:

Barrier of proven track record

Capacitors are an important passive components in electronic circuits. The stability and reliability of their quality determine the quality of the whole electronic product. The big buyers of capacitors are usually the world-famous electronics manufacturers. They have long-term cooperation with the suppliers, but based on a strict and long-established certification requirement.

In order to be a supplier of these electronics manufacturers, the supplier's quality management system must go through rigorous assessment, and the supplier must obtain product technical performance certification from third party accreditation bodies to meet electronics manufacturers' requirement of the qualified capacitor. This process can last between 1–4 years. The certification is usually subject to reassessment every year.

In addition, the downstream manufacturers usually stick to the suppliers with whom they have established business relationship and who have proven over the years to have the ability to deliver capacitors with stable quality consistently.

The lengthy certification process and the customers' reluctance to buy from capacitor manufacturers who have no proven track record are the major obstacles for newcomers to the capacitor industry.

We initially also faced the same barrier when we set up our manufacturing business. We overcame this barrier by marketing our products to, among others, our trading customers who were more willing to try our products due to our established relationship, despite our lack of track record.

Barrier of technology and R&D

Rapid technological development and fast replacement speed are the characteristics of electronic products. Although capacitors are the basic building blocks of all electronic appliances, electronics manufacturers may require capacitors with new specifications from time to time for their new products.

Capacitor manufacturers need to have the ability to develop prototypes which meet the new requirements of the customers both in terms of specifications and quality within a short period of time. This calls for a strong research and development team and advanced research and development as well as testing equipment.

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New entrants of the industry usually do not have the experienced research and development staff, as experience can only be accumulated over time. They also may not have the capital to invest in advanced equipment for research and development and testing for new products.

We established our Dongguan production plant in 2013, and we have dedicated resources on research and development since March 2014, as we understand that our research and development capability is very important if we want to compete against other market players and overcome the barrier as described above.

Barrier of production scale

According to the Crowe Horwath Report, more and more capacitor manufacturers move their production bases to the PRC because of the low labour and manufacturing costs. This allows them to lower their prices and results in a more intense competition in the industry. In order to compete, the industry players must produce their products in a large volume to achieve the economy of scale necessary to keep the production costs down. This is a big obstacle for new players as they may not be have sufficient orders at the beginning to support a high production volume, which in turn will keep their prices non-competitive.

Another measure to control production costs is to achieve high production efficiency by having a high level of automation. This involves heavy capital investment which may not be feasible for newcomers.

While our Group may not have a large enough production volume to achieve the economy of scale initially, we have invested resources to develop our patented manufacturing methods to lower our costs and overcome the barrier of production scale.

Threats

Threat of new entrants

Whilst new entrants in the aluminum electrolytic capacitor industry will pose threats to existing players in the market, aluminum electrolytic capacitor industry is technology intensive and new entrant has to overcome (i) barrier of proven track record, (ii) barrier of technology and R&D, and (iii) barrier of production scale. Even large enterprises within the same industry have certain fundamental differences, such as some enterprises focus more on electronic foil technology, whereas others are particularly advanced in the domain of electrode foil technology. The technological requirements for companies to enter into these industries are rather high, in which companies should possess strong research and development capability, and large number of skilled and experienced workers. New entrants post relatively low-level of threats to existing players.

Threat of price fluctuation

Fluctuation of the price of the raw materials could have a negative impact on a market player.

Threat of rapid technology development

China's aluminum electrolytic capacitor industry has been developing rapidly and industrial technical level continues to improve. Compared with foreign competitors, PRC manufacturers still need to catch up on the overall technical level in the aluminum electrolytic capacitor industry. Foreign aluminum electrolytic capacitor manufacturers pose fiercer competition for PRC manufacturers at the high-end level.

GROWTH DRIVERS OF ALUMINUM ELECTROLYTIC CAPACITORS IN PRC MARKET

Explosive growth of the communications market

With the arrival of the information age, different means of communication and network technology have been booming rapidly. From low to high voltage, from small to large capacity, there is a great demand for different varieties of capacitors for all kinds of communication and network devices.

New generation of household appliances

Consumer electronics and home appliances such as color TV, audio equipment, camera, DVD, CD player, inverter air-conditioner, inverter refrigerator, washing machines, microwave oven, etc. require the use of large electrolytic capacitors. The demand for aluminum electrolytic capacitor for a digital TV is three times than that of a traditional TV.

Industrial field

In order to maintain competitiveness and production efficiency, players of all industries need to keep on improving the level of automation in their production process, which leads to an ever increasing demand for aluminum electrolytic capacitors, a commonly required electronic component in industrial machinery.

Military and aerospace fields

In recent years, military operations have more and more relied on electronic devices as military equipment and weaponry have become more and more sophisticated. Aerospace industry also heavily relies on the use of complicated electronic devices. The development of these industries will drive the demand for high-end capacitors with the highest quality.

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RECENT DEVELOPMENT TRENDS OF THE ALUMINUM ELECTROLYTIC CAPACITOR MARKET IN THE PRC

The Directors believe that there is considerable growth prospects of the aluminum electrolytic capacitor market in the PRC, based on the following:

According to the data published by the National Bureau of Statistics of the PRC, China's household electrical appliance industry has maintained stable and sustaining growth for the past few years. The sales revenue of China's home appliance manufacturing industry was RMB531.9 billion in 2009 and reached RMB1,284.3 billion in 2015, representing a CAGR of 15.83%.

Given the size of the PRC consumer market, every time a new generation of electronic appliances is developed, there will be a huge demand for the relevant products, which leads to a large demand for aluminum electrolytic capacitors. Examples are digital cameras, smart phones, and high definition TVs.

Electronic products in the past utilised a lot of hazardous and toxic substances which are harmful to the environment and human bodies, such as lead, mercury and cadmium. More and more countries are imposing stricter environmental laws and regulations requiring the use of non-hazardous materials, recyclability and high energy efficiency. This will lead to the development of a new generation of environmental friendly electronics and create new market opportunities for electronic components such as aluminum electrolytic capacitors. An example is the development of LED lighting which utilise aluminum electrolytic capacitors as opposed to a traditional light bulb which does not require any capacitor.

PRC REGULATORY FRAMEWORK

LAWS AND REGULATIONS IN THE PRC

The relevant laws and regulations applicable to the operations and business of our Group's subsidiaries in the PRC are set out below:

Incorporation, operation and management of wholly foreign owned enterprises

The establishment, operation and management of a company in the PRC are governed by the PRC Company Law (《中華人民共和國公司法》) which was promulgated by the SCNPC on 29 December 1993 and became effective on 1 July 1994. It was last amended on 28 December 2013 and took effect on 1 March 2014. The major amendments include, but are not limited to, cancelling the paid-up capital registration and removing the statutory minimum registered capital requirements and the statutory timeframe for the capital contribution. The PRC Company Law also governs foreign-invested limited liability companies and joint stock limited companies. According to the PRC Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The Wholly Foreign Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) promulgated on 12 April 1986 by the National People's Congress (the "NPC") and last amended on 3 September 2016 by the SCNPC and the Implementation Rules on the Wholly Foreign Owned Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》) promulgated by the Ministry of Foreign Trade and Economy on 12 December 1990 and last amended by the State Council on 19 February 2014, govern the establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, employment and all other relevant matters of wholly foreign owned enterprises. According to the latest amendment to Wholly Foreign Owned Enterprise Law of the PRC on 3 September 2016, foreign-invested enterprises which do not fall within the scope of special administrative measures for foreign investment admission stipulated by the State, approval procedures stipulated in Article 6, Article 10 and Article 20 of the Wholly Foreign Owned Enterprise Law of the PRC shall be changed to the filing procedures.

Pursuant to the Provisional Measures for Filing Administration of Establishment and Changes 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 promulgated by the Ministry of Commerce on 8 October 2016 and became effective on the same date and was further amended on 30 July 2017, where establishments and changes to a foreign-invested enterprise do not fall within the scope of special administration measures for foreign investment admission as stipulated by the State, the foreign-invested enterprise shall go through filing procedures instead of the procedures for approvals. However, where establishments and changes to a foreign-invested enterprise fall within the scope of the special administration measures for foreign investment admission as stipulated by the State, the foreign-invested enterprise shall go through procedures for approvals according to the relevant laws and regulations governing foreign investment.

Laws and regulations relating to the Catalogue of Industries for Guiding Foreign Investment

Pursuant to the Provisions on Guiding Foreign Investment Direction (《指導外商投資方向規定》), which was promulgated by the State Council on 11 February 2002 and became effective on 1 April 2002, any investment conducted by foreign investors and foreign enterprises in the PRC is subject to the Catalogue for Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) (the “**Guidance Catalogue**”), the latest version of which was promulgated by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on 28 June 2017 and came into effect on 28 July 2017. The Guidance Catalogue provides guidance for market access of foreign capital by categorizing industries into encouraged industries for foreign investment, restricted industries for foreign investment industries and prohibited industries for foreign investment. Those industries which are not stipulated in the Guidance Catalogue are deemed as “permitted industries for foreign investment”. According to the Guidance Catalogue, the industry in which our Group’s PRC subsidiary engage is categorised as permitted industries for foreign investment.

Foreign trade

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (the “**Foreign Trade Law**”) was last amended by the SCNPC on 7 November 2016 and took effect on the same day. Foreign trade mentioned in the Foreign Trade Law refers to the import and export of goods, technologies and international trade in services. According to the Foreign Trade Law, unfair competition activities such as selling products at unreasonably low prices, bidding in collusion, publishing false advertisements and offering commercial bribe are not allowed in foreign trade activities.

Pursuant to the Foreign Trade Law and the Measures for the Record Filing and Registration of Foreign Trade Business Operators (《對外貿易經營者備案登記辦法》) which was promulgated by the Ministry of Commerce on 25 June 2004 and became effective on 1 July 2004 and was subsequently amended on 18 August 2016, the PRC adopted a filing and registration system for foreign trade operators engaged in the import and export of goods or technologies, implemented by the Ministry of Commerce or its entrusted agencies. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the Customs to carry out the customs clearance and inspection procedures for their import and export of goods.

Product quality

Products made in the PRC are subject to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated by the SCNPC on 22 February 1993 and became effective on 1 September 1993 and was subsequently amended on 8 July 2000 and 27 August 2009. According to the Product Quality Law, the producer of a product shall be liable to compensate for the damages done to a person or property other than the defective product itself due to the defects of the product, unless the producer is able to prove that: (i) the product has not been put in circulation; (ii) the defects causing the damages do not exist at the time when the product is put in circulation; or (iii)

based on the level of science or technology at the time the product is put in circulation, the defects cannot be discovered. The Product Quality Law is applicable to all activities of production and sale of any product within the PRC. According to the Product Quality Law, manufacturers are liable for the quality of products they produce and sellers must take reasonable actions to ensure the quality of the products they sell. Both the manufacturers and sellers shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products they manufactured or sold. Violation of the Product Quality Law may result in fines and the violator will be ordered to suspend its operations, or its business license will be revoked and criminal liability may be incurred under severe circumstances.

Product liability

The PRC Law on Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) (the “**Consumers Protection Law**”) was promulgated on 31 October 1993 and became effective on 1 January 1994 and was subsequently amended on 27 August 2009 and 25 October 2013. According to the Consumers Protection Law, unless otherwise provided by this law, a business operator that provides products or services shall, in any of the following circumstances, bear civil liability in accordance with other relevant laws and regulations: (i) where a defect exists in a product; (ii) where a product does not possess the functions it is supposed to possess, and no declaration thereof is made at the time of sale; (iii) where the product standards indicated on a product or on the package of such product are not met; (iv) where the quality condition indicated by way of product description or physical sample, etc. is not met; (v) where products that have been formally declared by the State to be obsolete are produced or expired or deteriorated products are sold; (vi) where the products sold are short quantity; (vii) where the contents and costs of the services are in violation of the agreement; (viii) where consumers’ requests for repair, redoing, replacement, return, making up the quantity of a product, refund of payment for the products or services, or claims for compensation have been deliberately delayed or unreasonably rejected; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by laws and regulations, are infringed. A business operator who fails to fulfill the security obligations and causes harm to consumers shall bear tort liability according to the Consumers Protection Law.

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was promulgated on 26 December 2009 and came into force on 1 July 2010 to clarify the tort liability, and to prevent and penalise tortious acts. Under this law, in the event of damage arising from a defective product, the sufferer may seek compensation from either the manufacturer or the seller of such product. If the defect is caused by the seller, the manufacturer is entitled to seek reimbursement from the seller upon compensating the sufferer.

Production safety

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) was promulgated by the SCNPC on 29 June 2002, became effective on 1 November 2002 and was last amended on 31 August 2014. It governs the supervision and administration of production safety in the PRC. The Production Safety Law of the PRC requires a production

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entity to meet the relevant requirements such as providing its staff with proper training, handbooks concerning production safety, and safe working conditions as set out in the relevant laws, rules and regulations in the PRC. Any production entity that fails to provide the required safe working conditions may not engage in production activities. Violation of the Production Safety Law of the PRC may result in fines, penalties, suspension or cease of operations, or even criminal liability in severe cases.

Occupational disease prevention and control

According to the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) promulgated by the SCNPC on 27 October 2001, effective on 1 May 2002 and last amended on 2 July 2016, the employer shall create the working environment and conditions that conform to the national norms for occupational health and requirements for public health, provide protection facilities, truthfully report the hazardous item to the supervisory and administrative department of work safety if any hazardous factor causing an occupational disease as listed in the catalogue of occupational diseases exists in the work premise, be equipped with occupational health managing personnel and establish management rules.

Environmental protection

In accordance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) first promulgated by the SCNPC on 26 December 1989, the competent department of environmental protection administration under the State Council formulates the national environmental quality and discharge standards and monitors the PRC's environmental system. The local government of provinces, autonomous regions and municipalities directly under the central government may also set up their local standards for environment quality for items not specified in the national standards for environment quality and shall report them to the competent department of environmental protection administration under the State Council for the record. The Environmental Protection Law of the PRC was amended by the SCNPC on 24 April 2014 and became effective on 1 January 2015, which strengthens the supervision and regulation on the environmental protection at the national level and imposes stricter punishment on the illegal activities. All entities and individuals in the PRC are subject to the Environmental Protection Law of the PRC.

Pursuant to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) which was promulgated by the SCNPC on 28 October 2002 and became effective on 1 September 2003 and amended on 2 July 2016, the Administrative Regulations on Environmental Protection for Construction Projects (《建設項目環境保護管理條例》) which was promulgated by the State Council and became effective on 29 November 1998 and was amended on 16 July 2017 and the Administrative Measures on the Examination and Approval of Environmental Protection for the Completion of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) which was promulgated by the State Environmental Protection Administration on 27 December 2001, became effective on 1 February 2002 and was further amended on 22 December 2010, enterprises planning

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construction projects shall engage qualified professionals to provide the assessment report/assessment form/registration form on the environmental impact of such projects. The assessment report/assessment form/registration form shall be filed with and approved by the relevant environmental protection bureau, prior to the commencement of any construction work. The construction project shall not commence operation, unless inspected and approved by the relevant environmental protection bureau.

Enterprises in the PRC must comply with the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) effective from 1 June 2008 and was further amended on 27 June 2017 and will become effective on 1 January 2018, the law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) the last amendment of which became effective from 1 January 2016, the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) effective from 1 March 1997, and the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid waste (《中華人民共和國固體廢物污染環境防治法》), effective from 1 April 1996 and was last amended on 7 November 2016. These laws regulate extensive issues in relation to the environment protection including waste water discharge, air pollution control, noise emission and solid waste pollution control. Pursuant to these laws, all the enterprises that may cause environmental pollution in the course of their production and business operation shall introduce environmental protection measures in their plants and establish a reliable system for environmental protection.

Labour law

Companies in the PRC are subject to the PRC Labour Law (《中華人民共和國勞動法》) which was promulgated by the SCNPC on 5 July 1994, became effective on 1 January 1995 and was further amended on 27 August 2009, the PRC Labour Contract Law (《中華人民共和國勞動合同法》) which was promulgated by the SCNPC on 29 June 2007, became effective on 1 January 2008 and was further amended by the SCNPC on 28 December 2012, and the Implementation Regulations of the PRC Labour Contract Law (《中華人民共和國勞動合同法實施條例》) which was promulgated by the State Council on 18 September 2008 and became effective on the same date, as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time. Compared to previous PRC Laws and regulations, the PRC Labour Contract Law imposes stricter requirements in respect of signing of labour contracts with employees, stipulation of probation period and violation penalties, termination of labour contracts, payment of remuneration and economic compensation, use of labour dispatches as well as social security premiums.

According to the PRC Labour Law and the PRC Labour Contract Law, a written labour contract shall be concluded when a labour relationship is to be established between an employer and an employee. An employer must pay an employee two times his salary for each month in circumstances where it fails to enter into a written labour contract with the employee for more than a month but less than a year; where such period exceeds one year, the parties are deemed to have entered into a unfixed-term labour contract. Companies

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must pay wages that are not lower than the local minimum wage standards to the employees. Companies are also required to establish labour safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to the employees.

According to the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》) which was promulgated by the State Council on 1 October 2002 and came into effect on 1 December 2002, the employers must verify the identification cards of the personnel to be employed and shall not employ any minor under 16 years old.

Social insurance and housing provident funds

The PRC social insurance system is mainly governed by the Social Insurance Law of the PRC (《中華人民共和國社會保險法》). The Social Insurance Law of the PRC was promulgated by the SCNPC on 28 October 2010 and came into effect on 1 July 2011. According to Social Insurance Law of the PRC, employers in the PRC shall conduct registration of social insurance with the competent authorities, and make contributions to the five basic types of social insurance for their employees, namely, basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

According to the Social Insurance Law of the PRC, if an entity does not pay the full amount of social insurance fund contributions on time, the social insurance authority shall order it to pay the outstanding social insurance fund contributions within a prescribed time and impose a late charge of 0.05% per day of the outstanding amount. If the payment is not made within the prescribed time, the social insurance authority shall impose a fine ranging from one to three times of the outstanding social insurance fund contributions.

According to the Regulations on Management of Housing Provident Funds (《住房公積金管理條例》) which was promulgated by the State Council and came into effect on 3 April 1999 and was amended on 24 March 2002, all business entities (including foreign invested enterprises) are required to register with the local housing provident funds management centre and set up special housing fund accounts with designated banks and pay the related funds for their employees. In addition, for both employees and employers, the payment rate for housing provident fund shall not be less than 5% of the average monthly salary of the employees in the previous year. The payment rate may be raised higher if the employer desires.

Foreign exchange

Foreign exchange control in the PRC is mainly regulated by the Administrative Regulations of the PRC on Foreign Exchange (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and was last amended on 5 August 2008. According to the aforesaid regulations, RMB can be freely exchanged into foreign currency for payments under current accounts (such as foreign exchange transactions in relation to trade and service and dividends payment), but approval from the relevant foreign exchange administration shall be obtained the exchange of RMB into foreign current under foreign exchange accounts (such as direct investment, loan or stock investment outside the PRC).

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On 30 March 2015, the State Administration of Foreign Exchange (the “SAFE”) promulgated the Circular on Reform of the Administrative Method of the Settlement of Foreign Currency Capital by Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**Circular 19**”) which became effective on 1 June 2015. Pursuant to the Circular 19, foreign-invested enterprises in the PRC may, according to their business demands, settle with a bank the portion of the foreign exchange capital in their capital accounts for which the local foreign exchange bureau has confirmed capital contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution), and the portion allowed to be settled by a foreign-invested enterprise is tentatively 100%. Furthermore, where foreign-invested enterprises are engaging in equity investment in the PRC, they shall comply with the regulations on reinvestment within the territory of the PRC.

Taxation

Enterprise income tax

According to the Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “**EIT Law**”) promulgated by the National People’s Congress on 16 March 2007 and came into effect on 1 January 2008 and amended on 24 February 2017, and the EITIR which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, the income tax rate for both domestic and foreign-invested enterprises is 25%.

Pursuant to the EIT Law and the EITIR, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered as “resident enterprises” and are subject to the uniform 25% enterprise income tax rate for their global income.

The EIT Law and the EITIR also provide that the enterprise income tax should be levied at the reduced rate of 20% for qualified “small and thin-profit enterprises”, and the enterprise income tax should be levied at the preferential tax rate of 15% for “high and new technology enterprises” in need of special support by the PRC.

Our PRC subsidiary Dongguan Shouke was qualified as the National High and New Technology Enterprises with a validity period of three years on 30 November 2016 and was entitled to the preferential tax rate of 15% for 3 years from 1 January 2016 to 31 December 2018.

Transfer pricing

According to the PRC EIT Law, the EITIR, Law of the People’s Republic of China Concerning the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) and Detailed Rules for the Implementation of the Law of the People’s Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法實施細則》), related party transactions should comply with the arm’s length principle and if the related party transactions fail to comply with the arm’s length principle and results in the reduction of the enterprise’s taxable income, the tax authority is entitled to make a special adjustment within ten years from the taxpaying year when the non-compliant related party transaction had

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occurred. Pursuant to such laws and regulations, any company entering into related party transactions with another company shall submit an annual related party transactions reporting form (年度關聯業務往來報告表) to the tax authority.

According to the Implementation Regulations for Special Tax Adjustments promulgated by SAT, enterprises entering into a transaction with associated parties, and taxation authorities reviewing and evaluating such transaction shall observe the arm's length principle and select and employ a reasonable transfer pricing method for transfer pricing analysis purposes. As provided in the EITIR, transfer pricing methods include the comparable uncontrolled price method, the resale price method, the cost plus method, the transactional net margin method, the profit split method, and other approaches that are in compliance with the arm's length principle. In the event that the related party transactions exceed a certain threshold, the PRC company is required to prepare, keep and, as requested by the tax authority, submit the contemporaneous documents (同期資料) (which include the transfer pricing analysis) relating to the related party transactions to the same.

As Shaoguan Hongfeng, Dongguan Shouke and Vertical Technology (the “**Group companies**”) have transactions from time to time, and such transactions are considered as related party transactions under the PRC laws and regulations, and therefore the PRC laws and regulations governing transfer pricing as disclosed above apply to any transactions between those members of our Group.

To establish an arm's length range of return for the related party transactions for transfer pricing analysis purposes, the Group is required to choose the most appropriate method as provided under the 2010 Organization for Economic Co-Operation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and PRC transfer pricing regulations.

The transactional net margin method (“**TNMM**”) examines the net profit margin relative to an appropriate base (e.g. costs, sales, and assets) that the tested party realises from related party transactions, and is considered the most appropriate method for our Group because (i) the Group companies are not able to identify any transactions involving third parties which are comparable to those conducted by our Group companies in terms of products and trading conditions involved, etc.; (ii) the standard of comparability is less rigorous under the TNMM than under any other suggested method in the PRC laws and regulations (iii) publicly held companies that are considered comparable to the Group companies can be identified; and (iv) available data is insufficient to support the use of other transfer pricing methods.

The TNMM requires the use of profit level indicator (“**PLI**”) for comparison purposes. In other words, the analysis will compare the PLI in the case of the Group companies' related parties transactions against the PLI in the case of comparable companies identified and determine whether the Group companies' related party transactions are conducted on an arm's length basis.

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Different types of PLI measure a company's return on different basis, such as capital employed, net sales, total cost, etc. Operating margin, being the ratio of operating profit to net sales, is commonly used as an appropriate PLI for trading companies such as Shaoguan Hongfeng, taking into account all facts and circumstances.

Net cost plus margin, being the ratio of operating profit to total costs, is commonly applied to manufacturing companies such as Dongguan Shouke, as it measures the price to be charged as an operating profit mark-up to total costs.

Withholding tax on dividends

According to the EIT Law and the EITIR, non-resident enterprises which have not set up institutions or premises in the PRC, or which have set up institutions or premises in the PRC but whose income has no actual relationship with such institutions or premises shall be subject to the withholding tax of 10% on their income derived from the PRC. According to the Arrangements between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes On Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), promulgated by the SAT and Hong Kong Special Administrative Region on 21 August 2006, dividends paid by a PRC enterprise to a Hong Kong resident may be taxed in the PRC according to the applicable PRC tax laws, and vice versa. Where the beneficial owner of the dividends is a resident of the other side (e.g. dividends of a PRC company paid to a Hong Kong resident), the tax charged shall not exceed: (a) where the beneficial owner is a company directly owing at least 25% of the equity interest of our company which pays the dividends, 5% of the gross amount of the dividends; and (b) in any other case, 10% of the gross amount of the dividends.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues Concerning the Implementation of Dividend Clauses in Tax Treaties (《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》), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied for a taxpayer to be entitled to the tax rate specified in the tax agreement for dividends paid to it by a PRC resident company: (i) the tax fiscal resident of the other side who obtains dividends shall be a company as provided in the tax agreement; (ii) the proportions of the owner's equity interests and voting shares of the PRC resident company directly owned by such tax resident shall comply with the prescribed proportions; and (iii) the proportions of the equity interests directly owned by such tax resident in the PRC resident company shall, at any time within the successive twelve months before obtaining of the dividends, comply with the proportions specified in the tax agreement.

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According to the Administrative Measures for Non-resident Taxpayers to Enjoy the Treatments under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》) (the “**Administrative Measures**”), which was promulgated by the SAT on 27 August 2015 and came into effect on 1 November 2015, if non-resident taxpayers are eligible for the favorable tax treatment under the tax arrangements, they could enjoy such treatment when making tax declarations by themselves or through withholding agents. Under the Administrative Measures, when the non-resident taxpayers or their withholding agents make declarations to the relevant tax authority, they should deliver the relevant reports and materials to the tax authority and such non-resident taxpayers and withholding agents will be subject to the follow-up management of the tax authority.

VAT

According to the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993, and taking effect on 1 January 1994, which was last amended on 6 February 2016, and the Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the Ministry of Finance of the PRC on 25 December 1993, became effective on 1 January 1994 and was last amended on 28 October 2011 and became effective on 1 November 2011, all entities and individuals engaging in the sales of goods, the provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC are subject to VAT, and shall pay VAT in accordance with these regulations. The applicable VAT rate for taxpayers selling or importing various goods, providing processing, repairs and replacement services shall be 17 percent, and that for taxpayers exporting goods shall be nil, unless otherwise stipulated.

PRC custom duties

According to the Customs Law of the PRC (《中華人民共和國海關法》) which was promulgated by the SCNPC on 22 January 1987, and was came into effect on 1 July 1987 and last amended on 7 November 2016, the consignee of the imports, the consignor of the exports and the owners of the imports and exports are persons obligated to pay customs duties. The Customs of the PRC is the authority in charge of the collection of customs duties.

Customs duties in the PRC are mainly ad valorem duties, being the price of import/export commodities is the basis for the calculation of the duties. When calculating the customs duties, import/export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Custom Import and Export Tariff and shall be subject to tax levied pursuant to the relevant tax rated.

According to the Administrative Provisions of the PRC on the Registration of the Customs Declaring Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs of the PRC and taking effect on 13 March 2014, a declaring entity shall go through the registration procedures at the

customs in accordance with these provisions. Registration of declaring entities shall be divided into the registration of declaring enterprises and the registration of consignees or consignors of import or export goods.

Intellectual property

The products in the PRC shall be subject to intellectual property laws, which mainly include the Copyright Law of the PRC (《中華人民共和國著作權法》), the Patent Law of the PRC (《中華人民共和國專利法》) and the Trademark Law of the PRC (《中華人民共和國商標法》).

According to the Trademark Law, which was promulgated by the SCNPC on 23 August 1982 and last amended on 30 August 2013 and took effect on 1 May 2014, any of the following acts is an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark which is identical with a registered trademark on the same kind of commodities without a license from the registrant of that trademark; (ii) using a trademark which is similar to a registered trademark on the same kind of commodities, or using a trademark which is identical with or similar to the registered trademark on the similar commodities and mislead the public without a license from the registrant of that trademark, which is likely to cause confusion; (iii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iv) forging or manufacturing without authorisation the marks of a registered trademark, or selling the marks of a registered trademark forged or manufactured without authorisation; (v) changing a registered trademark and putting the commodities bearing the changed trademark into the market without the consent of the registrant of that trademark; and (vi) deliberately providing convenience for and helping with the acts infringing upon the exclusive right to use a registered trademark; (vii) causing other damages to the exclusive right to use a registered trademark of another person.

The Patent Law of the PRC was promulgated by the SCNPC on 12 March 1984, became effective on 1 April 1985, and was last amended on 27 December 2008, with the latest amendment taking effect on 1 October 2009. According to the Patent Law of the PRC, patent is divided into three categories: invention patent, utility model patent and design patent. Invention patent is intended to protect new technical solutions proposed for a product, a process or the improvement thereof. Utility model patent is intended to protect new technical solutions proposed for the shape and structure of a product or the combination thereof, which are fit for practical application. Design patent is intended to protect new designs of a product's shape, pattern, the combination thereof, or the combination of color with shape and pattern, which create an aesthetic feeling and are fit for industrial application. According to the Patent Law of the PRC, any exploitation of a patent without the authorisation of the patentee constitutes an infringement on the patent right.

The Measures on the Administration of Internet Domain Names of China (《中國互聯網域名管理辦法》) was promulgated by the Ministry of Information Industry (now renamed as the Ministry of Industry and Information Technology) on 5 November 2004 and became effective on 20 December 2004. The aforementioned measures regulate the

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registration of domain names in China with the internet country code of “.cn”. The Measures on Domain Names Dispute Resolution (《中國互聯網絡信息中心域名爭議解決辦法》) was promulgated by the China Internet Network Information Infrastructure Centre and became effective on 1 September 2014. The aforementioned measures require domain name disputes to be submitted to the institutions authorised by the China Internet Network Information Centre for resolution.

This section sets out a summary of certain aspects of the laws and regulations in Hong Kong and the PRC which are relevant to our Group’s operations and business in Hong Kong and the PRC. Information contained in this section should not be construed as a comprehensive summary of the laws and regulations applicable to our Group.

HONG KONG LAWS

This section sets forth a summary of the laws and regulations in Hong Kong which are applicable to our Group’s business in the trading of (i) electronic components and (ii) LED and LED lighting products to resellers and end-users.

Imports and Exports Ordinance (Chapter 60 of the Laws of Hong Kong)

Duty to provide particulars of all cargo

Pursuant to section 15(1)(a) of the IEO, the master or agent of a vessel, the commander or owner of an aircraft, the person in charge of a vehicle, or the handling agent in Hong Kong for cargoes carried by a train shall, on any occasion that the vessel, aircraft or vehicle is entering or leaving Hong Kong, furnish the Customs and Excise Service a manifest in respect of the cargo being imported or exported in or on the vessel, aircraft or vehicle if he is requested to do so by the Customs and Excise Service.

Further, by section 15(1)(b) of the IEO he has to allow the Customs and Excise Service to board the vessel, aircraft or vehicle, inspect the cargo and search the vessel for contraband.

For the purpose of the IEO, a manifest means a record prepared as a manifest and containing such particulars as the Commissioner of Customs and Excise may prescribe and as the member of the Customs and Excise Service considers sufficient for his purposes.

Apart from the above, section 17 of the IEO lays down that all cargo which is imported or exported shall be recorded in a manifest which shall contain such particulars the Commissioner of Customs and Excise may prescribe.

Section 18 of the IEO stipulates that any person who imports or exports any unmanifested cargo shall be guilty of an offence and shall be liable on summary conviction to a fine of HK\$500,000 and to imprisonment for 2 years; or on conviction on indictment to a fine of HK\$2,000,000 and to imprisonment for 7 years.

Powers of investigation

Empowered by section 20 of the IEO, any member of the Customs and Excise Service and any authorised officer may, for the purposes of the IEO, stop and board and search any vessel, aircraft or vehicle. The officer is entitled to require the production or furnishing of any declaration or other document required to be lodged, delivered or provided to the Commissioner of Customs and Excise or Director-General of Trade and Industry in connection with the requirements of the IEO; or any document which relates to the origin or nature of any article or which he suspects to be relevant to an offence under the IEO. A member of the Customs and Excise Service is also empowered to examine any article if he considers it necessary to do so to ascertain whether or not the provisions of the IEO are being, or have been, complied with by any person in respect of that article.

Under section 20B of the IEO, in the exercise of his functions under section 20, where any article is upon any vessel, aircraft or vehicle for importation into Hong Kong and an officer desires, he is entitled to have the article removed from such vessel, aircraft or vehicle for examination, if he is of the opinion that the article can be more conveniently examined after such removal.

Restriction on import and export of strategic commodities

Section 6A of the IEO sets out that a person who imports or exports an article specified in schedule 1 to the IER (strategic commodities) except under and in accordance with an import or export license issued by the Director-General of Trade and Industry commits an offence and is liable (a) on summary conviction to a fine of HK\$500,000 and to imprisonment for 2 years; and (b) on conviction on indictment to an unlimited fine and to imprisonment for 7 years.

Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong)

Import declarations

Pursuant to regulation 4(1) of the IER (registration), every person who imports any article other than an exempted article shall lodge with the Commissioner of Customs and Excise an accurate and complete import declaration relating to such article using services provided by a specified body, in accordance with the requirements that the Commissioner of Customs and Excise may specify.

Regulation 4(2) of the IER (registration) stipulates that every declaration required to be lodged shall be lodged within 14 days after the importation of the article to which it relates. Only one declaration is required in respect of imported articles that were imported under one bill of lading or air waybill; or have item code numbers with identical first 4 digits, were imported in the same ship, vehicle, train or aircraft, and were consigned from the same country.

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Export declarations

Under regulation 5(1) of the IER (registration), every person who exports or re-exports any article other than an exempted article shall lodge with the Commissioner of Customs and Excise an accurate and complete export declaration relating to such article using services provided by a specified body, in accordance with the requirements that the Commissioner of Customs and Excise may specify.

By regulation 5(2) of the IER (registration), every declaration required to be lodged shall be lodged within 14 days after the exportation of the article to which it relates.

Any person who, in contravention of the above, knowingly or recklessly lodges any declaration with the Commissioner of Customs and Excise that is inaccurate in any material particular shall be guilty of an offence and shall be liable on summary conviction to a fine of HK\$10,000. Further, every person who, being required to lodge a declaration, fails or neglects, without reasonable excuse, to do so within the period specified, shall be guilty of an offence and shall be liable on summary conviction to a fine of HK\$1,000, and, commencing on the day following the date of conviction to a fine of HK\$100 in respect of every day during which his failure or neglect to lodge the declaration in that manner continues.

Charges payable on lodgement of declarations

Pursuant to regulation 8(1) of the IER (registration), every person who lodges an import declaration under regulation 4(1) of the IER (registration) or an export declaration under regulation 5(1) of the IER (registration) shall pay: in respect of an import declaration relating to an article or articles specified in appendix 1 of the Imports and Exports Classification List issued by the Commissioner of Customs and Excise, a charge of 20 cents, irrespective of the value of the article or the aggregate value of the articles specified in the declaration; in respect of other import declaration where the value of the article or the aggregate value of the articles specified in the declaration does not exceed HK\$46,000, a charge of 20 cents; where the value of the article or the aggregate value of the articles specified in the declaration exceeds HK\$46,000, a charge calculated at the rate of 20 cents for the first 45,000 Hong Kong dollars' value and 12.5 cents for each additional 1,000 Hong Kong dollars' value or part thereof and rounded up to the nearest 10 cents.

In respect of any export declaration for articles for which the origin country code refers to Hong Kong and where the value of the article or the aggregate value of the articles specified in the declaration does not exceed HK\$46,000, a charge of 20 cents; where the value of the article or the aggregate value of the articles specified in the declaration exceeds HK\$46,000, a charge calculated at the rate of 20 cents for the first 46,000 Hong Kong dollars' value and 12.5 cents for each additional 1,000 Hong Kong dollars' value or part thereof and rounded up to the nearest 10 cents.

By regulation 8(2) of the IER (registration), the charge under regulation 8(1) of the IER (registration) in respect of every import declaration and export declaration shall be paid in the manner agreed by the Hong Kong government and the specified body whose services are used for lodging the declaration.

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Assessment of extra charges in certain circumstances, penalties and appeals

By regulation 10 of the IER (registration), where the Commissioner of Customs and Excise has reason to believe that the value or aggregate value of any article or articles in relation to which an import or export declaration has been lodged pursuant to regulation 4(1) or 5(1) of the IER (registration) has been understated therein to such extent as to reduce the amount of the charge which would otherwise have been payable under regulation 8 of the IER (registration), he shall assess the extra charge which would have been payable under that regulation if the value or aggregate value of the article or articles had not been understated in the declaration, and shall notify the person who lodged the declaration accordingly and demand from him payment of such extra charge together with such penalty (amounting to not more than 20 times such extra charge) as the Commissioner of Customs and Excise sees fit to impose, provided that no penalty imposed under the above shall exceed HK\$10,000.

Import manifests and other particulars

Under regulation 11(1) of the IER (registration), the manifest of the cargo imported in every vessel, aircraft or vehicle which arrives within Hong Kong shall give such particulars of each article therein as may be prescribed by notice under section 17 of the IEO; be completed in such manner and in such number of copies as the Commissioner of Customs and Excise may require; and be lodged with the Commissioner of Customs and Excise by the owner or master of the vessel, or the owner or commander of the aircraft, or the owner or person in charge of the vehicle (other than a train), or the person acting as the agent for the owner of goods carried by train, as the case may be; and be lodged using services provided by a specified body.

Regulation 11(2) of the IER (registration) lays down that every manifest required to be lodged shall be lodged within 14 days after the arrival of the vessel, aircraft or vehicle within Hong Kong on the occasion concerned.

Any person who, without reasonable excuse, lodges a manifest that, in contravention of the above, does not give all the particulars required by the above in respect of any article specified in the manifest, or contravenes a requirement of the Commissioner of Customs and Excise, shall be guilty of an offence and shall be liable on summary conviction to a fine of HK\$10,000.

Any person who, being required to lodge a manifest pursuant to the above, fails or neglects, without reasonable excuse, to do so in the manner specified within the period specified, shall be guilty of an offence and shall be liable on summary conviction to a fine of HK\$1,000, and, commencing on the day following the date of conviction, to a fine of HK\$100 in respect of every day during which his failure or neglect to lodge the manifest in that manner continues.

Export manifests

Under regulation 12(1) of the IER (registration), the manifest of the cargo exported in every vessel, aircraft or vehicle which leaves Hong Kong shall give such particulars of each article therein as may be prescribed by notice under section 17 of the IEO; be completed in such manner and in such number of copies as the Commissioner of Customs and Excise may require; and be lodged with the Commissioner of Customs and Excise by the owner or master of the vessel, or the owner or commander of the aircraft, or the owner or person in charge of the vehicle (other than a train), or the person acting as the agent for the owner of goods carried by train, as the case may be; and be lodged using services provided by a specified body.

Regulation 11(2) of the IER (registration) lays down that every manifest required to be lodged shall be lodged within 14 days after the departure from Hong Kong of the vessel, aircraft or vehicle on the occasion concerned.

Any person who, without reasonable excuse, lodges a manifest that, in contravention of the above, does not give all the particulars required by the above in respect of any article specified in the manifest, or contravenes a requirement of the Commissioner of Customs and Excise, shall be guilty of an offence and shall be liable on summary conviction to a fine of HK\$10,000.

Any person who, being required to lodge a manifest pursuant to the above, fails or neglects, without reasonable excuse, to do so in the manner specified within the period specified, shall be guilty of an offence and shall be liable on summary conviction to a fine of HK\$1,000, and, commencing on the day following the date of conviction, to a fine of HK\$100 in respect of every day during which his failure or neglect to lodge the manifest in that manner continues.

Pursuant to regulation 12A of the IER (registration), the requirement for a manifest to be lodged under regulation 11 or 12 of the IER (registration) shall be deemed to have been complied with where a manifest has been provided under section 15 of the IEO on the occasion of a vessel, aircraft or vehicle entering or leaving Hong Kong, if the manifest provided under section 15 of the IEO contains all the particulars prescribed under section 17 of the IEO; and was sent using services provided by a specified body, as provided in section 15(1B)(c) of the IEO.

Import and Export Manifests Notice (Chapter 60C of the Laws of Hong Kong)

The notice sets out the particulars of a cargo that ought to be contained in an import or export manifest relating to the import or export of any cargo into or from Hong Kong, such as the number, description, gross weight of the packages, the name and address of the consignor, and the container numbers.

Import and Export (Strategic Commodities) Regulations (Chapter 60G of the Laws of Hong Kong)

Imports and exports licensing control

Regulation 2 of the IER (strategic commodities) sets out that a person shall not import or export an article specified in schedule 1 of the IER (strategic commodities) except under and in accordance with an import or export license issued by the Director-General of Trade and Industry.

By section 3A001(e)(2)(a) under category 3 — electronics in schedule 1 of the IER (strategic commodities), capacitors with a repetition rate of less than 10Hz (single shot capacitors) having a voltage rating equal to or more than 5kV; an energy density equal to or more than 50J/kg; and a total energy equal to or more than 25k are regarded as strategic commodities. Similarly, by section 3A001(e)(2)(b), capacitors with a repetition rate of 10Hz or more (repetition rated capacitors) having a voltage rating equal to or more than 5kV; an energy density equal to or more than 50J/kg; a total energy equal to or more than 100J; and a charge/discharge cycle life equal to or more than 10000 shall be regarded as strategic commodities as well.

Further, according to section 3A201(a) of the IER (strategic commodities), capacitors having either set of characteristics including (a) voltage rating greater than 1.4kV; energy storage greater than 10J; capacitance greater than 0.5F; and series inductance less than 50nH; or (b) voltage rating greater than 750V; capacitance greater than 0.25F; and series inductance less than 10nH, shall be deemed as strategic commodities as well.

In addition, section 3A001(h) lays down that solid state power diodes or “modules” having been rated for a maximum operating junction temperature greater than 488K (215 °C); repetitive peak off-state voltage (blocking voltage) exceeding 300V; and continuous current greater than 1A shall be regarded as strategic commodities. Nevertheless, this section does not include diodes or modules incorporated into equipment designed for civil automobile, civil railway or “civil aircraft” applications.

For the purpose of this section, “modules” contain one of more solid-state diodes.

As to control of transistors, pursuant to section 3A001(b)(3) of the IER (strategic commodities), discrete microwave transistors that are rated for operation at frequencies exceeding 2.7GHz up to and including 6.8GHz or rated for operation at frequencies exceeding 6.8GHz up to and including 31.8GHz having a peak saturated power output greater than a certain value at a certain frequency shall be considered strategic commodities.

Under section 3A001(h) of the IER (strategic commodities), certain types of transistors, such as junction field effect transistors, insulated gate bipolar transistors and high electron mobility transistors, rated for a maximum operating junction temperature greater than 488K, having a repetitive peak off-state voltage (blocking voltage) exceeding 300V and continuous current greater than 1A would be regarded as strategic commodities.

Exemptions to the control

Pursuant to section (A) of the List of Common Types of Non-strategic Commodities: Integrated Circuits & Electronic Components (which was formulated with reference to the revisions brought about by the IER (strategic commodities) (Amendment of Schedule1) Order 2010) published by the Trade and Industry Department, electronic components such as low energy storage capacitors, resistors, diodes with continues current not greater than 1A and microwave transistors with operating frequencies not exceeding 3.2GHz and continues current not greater than 1A are normally not subject to the import/export licensing control as stipulated in the regulations unless they are to be used in any activity related to nuclear, chemical or biological weapons, or missiles capable of delivering these weapons.

Import and Export (Electronic Cargo Information) Regulation (Chapter 60L of the Laws of Hong Kong)

Lodgment of cargo information before import or export

By section 4 of the IER (electronic cargo information), a person must not import or export any cargo in or on a prescribed vehicle (which includes a private bus; a private car; a private light bus; a public bus; and a public light bus with reference to section 3) unless the information specified in part 1 or 2 of schedule 1 has been lodged with the Commissioner of Customs and Excise in relation to the cargo by sending an electronic record of the information to the Road Cargo System not earlier than 14 days before the date on which the cargo is expected to be imported or exported, as the case may be.

In this regulation, Road Cargo System refers to an information system designated by the Commissioner of Customs and Excise under section 12 of the IER (electronic cargo information).

According to schedule 1 of the IER (electronic cargo information), cargo information that has to be provided to the Commissioner of Customs and Excise includes description of cargo, quantity of cargo, and name and address of the respective consignor and consignee, etc., depending on whether it is cargo in packages or cargo in bulk.

Section 4(4) of the IER (electronic cargo information) sets out that a person who imports or exports any undeclared cargo in or on a prescribed vehicle commits an offence and is liable on conviction to a fine at level 3.

Assignment and issue of customs cargo reference number

Pursuant to section 5 of the IER (electronic cargo information), if cargo information is lodged as required by section 4, the Commissioner of Customs and Excise must assign a customs cargo reference number to the cargo in relation to which the information is lodged; and issue, in the form of an electronic record, the customs cargo reference number to the person who lodged the information.

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Section 7 of the IER (electronic cargo information) stipulates that a prescribed vehicle must not carry any cargo into or out of Hong Kong unless the person in charge of the prescribed vehicle has lodged the customs cargo reference number of the cargo with the Commissioner of Customs and Excise through the Road Cargo System. The person in charge of a prescribed vehicle commits an offence and is liable on conviction to a fine at level 3 if the prescribed vehicle carries any cargo into or out of Hong Kong and the person fails to lodge the customs cargo reference number.

Cargo clearance

In general, all cargoes imported into or exported from Hong Kong via air, land and sea are subject to customs control which is done primarily through inspection of documents such as manifests. Physical examination of the goods, if necessary, is mainly conducted on a selective basis.

According to section 9 of the IER (electronic cargo information), if a person in charge of a prescribed vehicle which is about to proceed through the customs clearance point is instructed to cause the prescribed vehicle to stop at the customs clearance point; or to cause the prescribed vehicle to proceed to a place specified in the instruction for inspection of the prescribed vehicle by a member of Customs and Excise Service, the person must comply with the instruction, subject to any direction given by a member of the Customs and Excise.

Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)

Transfer pricing adjustments

By section 20(2) of the IRO, where a non-resident person carries on business with a resident person with whom he is closely connected and the course of such business is so arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than the ordinary profits which might be expected to arise in or derive from Hong Kong, the business done by the non-resident person in pursuance of his connection with the resident person shall be deemed to be carried on in Hong Kong, and such non-resident person shall be assessable and chargeable with tax in respect of his profits from such business in the name of the resident person as if the resident person were his agent, and all the provisions of the ordinance shall then apply accordingly.

Pursuant to section 60 of the IRO, where it appears to an assessor that for any year of assessment any person chargeable with tax has not been assessed or has been assessed at less than the proper amount, the assessor may, within the year of assessment or within 6 years after the expiration thereof, assess such person at the amount or additional amount at which according to his judgement such person ought to have been assessed, provided that where the non-assessment or under-assessment of any person for any year of assessment is due to fraud or wilful evasion, such assessment or additional assessment may be made at any time within 10 years after the expiration of that year of assessment.

Under section 61A of the IRO, where it would be concluded that the person, or one of the persons, who entered into or carried out a transaction, did so for the sole or dominant purpose of enabling the relevant person, either alone or in conjunction with other persons,

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to obtain a tax benefit, the liability to tax of the relevant person will be assessed as if the transaction or any part thereof had not been entered into or carried out; or in such other manner as the Assistant Commissioner of Customs and Excise considers appropriate to counteract the tax benefit which would otherwise be obtained.

In this section, tax benefit means the avoidance or postponement of the liability to pay tax or the reduction in the amount thereof.

Departmental Interpretation and Practice Notes No. 45 — Relief from Double Taxation Due to Transfer Pricing or Profit Reallocation Adjustments (issued by the Inland Revenue Department in April 2009)

Relief from double taxation

Economic double taxation arises where 2 enterprises resident in different states are assessed to tax on the same profit or income, without relief provided by either state for tax imposed by the other. Such double taxation may arise as a consequence of non-arm's length transactions. The profits of one enterprise are adjusted upwards increasing the tax charged on that enterprise in one state (i.e. a primary transfer pricing adjustment), without a corresponding downward adjustment to the tax payable of the associated enterprise in the other state.

The practice notes make it available that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty (for example, a Double Taxation Agreement) between Hong Kong and that country (countries entered into Double Taxation Agreements with Hong Kong include the PRC).

Electrical Products (Safety) Regulation (Chapter 406G of the Laws of Hong Kong)

Safety requirements

Pursuant to section 4 of the EPR, all electrical products shall comply with the essential safety requirements for electrical products specified in schedule 1 of the EPR.

Electrical product in this regulation means current-using equipment, lighting fitting or accessory, that uses low voltage or high voltage electricity, definition of which is provided in the Electricity Ordinance (Chapter 406 of the Laws of Hong Kong).

Section 3 of the EPR sets out that this regulation shall apply to an electrical product which is designed for household use and supplied in Hong Kong. The EPR does not apply to electrical products manufactured in Hong Kong for export or under transshipment or in transit through Hong Kong.

In this regulation, “supply” means, with reference to the Electricity Ordinance (Chapter 406 of the Laws of Hong Kong), to sell or hire out the electrical product; to offer, keep or exhibit the electrical product for sale or for hiring out; to exchange or dispose of the electrical product for any consideration; to transmit, convey or deliver the electrical

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product in pursuance of a sale, a hiring out, or an exchange or disposal for any consideration; or to give the electrical product as a prize or to make a gift of such a product for commercial purposes.

In addition, section A.2 of the Guidance Notes for the Electrical Products (Safety) Regulation (2007 Edition) stipulates that the categories of persons that are regarded as suppliers and affected by the EPR are wide ranging and would be a matter of facts to be decided in each individual case. Generally speaking, “supplier” would include importers, wholesalers, retailers, etc., if such persons supply electrical products designed for household use in Hong Kong.

Certain electrical products are classified as “prescribed products”, as specified in column 2 of schedule 2 of the EPR, and which include plugs, adaptors, lampholders, flexible cords, extension units and unvented thermal storage type electric water heaters. All other electrical products will be classified as “non-prescribed products”. Section C.1 of the Guidance Notes for the Electrical Products (Safety) Regulation does give some examples of non-prescribed electrical products.

The EPR requires that all household electrical products and electrical products supplied in Hong Kong, empowered by section 4 of the EPR and except those exempted products listed in the regulation, shall comply with the essential safety requirements set out in schedule 1 of the EPR.

As to prescribed products listed in schedule 2 of the EPR, they are also required under section 5 of the regulation to comply with the specific safety requirements specified in column 3 of schedule 2 of the EPR in addition to the essential safety requirements for electrical products specified in schedule 1 of the EPR.

Electrical products designed for household use and conforming to the safety provisions of relevant international or national standards shown in the lists in section C.1 of the Guidance Notes for the Electrical Products (Safety) Regulation will be taken to satisfy the applicable safety requirements of the regulation. The lists will be updated and published by the Director of Electrical and Mechanical Services, from time to time. The following lists are included in section C.1 of the Guidance Notes for the Electrical Products (Safety) Regulation:

- (a) Lists of international/national standards that are deemed to satisfy the applicable safety requirements of the regulation — prescribed products;
- (b) Lists of international/national standards that are deemed to satisfy the applicable safety requirements of the regulation — non-prescribed products;
- (c) List of international standards on electromagnetic fields generated by electrical products.

Under section 11 of the EPR, the Director of Electrical and Mechanical Services is empowered to require the supplier of electrical products which are found not complying with the applicable safety requirements to notify those to whom he has supplied the

REGULATORY OVERVIEW

products about the hazardous defects in the products, accept a return of the products, refund the purchasers and notify the public of this matter through television, newspapers and other effective means.

Certificate of Safety Compliance

According to section 7 of the EPR, a certificate of safety compliance should be issued for each model of electrical product designed for household use and supplied in Hong Kong. Any person who supplies electrical products should ensure that all electrical products concerned are covered by valid certificates of safety compliance and are in compliance with the applicable safety requirements.

Suppliers can exercise their own discretion of how to demonstrate the availability of certificates of safety compliance to the consumers according to section B.7 of the Guidance Notes for the Electrical Products (Safety) Regulation.

By section 8 of the EPR, for a prescribed product, the following will be accepted as a certificate of safety compliance:

- (a) a certificate or test report issued by a “recognised certification body”; or
- (b) a declaration of conformity issued by a “recognised manufacturer”.

For a non-prescribed product, in addition to the 2 types of documents stated above, a declaration of conformity issued by the product manufacturer (e.g. a declaration made by an importer or agent to local wholesalers and retailers, which is substantiated by certificates of safety compliance) will also be accepted as a certificate of safety compliance.

Furthermore, with reference to section B.8 of the Guidance Notes for the Electrical Products (Safety) Regulation, upon participation of Hong Kong in appropriate parts of the Asia Pacific Economic Cooperation Mutual Recognition Arrangement on Conformity Assessment of Electrical and Electronic Equipment, a certificate or test report issued by a designated certification body or test facility in other participating member economies (inclusive of the PRC) which demonstrates compliance of the relevant electrical product with the applicable safety requirements may be accepted by the Director of Electrical and Mechanical Services as a certificate of safety compliance.

Mainland and Hong Kong Closer Economic Partnership Arrangement

Zero Tariff

The CEPA is a free trade agreement between Hong Kong and the PRC. It includes provisions for trade in goods and trade in services as well as policy goals for trade and investment cooperation. It seeks to strengthen the trade relationship between Hong Kong and the PRC and facilitate their economic integration.

Pursuant to article 5 and annex 1 of the CEPA, Hong Kong will continue to apply zero tariff to all imported goods of PRC origin.

REGULATORY OVERVIEW

In addition, from 1 January 2014, the PRC has applied zero tariff to the import of those goods of Hong Kong origin. Changes in the PRC tariff codes will result in corresponding changes in the tariff codes set out in annex 1 of the CEPA. In submitting applications for goods subject to zero tariff, Hong Kong manufacturers should refer to the prevailing tariff codes of the PRC.

The term “imported goods of Hong Kong origin” refers to those goods that fulfill the requirements stipulated in annex 2 of the CEPA. Importers of goods subject to zero tariff under the CEPA shall submit to the PRC Customs the certificate of origin issued by the responsible department of the Hong Kong Government or its approved certificate issuing bodies in accordance with the procedures set out in annex 3 of the CEPA.

Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)

The TDO prohibits false trade description, false, misleading or incomplete information, false statements, etc., in respect of goods offered in the course of trade. Therefore, all of the electronic and electrical products sold by our Group are required to comply with the relevant provisions.

Section 2 of the TDO provides, *inter alia*, that “trade description” in relation to goods means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, quantity, method of manufacture, composition, fitness for purpose, availability, compliance with a standard specified or recognised by any person, price, their being of the same kind as goods supplied to a person, price, place or date of manufacture, production, processing or reconditioning, person by whom manufactured, produced, processed or reconditioned, etc.) with respect to any goods or parts of the goods.

Section 7 of the TDO provides that no person shall in the course of trade or business apply a false trade description to any goods or sell or offer for sale any goods with false trade descriptions applied thereto. A person who commits an offence under section 7 shall be subject, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for 5 years, and on summary conviction, to a fine at HK\$100,000 and to imprisonment for 2 years.

Sales of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)

This ordinance provides, *inter alia*, that where a seller sells goods in the course of business, there is an implied condition that (a) where the goods are purchased by description, the goods must correspond with the description; (b) the goods supplied are of merchantable quality; and (c) the goods must be fit for the purpose for which they are purchased. Otherwise, a buyer has the right to reject defective goods unless he or she has a reasonable opportunity to examine the goods.

OVERVIEW

The history of our Group can be traced back to June 2006 when Mr. Boon, together with Mr. Wan Wing Kin Sanny (“**Mr. Wan**”), an Independent Third Party, set up Vertical Technology with their personal resources to commence trading of aluminum electrolytic capacitors, diodes and transistors in Hong Kong. Tapping into Mr. Boon’s experience and knowledge in the sales and distribution channels of computer and electronic components in the PRC, which was acquired through his service with a multinational computer technology company, our Group commenced the business of manufacturing chip type aluminum electrolytic capacitors in 2007 through the production plant of Shaoguan Hongfeng which was established in November 2006. In 2009, our Group expanded its trading business to include the trading of LED and LED lighting products to meet its customers’ needs. Since May 2011, Mr. Boon has been solely running our Group. In order to meet customers’ growing demand for our Group’s self-manufactured aluminum electrolytic capacitors, our Group set up a new production facility in Dongguan, Guangdong Province in the PRC through the establishment of Dongguan Shouke in December 2013. In 2015, our Group began manufacturing radial lead type aluminum capacitors on an OEM basis for a renowned Japanese company, Toshin Kogyo Co., Ltd., which has been in the aluminum electrolytic capacitors industry since 1959. The revenue derived from this customer in 2015 was approximately HK\$1.6 million. Please refer to the section headed “Business — Customers — Top customers” for further information.

Set forth below is an overview of the key business milestones in the development of our Group:

Business milestones

Date	Major development and achievements
2006	Vertical Technology was incorporated and commenced trading of aluminum electrolytic capacitors, diodes, and transistors in Hong Kong.
2007	Shaoguan Hongfeng commenced the manufacturing of chip type aluminum electrolytic capacitors in the PRC.
2009	Our Group began trading LED and LED lighting products.
2011	The registered capital of Shaoguan Hongfeng increased to HK\$4 million.
2013	Dongguan Shouke was incorporated with a registered capital of HK\$10 million to establish a new production plant to manufacture chip type and radial lead type aluminum electrolytic capacitors.
2013	Our Group set up a new production facility in Dongguan, Guangdong Province, the PRC.
2014	The annual turnover of our Group reached approximately HK\$50 million.

HISTORY, DEVELOPMENT AND REORGANISATION

Date	Major development and achievements
2014	Our Group engaged in the manufacturing of lead type capacitors.
2015	Vertical Technology increased its total issued share capital to HK\$20 million.
2015	The annual turnover of our Group exceeded HK\$75 million.
2016	Dongguan Shouke was accredited as a High and New Technology enterprise in the PRC.
2016	The annual turnover of our Group reached approximately HK\$93 million.

Our corporate history

Our Group consists of our Company, Vertical (BVI), Vertical Technology, Vertical Engineering, Shaoguan Hongfeng and Dongguan Shouke. Particulars of each Group company are set out below.

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 January 2017 in anticipation of the Listing. Upon incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. One subscriber Share was allotted and issued as fully paid to the first subscriber, an Independent Third Party on 3 January 2017, which was subsequently transferred to Vertical Investment on the same date at par. As at the Latest Practicable Date, our issued Shares were wholly owned by Vertical Investment.

Our Company was registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on 6 February 2017.

Vertical (BVI)

Vertical (BVI) was incorporated as an investment holding company in the BVI with limited liability on 23 December 2015. Upon its incorporation, the authorised share capital of Vertical (BVI) was US\$50,000 divided into 50,000 shares of US\$1.00 each. Upon incorporation, one share was allotted and issued as fully paid at par to Mr. Boon.

On 17 March 2017, our Company acquired the entire issued share capital of Vertical (BVI) from Mr. Boon. The consideration of the aforesaid acquisition was satisfied by the allotment and issue of 99 Shares to Vertical Investment (at the direction of Mr. Boon) credited as fully paid.

HISTORY, DEVELOPMENT AND REORGANISATION

The acquisition of Vertical (BVI) by our Company was properly and legally completed and settled. After the aforesaid acquisition, Vertical (BVI) became a wholly-owned subsidiary of our Company and Vertical Technology became an indirect wholly-owned subsidiary of our Company.

Vertical Technology

Vertical Technology was incorporated in Hong Kong with limited liability on 7 June 2006. It principally engages in trading of electronic components.

Upon its incorporation, 5,000 shares and 5,000 shares of HK\$1.00 each were allotted and issued as fully paid to Mr. Boon and Mr. Wan, respectively. In May 2011, Mr. Boon acquired 5,000 shares from Mr. Wan at a consideration of HK\$5,000. The acquisition by Mr. Boon was completed and fully settled on the same date.

On 9 December 2015, 19,990,000 shares were allotted and issued as fully paid at HK\$1.00 each to Mr. Boon, thereby the total issued share capital of Vertical Technology was increased to HK\$20,000,000. On 30 December 2015, as an internal reorganisation, Vertical (BVI), which was then wholly owned by Mr. Boon, acquired 20,000,000 shares in Vertical Technology from Mr. Boon at a consideration of HK\$20,000,000. The consideration payable to Mr. Boon was capitalised as deemed contribution on the date of transfer. The acquisition was completed on the same date. Since then, Vertical Technology became a wholly-owned subsidiary of Vertical (BVI), which in turn was wholly-owned by Mr. Boon.

While Mr. Boon was the shareholder of Vertical Technology, he had advanced shareholder's loan to Vertical Technology in the aggregate sum of HK\$6,486,155. On 18 April 2017, Mr. Boon assigned this shareholder's loan to Vertical (BVI), the immediate holding company of Vertical Technology. Subsequently on the same date, the loan owed by Vertical Technology to Vertical (BVI) was capitalised by Vertical Technology allotting and issuing one fully-paid new share to Vertical (BVI). Vertical Technology remained as a wholly-owned subsidiary of Vertical (BVI).

Vertical Engineering

On 16 January 2015, Vertical Engineering was incorporated as a limited liability company in Hong Kong. It remains inactive since its incorporation. Upon its incorporation, 10,000 shares were allotted and issued as fully paid at HK\$1.00 each to Mr. Boon. On 6 February 2015, as an internal reorganisation, Vertical Technology which was wholly owned by Mr. Boon, acquired the 10,000 shares from Mr. Boon at a consideration of HK\$10,000, equivalent to the nominal value of the shares. The acquisition by Vertical Technology was completed on the same date. Since then, Vertical Engineering became a wholly-owned subsidiary of Vertical Technology.

HISTORY, DEVELOPMENT AND REORGANISATION

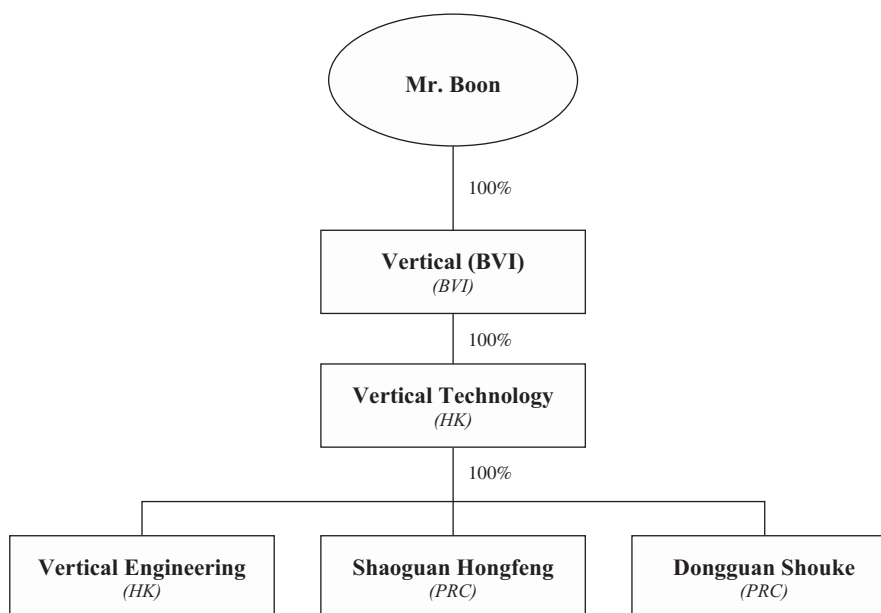
Shaoguan Hongfeng

Shaoguan Hongfeng is a limited liability company established in the PRC on 28 November 2006. As at the date of its establishment, the registered capital of Shaoguan Hongfeng was HK\$500,000. On 31 August 2007, the registered capital of Shaoguan Hongfeng was increased to HK\$3,150,000, which was subsequently further increased to HK\$4,000,000 on 18 April 2011. The registered capital of Shaoguan Hongfeng was fully paid up on 16 June 2011. Shaoguan Hongfeng has been beneficially owned by Vertical Technology since its establishment. Shaoguan Hongfeng principally engages in trading of electronic components.

Dongguan Shouke

Dongguan Shouke is a limited liability company established in the PRC on 23 December 2013 with a registered capital of HK\$10,000,000. Its registered capital was fully paid up on 9 March 2016. The entire registered capital of Dongguan Shouke has been wholly and beneficially owned by Vertical Technology since its establishment. Dongguan Shouke principally engages in manufacturing and trading of electronic products and components.

The following chart illustrates the corporate structure of our Group immediately prior to the Reorganisation:



Reorganisation

Prior to the Reorganisation, each of Vertical Engineering, Shaoguan Hongfeng and Dongguan Shouke was wholly owned by Vertical Technology (which in turn was indirectly wholly owned by Mr. Boon via Vertical (BVI)).

HISTORY, DEVELOPMENT AND REORGANISATION

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

(a) Incorporation of Vertical Investment and our Company

On 19 December 2016, Vertical Investment was incorporated as an investment holding company in the BVI with limited liability and one share of US\$1.00 was allotted and issued fully paid to Mr. Boon.

On 3 January 2017, our Company was incorporated as an exempted company in the Cayman Islands. Upon its incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On 3 January 2017, one Share was allotted and issued fully paid at par to the first subscriber, which was then transferred to Vertical Investment on the same date.

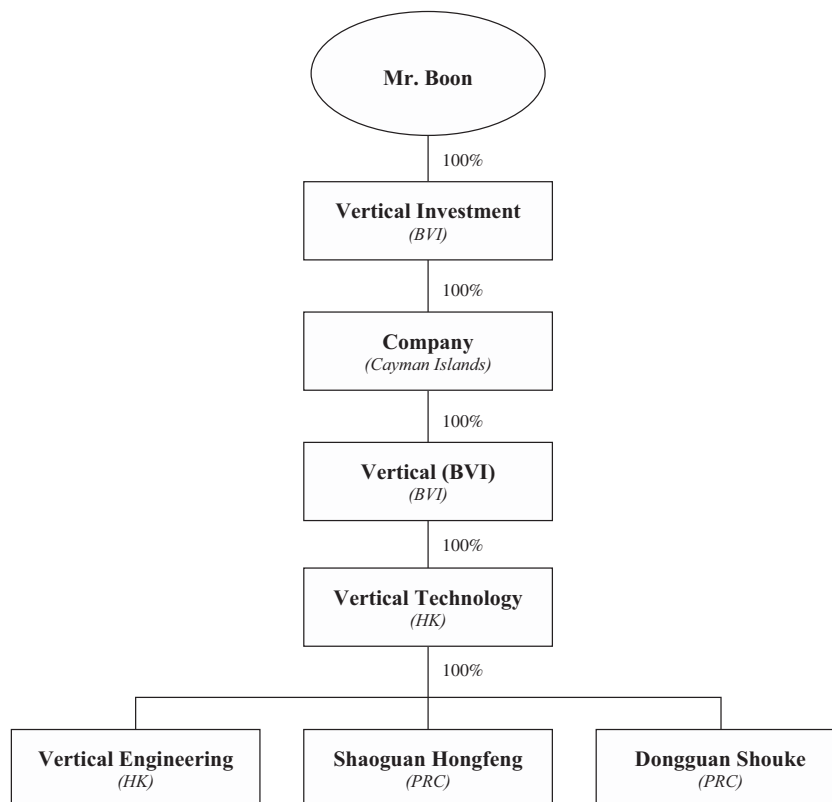
(b) Acquisition of Vertical (BVI) by our Company

On 17 March 2017, Mr. Boon and our Company entered into a sale and purchase agreement, pursuant to which Mr. Boon transferred one share in Vertical (BVI) to our Company, being its then entire issued share capital. The consideration for the acquisition was satisfied by the allotment and issue of 99 Shares to Vertical Investment (at the direction of Mr. Boon), all credited as fully paid. The said acquisition was properly and legally completed and settled, with the consideration being fully settled on 17 March 2017.

After the above acquisition, Vertical Technology, Vertical Engineering, Shaoguan Hongfeng and Dongguan Shouke became indirectly wholly-owned subsidiaries of our Company.

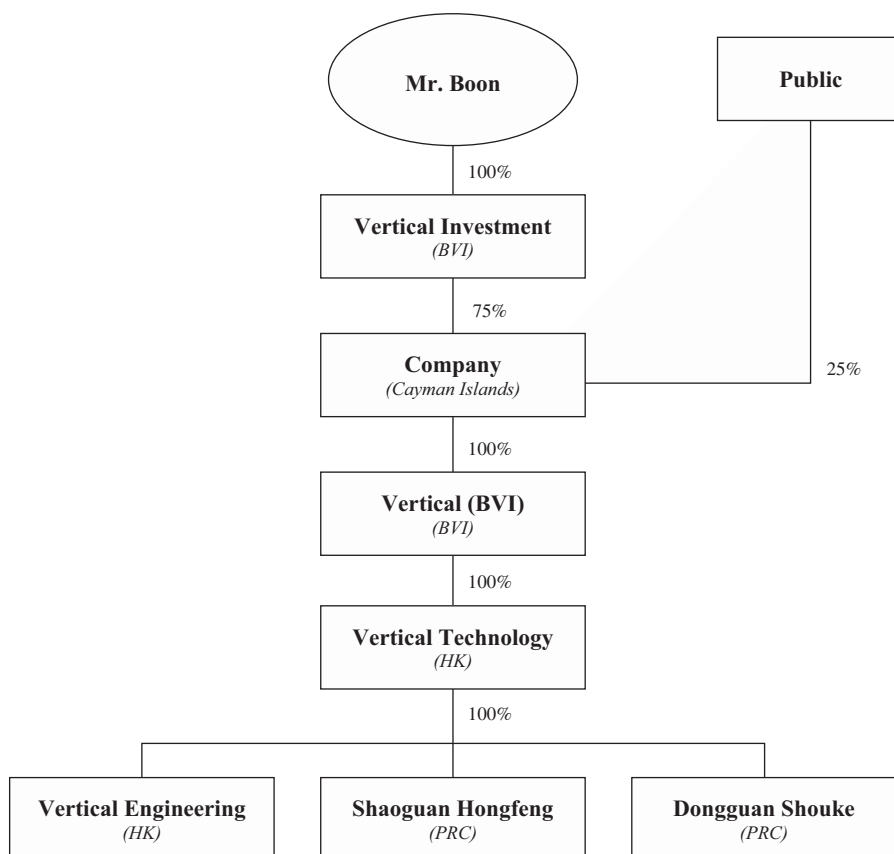
HISTORY, DEVELOPMENT AND REORGANISATION

The following chart sets out the corporate structure of our Group immediately after the completion of the Reorganisation but before the completion of the Capitalisation Issue and the Share Offer:



HISTORY, DEVELOPMENT AND REORGANISATION

The following chart sets out the corporate structure of our Group immediately after the completion of the Capitalisation Issue and the Share Offer (taking no account of any Shares which may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme):



OVERVIEW

Our Group's core business is the manufacturing of chip type and radial lead type aluminum electrolytic capacitors. This core business is complemented by the trading of (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors; and (ii) LED and LED lighting products.

During the Track Record Period, our manufactured products are sold to three main types of clients:

1. Resellers who resell our products to end-users referred to in below;
2. End-users who are manufacturers of various electronics products ranging from household appliances, audio/visual equipment, personal computers, automotive electronic products, communications equipment and toys; and
3. OEM clients in the aluminum electrolytic capacitor industry.

PRC customers had accounted for 47.9%, 54.1% and 58.1% of our Group's total revenue for the two years ended on 31 December 2016 and the four-month period ended 30 April 2017, respectively. Riding on the rapid growth of the PRC market for aluminum electrolytic capacitors from 2012 to 2016 with a CAGR of 13.7% according to the Crowe Horwath Report, our Group has successfully generated a revenue of approximately HK\$57.2 million in 2016 since it began manufacturing of aluminum electrolytic capacitors in 2007.

As at the Latest Practicable Date, our Group manufactures all of its products in the production plant located in Dongguan, Guangdong Province, the PRC and our Group had a total of 147 employees in the Dongguan production plant. Our Group operates a sales office in Hong Kong. The Hong Kong sales office oversees our Group's sales and marketing operations.

MARKET AND COMPETITION

According to the Crowe Horwath Report, the global aluminum electrolytic capacitor market is fragmented, with the top five players accounting for approximately 31.0% of the total market share in 2016.

The global market size of aluminum electrolytic capacitor in terms of sales revenue amounted to approximately US\$7.8 billion in 2016, while the PRC market size in 2016 was approximately US\$3.2 billion, representing 41.3% of the global aluminum electrolytic capacitor market, and making the PRC the single largest market for the consumption of aluminum electrolytic capacitor. Our Group's market shares of chip type aluminum electrolytic capacitor in the global market and the PRC market in 2016 were approximately 0.4% and 0.9%, respectively.

The aluminum electrolytic capacitor market is in general on an upward trend, with the global aluminum electrolytic capacitor market recording a CAGR of approximately 1.7% from 2012 to 2016, due to the increasing demand of end-user markets. The PRC aluminum electrolytic capacitor market also recorded a CAGR of approximately 13.7% from 2012 to 2016, due to the advantages of low labour cost, low manufacturing cost, and sufficient natural resources in China.

Notwithstanding the expected growth of market size and demand, the average selling price for aluminum electrolytic capacitor in the PRC has shown a decreasing trend in recent years, and this decreasing trend is expected to continue in the near future. For more details, please refer to the section headed “Industry overview” of this prospectus.

As our manufactured products, namely aluminum electrolytic capacitors, are generic products and are readily available from other suppliers, selling price is an important factor for our customers in making procurement decision. As price of aluminum electrolytic capacitor is expected to continue to fall, the Group faces strong pressure to reduce cost and increase production efficiency to maintain price competitiveness.

According to the Crowe Horwath Report, the top-four players in the global aluminum electrolytic capacitor market in 2016 were Japanese companies which mainly produced high-end capacitors and there are only a few PRC manufacturers which have the technology and ability to manufacture high-end capacitors. The characteristics of high-end aluminum electrolytic capacitors can be concluded as high technology, high quality, high market entry threshold, and high profit. According to the Crowe Horwath Report, our Group is one of them. Please refer to the section headed “Industry overview — Competitive landscape” in this prospectus for further details on the competitive landscape of the aluminum electrolytic capacitor market.

COMPETITIVE STRENGTHS

The Directors believe the following competitive strengths contribute to our Group’s continued success and potential for growth:

Reputation as a high-quality manufacturer of aluminum electrolytic capacitors

The Directors believe that our Group has established reputation among its customers and users of our Group’s products for the quality and reliability of its products. The aluminum electrolytic capacitors are manufactured using our Group’s own patented manufacturing method. The patented manufacturing methods developed by our Group allows for maximisation of product output without compromising on product quality, which in turn results in higher production and cost efficiency. For example, one of our patented manufacturing methods significantly reduces the number of defective products produced during the production process by 98.9%. As defective products also use up raw materials but cannot be sold to customers, the lower the defect rate, the higher the cost efficiency. Another patented manufacturing method reduces the wastage of one type of raw materials in the production process significantly by approximately 79.8%. Another patented manufacturing method simplifies the production process of chip type aluminum electrolytic capacitors by reducing the number of production workers required at the

assembly stage and the external appearance inspection stage. Our Group's patented manufacturing methods, which we applied for patents in October 2015, helped us achieve cost savings in the amount of approximately HK\$0.5 million, HK\$1.2 million and HK\$0.5 million for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively. Please refer to the section headed "Statutory and General Information — B. Further information about our business — 2. Intellectual property of our Group — (b) Patents" in Appendix IV to this prospectus for details of our Group's patents. As set out in the section headed "Industry overview — Competitive landscape", a manufacturer of high-end high quality aluminum electrolytic capacitors who can keep its costs down and charge a lower price will have a competitive advantage over other market players.

Although the patents for our Group's manufacturing methods were registered only in October 2015, we have in fact been developing the relevant manufacturing methods since March 2014, and we had been putting our self-developed manufacturing methods into application even prior to our submission of the patent applications with a view to identifying areas for further improvement.

On the other hand, our Group maintains a quality control team to implement its quality control system in its production process to safeguard the quality of the raw materials, semi-finished and finished products used or produced by our Group. Our Group maintains an approved list of suppliers from which our Group will select to procure for its production. The approved suppliers are selected based on factors such as, among other things, track record of product/service quality, timeliness of delivery and reliability. Our Group requires its suppliers to provide quality check reports before delivery of the raw/processed materials. Our Group conducts sample-checks on raw/processed materials with respect to quality and compliance with specifications.

With respect to quality control on semi-finished and finished products, our Group assigns designated quality control personnel to monitor each production stage to ensure compliance with the relevant quality control requirements. Our Group also communicates from time to time with its customers to obtain feedback on the quality standards of its products.

As at the Latest Practicable Date, our Group's quality control team comprised three senior quality control personnel to oversee our Group's quality control system. Our Group's senior quality control personnel have, on average, approximately 13 years of industry experience.

Strong technology expertise

Our Group's in-house technicians are responsible for the management and maintenance of our Group's equipment and overseeing the installation of equipment, conducting quality check and testing, and monitoring the performance of the equipment to ensure our Group's production lines are optimised for the patented production methods. If required, our Group's in-house technicians can make the necessary conversions and adjustments to the production lines to facilitate the production of aluminum electrolytic capacitors of different types (such as difference sizes, capacitance and voltage rules) to cater

for customers' product design needs. Our Group considers that its advanced production lines managed by its in-house technicians contribute to the quality and reliability of its products while keeping the costs down. Our competitive advantage is evidenced by the fact that while the market size for chip type aluminum electrolytic capacitors in the PRC has grown from RMB4,292 million in 2015 to RMB4,861 million in 2016, our Group managed to increase our market share from 0.7% in 2015 to 0.9% in 2016.

Dedicated and strong research and development capabilities for manufacturing and product development and enhancement

A significant amount of our Group's research and development resources has been devoted to enhancing production efficiency, streamlining production procedures and reducing raw materials consumption and wastage while maintaining product quality. Our Group's research and development can be traced back to March 2014, when we first started researching and developing our custom designed production equipment as part of our strategy to develop our patented production methods.

Our Group has a dedicated research and development team for product performance and new manufacturing process development. As at the Latest Practicable Date, our Group's research and development team comprised a total of four members. Our Group's research and development team is headed by Mr. Yi Hong Gui, who has over 10 years of experience in the aluminum electrolytic capacitors industry. Please refer to the section headed "— Research and development" below for further details of our Group's research and development capabilities.

For the two years ended 31 December 2015 and in 2016 and the four-month period ended 30 April 2017 (and up to the Latest Practicable Date), our Group held 11 utility model patents and filed five applications for the registration of utility model patents and one invention patent of manufacturing methods in the PRC. As at the Latest Practicable Date, all such 11 utility model patents have been successfully registered in the PRC. Please refer to the section headed "Statutory and general information — B. Further information about our business — 2. Intellectual property of our Group — (b) Patents" in Appendix IV to this prospectus for further details on our Group's patents.

Strong management team with extensive industry experience

Our Group's senior management team possesses sound technical know-how with operation and management experience in the electronic components industry. Mr. Boon, an Executive Director and chief executive officer of our Group who is primarily responsible for the overall management and operations of our Group and the implementation of the strategic planning of our Group, obtained a Bachelor degree in Commerce from University of Toronto, Canada, and possesses more than 10 years of experience in the manufacturing and retail of aluminum electrolytic capacitors with prior experience serving senior positions in a multinational computer and electronic technology company. Our Group's management team comprised of 13 personnel, who together have an average of 12 years of experience in the aluminum electrolytic capacitors industry. With their knowledge and experience, the Directors consider that our Group has also acquired insights of the relevant industry and

stayed abreast of the market trends. The Directors believe that the experience and expertise of our Group's management team is crucial in implementing our Group's business strategies for continuous development in the future.

Strong emphasis on stringent quality control

Since its commencement of operation, our Group has maintained the quality of its products by implementing stringent quality control procedures. Our Group has a comprehensive quality control system which aligns with ISO9001:2015 Quality Standard covering all stages of its aluminum electrolytic capacitors production, as well as QC080000:2012 concerning the management of hazardous substances in the production process. As set out in the Industry overview section, in order to be a supplier of world famous electronics manufacturers who are usually big buyers of capacitors, the supplier's quality management system must go through rigorous assessment, and the supplier must obtain product technical performance certification. Although it is not specifically required by all of our customers in writing, from time to time, some of our customers prefer our Group to obtain ISO 9001: 2015 Quality Standard, which concern the quality assurance of our products, as well as QC080000:2012, RoHS and REACH standards, which concern the restriction and control of certain hazardous substances and chemicals in aluminum electrolytic capacitors. The preference of our customers for quality assurance and the restriction and control of certain hazardous chemicals in our products will constitute a barrier for new players in the aluminum electrolytic capacitors industry.

Strong customer base

Having been engaged in the aluminum electrolytic capacitors business for more than ten years, our Group has established a renowned customer base for its aluminum electrolytic capacitors comprising over 100 customers as at the Latest Practicable Date, including long-term customers with established brand names.

The Directors believe that our Group's international clientele reflects the worldwide recognition of our Group's products and is testimony to the ability of our Group to compete against other industry players in the world.

Providing supplementary products to our customers

As competition intensifies amongst existing aluminum electrolytic capacitors manufacturers in the PRC market, we complement our core business by the trading of (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors; and (ii) LED and LED lighting products. We believe by being able to supplement our client's needs for other electronic components, LED and LED lighting products, we can increase our clients' loyalty and strengthen our business relationships. For further information on our trading of electronic components, please refer to paragraph headed "Business model — Trading of electronic components" below.

BUSINESS STRATEGIES

We need to keep our costs down to allow us to achieve our short term business strategy of being able to offer our products at a competitive price, and we need to, among other things, achieve the economy of scale required to keep our costs down.

The high utilisation rate for the production of our chip type aluminum electrolytic capacitors means that we cannot achieve a higher economy of scale unless we expand our production capacity. Our plan to expand our production capacity is therefore an integral step for us to achieve our short term business strategy of maintaining our competitiveness in terms of product pricing.

As for our long term business strategy, the Group's expansion plan allows us the room to grow our market share and consolidate our position as one of the top 10 chip type aluminum electrolytic capacitor producers in the PRC. This will in turn enable us to increase brand awareness, increase resources for our research and development effort, and hence help maintain our ability to compete with other market players on reputation and product quality, which are the cores of our long term business strategy.

To increase the production capability of our Group's aluminum electrolytic capacitors

Our Group's sales of its self-manufactured aluminum electrolytic capacitors, being chip type and radial lead type, increased from (i) approximately HK\$38.5 million for the year ended 31 December 2015 to approximately HK\$57.2 million for the year ended 31 December 2016; (ii) from approximately HK\$11.2 million for the four-month period ended 30 April 2016 to approximately HK\$20.9 million for the four-month period ended 30 April 2017, as disclosed in the paragraph headed "Business model" below, with the utilisation rate of the equipment in our Group's production process for chip type aluminum electrolytic capacitors reaching around 89.1% for the year ended 31 December 2016, and around 95.9% for the four-month period ended 30 April 2017. Furthermore, our Group achieved a higher segment gross profit margin from the sales of its self-manufactured aluminum electrolytic capacitors than from its trading business during the Track Record Period. The segment gross profit margins from the sale of its self-manufactured aluminum electrolytic capacitors for each of the two years ended 31 December 2016 and the four-month period ended 30 April 2017 were approximately 27.2%, 29.5% and 24.6% respectively, whilst the segment gross profit margins from its trading business for each of the two years ended 31 December 2016 and the four-month period ended 30 April 2017 were approximately 13.4%, 12.0% and 14.4% respectively. For further details, please refer to the paragraph headed "Business model — Segment profit and segment gross profit margin" below.

In addition, if our production volume is large enough, we can gain the economy of scale and benefit from cost advantage, keeping our prices competitive. For example, the quotation (per 1,000 pieces) submitted to us by our aluminum case supplier for an order of 60 million pieces can be up to approximately 7% cheaper than an order for 40 million pieces, depending on the size of the aluminum case. Another example is that the quotation (per 1,000 pieces) for an order of 60 million pieces of sealing rubber is approximately 3% cheaper than an order for 40 million pieces.

This cost reduction as a result of the economy of scale together with our patented production methods which keep our cost down without compromising on the quality of our products will give us an advantage when competing against other market players who can also produce quality products but at higher costs.

In light of the above, our Group will continue to invest to expand its overall production capacity to (i) cater for the increasing demand for its aluminum electrolytic capacitors; (ii) capitalise on the higher segment gross profit margin of its self-manufactured aluminum electrolytic capacitors; (iii) have a bigger bargaining power against the suppliers; and (iv) achieve the economy of scale necessary to keep the prices of its products competitive. Equipment to be added for such expansion of production capacity include machinery for slitting, stitching and winding, assembly, aging and marking.

Our Group intends to use approximately HK\$12.4 million of the total net proceeds from the Share Offer for the year ending 31 December 2017, and approximately HK\$4.6 million for the year ending 31 December 2018 to increase the production capability of our Group's chip type aluminum electrolytic capacitors by 60%, from 50 million pieces per month to 80 million pieces per month, further details of which are contained in the section headed "Future plans and use of proceeds — Reasons for the Share Offer and use of proceeds — Analysis on use of proceeds" in this prospectus.

To continue its research and development effort

The Directors consider that our Group's research and development capabilities on manufacturing process improvement are key to the business growth of our Group, which enable improvement of our current production performance and new technology development. Our Group's aluminum electrolytic capacitors manufacturing machines utilised its own patented processes and manufacturing method developed by our Group's in-house research and development team. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017 (up to the Latest Practicable Date), our Group registered 11 utility model patents and had filed an application for the registration of five utility model patents and one invention patent on manufacturing methods in the PRC. Please refer to the section headed "Statutory and general information — B. Further information about our business — 2. Intellectual property of our Group — (b) Patents" in Appendix IV to this prospectus for further details on our Group's patents.

Our Group will continue its research and development effort on manufacturing process improvement by expanding its research and development team in the PRC. Please refer to the paragraph headed "Research and development" below for further details on our Group's research and development capabilities.

To establish second production plant in the PRC

Our Group intends to establish a second production plant in Dongguan, Guangdong Province, the PRC. This is because our Dongguan production plant currently does not have enough space for the additional production machinery required for the expansion of our chip type aluminum electrolytic capacitor production, which is one of our business strategies set out above. We plan to relocate the existing production lines of the radial lead

type aluminum electrolytic capacitors to the new production plant, so that the existing Dongguan production plant will have the necessary space to install new machinery for the expansion of our chip type aluminum electrolytic capacitor production.

Our Group intends to use approximately HK\$5.6 million of the net proceeds from the Share Offer for payment of rental expenses for the establishment of a second production plant, as well as the installation and reallocation of production lines in Dongguan, Guangdong Province, the PRC, further details of which are contained in the section headed “Future plans and use of proceeds” in this prospectus. As at the Latest Practicable Date, we have not identified any target property.

The following table sets out the short term and long term impacts of our expansion plan on our business operation, product mix, cost base and profitability:

	Short term impact	Long term impact
Business operation	The installation of new production lines for our chip type aluminum electrolytic capacitors and relocation of existing production lines for our radial lead type aluminum electrolytic capacitors will disrupt our production and sales to a certain extent, as the optimisation of the new production lines and the relocated production lines is estimated to take 1–2 months. The relocation of our existing production lines is expected to affect production of radial lead type aluminum electrolytic capacitors by 11 operating days, which translates to a production capacity of approximately 11.8 million units of radial lead type aluminum electrolytic capacitors.	Increased production capacity means more sales can be made. Additional production lines mean we can afford to shut down certain machines for routine maintenance more frequently without causing serious disruption to our production, which in turn can prolong the useful life span of our machines and equipment, and save capital cost in the long run.

	Short term impact	Long term impact
Product mix	Due to the need to optimise the new production lines for 1–2 months, there will not be any impact on our product mix in the short term.	The increased production capacity for chip type aluminum electrolytic capacitors will result in the production of that product accounting for a higher proportion of our total production.
Cost base	We will incur one-off relocation expenses and machinery purchase costs in the short term.	More machines mean higher depreciation charges, and higher labour costs because we need more workers to operate the new production lines. We will also incur higher rental expenses and electricity charges because we will rent an additional production plant.
Profitability	The one-off expenses and higher costs as explained above will reduce our profitability as there will be short disruption to our new and relocated production lines during the optimisation process.	As chip type aluminum electrolytic capacitor has a higher gross profit margin when compared with radial lead type aluminum electrolytic capacitor, our gross profit will increase as a result of the new product mix after the new production lines are in full operation.

Increase brand awareness by setting up direct sales team and pricing policy

The self-manufactured aluminum electrolytic capacitors of our Group are commodities in nature. We need to distinguish our products from our competitors' in terms of quality and reliability. From a marketing point of view, having the ability to manufacture products with good quality is not sufficient. We must let the potential customers know who the manufacturer is behind the quality products. This can be done by raising awareness of our brand.

For our branded products, we adopted the marketing strategy in 2016 to lower our prices so as to increase the market share and market awareness of our branded products. As a result of this strategy, the gross profit margin of our branded products reduced from 35.6% for the year ended 31 December 2015 to 27.9% for the year ended 31 December 2016.

Similarly, the gross profit margin of our branded products reduced from 28.4% for the four-month period ended 30 April 2016 to 17.1% for the four-month period ended 30 April 2017.


Our Directors believe that in the long run, our branded products will achieve higher gross profit margin as we establish our reputation as a reliable manufacturer over the years. Our Group intends to promote our branded products through the use of marketing events and to establish direct sales team to promote our branded products to our clients.

Our Group intends to use approximately HK\$2.0 million of the net proceeds from the Share Offer to establish the direct sales team and for organising marketing events, further details of which are contained in the section headed “Future plans and use of proceeds” in this prospectus.


BUSINESS MODEL

Sales of manufactured Aluminum Electrolytic Capacitors

Overview

Our Group’s core business is the manufacturing of chip type and radial lead type aluminum electrolytic capacitors, which can be on an OEM basis, under its trademark  (“**branded products**”), or without any trademark (“**non-branded products**”) to the PRC, Hong Kong and other Asian countries. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, sales of aluminum electrolytic capacitors that our Group manufactured were approximately HK\$38.5 million, HK\$57.2 million and HK\$20.9 million, respectively. For the period from 1 May 2017 to the Latest Practicable Date, sales of aluminum electrolytic capacitors that our Group manufactured amounted to approximately HK\$35.4 million.

Product development

Our Group maintains its own research and development team in the PRC, with a primary focus on improvement of product performance and new product and technology development. As at the Latest Practicable Date, our Group held 11 utility model patents registered and had filed applications for the registration of five utility model patents and one invention patent in the PRC with respect to the manufacturing method of its aluminum electrolytic capacitors. As at the Latest Practicable Date, our Group had registered (i) the trademark “VTCL” in Hong Kong and the PRC; and (ii) the trademark  in the PRC and had filed an application for the registration of the trademarks “VTOS-CON” and “VT” in the PRC. Please refer to the section headed “Statutory and general information — B. Further information about our business — 2. Intellectual property of our Group” in Appendix IV to this prospectus for details of our Group’s patents and trademarks.

Production

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, our Group manufactured all of its products at the Dongguan production plant. The major steps in the chip type aluminum electrolytic capacitors manufacturing process include (i) slitting, (ii) stitching and winding, (iii) assembly, spraying and sealing, (iv) aging, (v) marking, and (vi) testing and taping, whilst the major steps in the radial lead type aluminum electrolytic capacitors manufacturing process include (i) slitting, (ii) stitching and winding, (iii) impregnation, (iv) assembly and sealing, (v) sleeving, (vi) aging and (vii) testing. Please refer to “ — Production Process” below for further details on our Group’s manufacturing process of the chip type and radial lead type aluminum electrolytic capacitors.

The Dongguan production plant occupies a total gross floor area of approximately 3,843 sq.m., and is currently under a lease for a term from 2017 to 2021. Please refer to the paragraph headed “Properties” below for further details of the lease of the Dongguan production plant.

As at the Latest Practicable Date, our Group had a total of 147 employees in the Dongguan production plant. Please refer to the paragraph headed “Production facilities and production capacities” below for further information relating to our Group’s production facility and production capacities.

Product sales

The Hong Kong sales office oversees our Group’s sales and marketing operations. The aluminum electrolytic capacitors that our Group manufactures are predominantly sold to resellers who in turn sell to end users of our Group’s products, being mainly manufacturers of various electronic appliances. To the best knowledge of the Directors, it is market practice of electronic appliances manufacturers to engage resellers to undertake the procurement process so that they only need to deal with a few resellers, as it is considered more practical and cost-saving for these electronic appliance manufacturers to gather the necessary components from fewer resellers, rather than obtaining a specific component from each component manufacturer. Please refer to the paragraph headed “Sales and marketing — Sales and distribution channels” below for further details on the arrangements between our Group and its resellers.

Trading of electronic components

In addition to our Group’s core business of manufacturing aluminum electrolytic capacitors, we also complement our core business by trading (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors; and (ii) LED and LED lighting products to resellers as well as directly to the end-users, being electronic appliances manufacturers.

BUSINESS

During the Track Record Period, we generated revenue in our trading business in the sum of approximately HK\$1.6 million in the year ended 31 December 2015, approximately HK\$15.9 million in the year ended 31 December 2016, and approximately HK\$5.6 million in the four-month period ended 30 April 2017 from the customers of our manufacturing business.

The table below sets forth a breakdown of our Group's revenue during the Track Record Period by business segments:

	Year ended 31 December 2015		Year ended 31 December 2016		Four-month period ended			
	HK\$'000	%	HK\$'000	%	30 April 2016 HK\$'000 (unaudited)	%	30 April 2017 HK\$'000	%
Sales of manufactured aluminum electrolytic capacitors	38,451	50.7%	57,199	61.7%	11,245	56.2%	20,889	64.2%
Trading of electronic components	37,315	49.3%	35,575	38.3%	8,748	43.8%	11,641	35.8%
Total	75,766	100.0%	92,774	100.0%	19,993	100.0%	32,530	100.0%

Note: During the Track Record Period, our Group had also been leasing out some of its machinery used for the production of radial lead type aluminum electrolytic capacitors to Independent Third Parties since April 2016. The revenue generated from such leasing was approximately HK\$208,000 for the year ended 31 December 2016 and approximately HK\$90,000 for the four-month period ended 30 April 2017, which is insignificant.

During the Track Record Period, we traded radial lead type aluminum electrolytic capacitors. They were priced similarly to our Group's self-manufactured products. From time to time, the orders we received for chip type aluminum electrolytic capacitors required our full capacity and did not allow us to spare any resources to produce radial lead type aluminum electrolytic capacitors. In addition, sometimes our customers required radial lead type aluminum electrolytic capacitors with specifications we did not produce, and the size of the orders also did not justify a modification of our production lines. We therefore bought radial lead type aluminum electrolytic capacitors from third parties to fulfill the demand of our customers and, as a business strategy, encourage our customers to do more business with us and maintain good relationships. For details please see the paragraph headed "Overlapping of customer and supplier" below.

Gross profit and gross profit margin

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, gross profit were approximately HK\$15.7 million, HK\$21.1 million and HK\$6.8 million, respectively, and gross profit margin were approximately 20.8%, 22.8% and 21.0%, respectively.

BUSINESS

Segment profit and segment gross profit margin


The following table sets out the segment profit and segment gross profit margin during the Track Record Period:

	Sales of manufactured aluminum electrolytic capacitors				Trading of electronic components			
	Year ended		Four-month period ended		Year ended		Four-month period ended	
	31 December		30 April		31 December		30 April	
	2015	2016	2016	2017	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)				(unaudited)	
Segment revenue	38,451	57,199	11,245	20,889	37,315	35,575	8,748	11,641
Segment profit	10,463	16,889	2,729	5,147	5,001	4,260	809	1,675
Segment gross profit margin	27.2%	29.5%	24.3%	24.6%	13.4%	12.0%	9.2%	14.4%

For the two years ended 31 December 2016 and the four-month ended 30 April 2017, segment profit generated from sales of manufactured aluminum electrolytic capacitors accounted for approximately 67.7%, 79.9% and 75.4%, respectively, of total segment profit, while segment profit generated from trading of electronic components accounted for approximately 32.3%, 20.1% and 24.6%, respectively, of total segment profit for the same periods.

In our Directors view, our Group generally achieves a higher segment gross profit margin for the sales of manufactured aluminum electrolytic capacitors than trading of electronic components mainly due to (i) economy of scale in the mass production process; and (ii) bigger bargaining power against the suppliers. Segment gross profit margin for the sales of manufactured aluminum electrolytic capacitors for the two years ended 31 December 2016 and the four-month period ended 30 April 2017 were approximately 27.2%, 29.5% and 24.6%, respectively, while segment gross profit margin for trading of electronic components were approximately 13.4%, 12.0% and 14.4%, respectively, for the same periods.

PRODUCTS OF OUR GROUP

The aluminum electrolytic capacitors that our Group manufactures (which can be on an OEM basis, under its trademark , or without any trademark) are used in a variety of electronic products ranging from household appliances, audio/visual equipment, personal computers, automotive electronic products, communications equipment and toys. The aluminum electrolytic capacitors that our Group manufactures comprise the chip type and the radial lead type. Different types are different in size, operating voltage and have different applications.

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, sales revenue from the manufacture of the chip type and the radial lead type aluminum electrolytic capacitors were approximately HK\$38.5 million, HK\$57.2 million and HK\$20.9 million, respectively.

BUSINESS

The following table sets out the revenue, gross profit and gross profit margin of our manufacturing business, in terms of our branded products, non-branded products and OEM products, during the Track Record Period:

	Own branded products				Non-branded products				OEM products			
	For the year ended		For the four-month		For the year ended		For the four-month		For the year ended		For the four-month	
	31 December		period ended		31 December		period ended		31 December		period ended	
	2015	2016	2016	2017	2015	2016	2016	2017	2015	2016	2016	2017
	<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>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)				(unaudited)				(unaudited)	
Revenue	1,169	5,587	658	3,239	33,879	46,470	8,263	16,570	3,403	5,142	2,323	1,080
Gross profit	416	1,560	187	555	9,080	13,742	1,847	4,243	1,201	1,587	694	248
Gross profit margin	35.6%	27.9%	28.4%	17.1%	26.8%	29.6%	22.4%	25.6%	35.3%	30.9%	29.9%	23.0%

For our branded products, we adopted the marketing strategy in 2016 to lower our prices so as to increase the market share and market awareness of our branded products. As a result of this strategy, the gross profit margin of our branded products reduced from 35.6% for the year ended 31 December 2015 to 27.9% for the year ended 31 December 2016. Similarly, the gross profit margin of our branded products reduced from 28.4% for the four-month period ended 30 April 2016 to 17.1% for the four-month period ended 30 April 2017.

The gross profit margin of our OEM products also decreased in the year ended 31 December 2016 when compared with the gross profit margin in the year ended 31 December 2015 because we received more orders from our OEM customers for lead type electrolytic capacitors. Similarly, the gross profit margin of our OEM products reduced from 29.9% for the four-month period ended 30 April 2016 to 23.0% for the four-month period ended 30 April 2017. The gross profit margin of lead type electrolytic capacitors is generally lower than that of chip type electrolytic capacitors, hence the overall gross profit margin of our OEM products was affected.

As for non-branded products, the gross profit margin is very much affected by the product mix, market condition, and competition landscape at the time, and therefore fluctuates from year to year.

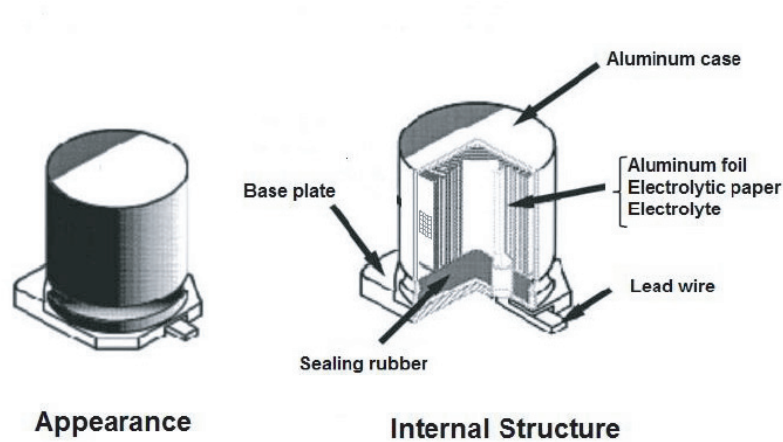
BUSINESS

The table below sets out the principal types of aluminum electrolytic capacitors manufactured by our Group and their respective features and applications:

Type/series	Features	Application
Chip type aluminum electrolytic capacitors		
— General purpose	0.1 ~ 6800 μ F	All electrical appliances
— High voltage	0.1 ~ 220 μ F	LED, battery charger
— Non-polarised	0.1 ~ 47 μ F	Audio, amplifiers
— Low impedance	1 ~ 4700 μ F	Audio, automobile electronics
— Long life	0.1 ~ 3300 μ F	Power supply, meter
Radial lead type aluminum electrolytic capacitors		
— General purpose	0.1 ~ 15000 μ F 0.47 ~ 680 μ F	All electrical appliances
— Low impedance	0.1 ~ 15000 μ F 22 ~ 330 μ F	Audio, automobile electronics
— High reliability	0.47 ~ 18000 μ F 1 ~ 330 μ F	Power supply, meter

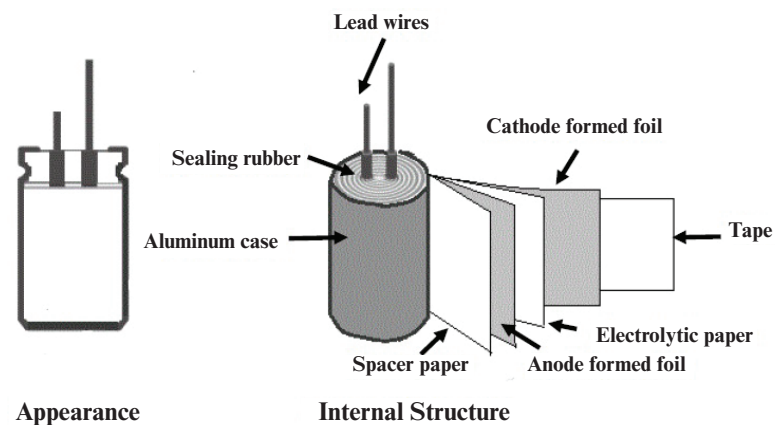
Our Directors confirm that our Group's products are not subject to the import/export licensing control as stipulated in IER (strategic commodities). For more details please refer to the section headed "Regulatory overview — Hong Kong laws — Import and Export (Strategic Commodities) Regulations (Chapter 60G of the Laws of Hong Kong)" in this prospectus.

Basic structure of a chip type aluminum electrolytic capacitor



Definition: These are aluminum electrolytic capacitors that utilise surface mount technology, which is a method for producing components that can be mounted or placed directly onto the surface of PCBs. Chip type aluminum electrolytic capacitors are much smaller in size relative to lead type aluminum electrolytic capacitors; easy to place using automated assembly equipment; and perform better than lead type aluminum electrolytic capacitors in terms of higher capacitance and higher voltage to make smaller and thinner electronic products, higher impedance and lower energy loss, longer life expectancy, higher ability to withstand temperature, and higher durability to vibration. Chip type aluminum electrolytic capacitors feature high capacitance and low cost. They are often marked with the voltage value, which represents the electric potential difference, electric pressure or electric tension.

Basic structure of a lead type aluminum electrolytic capacitor



BUSINESS

Definition: These are aluminum electrolytic capacitors that have extending leads at the end. There are two major types of lead type aluminum electrolytic capacitors, namely radial lead and axial lead. Radial lead type aluminum electrolytic capacitors are single ended, and are used for vertical mounting on PCBs. Axial lead type aluminum electrolytic capacitors are used for horizontal through-hole technology mounting on PCBs. We only produce radial lead type aluminum electrolytic capacitors.

The following table sets out revenue, gross profit margin, sales volume and average sales prices of our Group's principal manufactured products during the Track Record Period:

	For the year ended 31 December										For the four-month period ended 30 April 2017					
	2015					2016					2015			2016		
	Revenue	% of revenue	Gross profit margin	Units sold	Average sales price	Revenue	% of revenue	Gross profit margin	Units sold	Average sales price	Revenue	% of revenue	Gross profit margin	Units sold	Average sales price	Increase/ (Decrease) rate of average sales price between the year ended 31 December 2016 and the four-month period ended 30 April 2017
	HK\$'000	%	%	'000	HK\$ per thousand units	HK\$'000	%	%	'000	HK\$ per thousand units	HK\$'000	%	%	'000	HK\$ per thousand units	%
Chip type aluminum electrolytic capacitors																
— General purpose series	32,418	84.3	28.9	249,753	130	46,972	82.1	31.9	408,949	115	(11.5)	18,062	86.5%	25.3	199,586	90
— Others	1,632	4.2	28.1	7,963	205	2,354	4.1	28.2	14,383	164	(20.0)	763	3.7%	25.3	4,221	181
Radial lead type aluminum electrolytic capacitors																
— General purpose series	4,391	11.4	14.8	114,931	38	7,717	13.5	15.8	243,405	32	(15.8)	2,034	9.6%	18.7	64,052	32
— Others	10	0.1	10.0	55	182	156	0.3	12.8	742	210	15.4	30	0.2%	14.0	183	164

Our Group's aluminum electrolytic capacitors can be offered in different series, including general purpose, high voltage, non-polarised, low impedance, long life and high reliability. Our Group will review the market demand for different types/series from time to time and expand the offering of its aluminum electrolytic capacitors in other types/series as appropriate. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, the revenue from the sale of aluminum electrolytic capacitors that our Group manufactured were approximately HK\$38.5 million, HK\$57.2 million and HK\$20.9 million, respectively.

As analysed in the section headed "Industry overview — Market size of aluminum electrolytic capacitors — Global market", according to the Crowe Horwath Report, the PRC had the largest consumption of aluminum electrolytic capacitors in the world, accounting for 41.3% of the global market share in 2016. The average selling price for aluminum electrolytic capacitor in the PRC had decreased from RMB0.20 per unit in 2012 to RMB0.18 per unit in 2016. This decreasing trend is expected to continue in the near future due to the rapid advancement of China's technology in manufacturing aluminum electrolytic capacitors at a lower cost and higher efficiency, which will likely increase the future supply.

Our average sales prices are in general lower than the average sales prices of aluminum electrolytic capacitors in the PRC. This is because there is a wide variety of products with different sizes and specifications. High-priced products such as capacitors with larger size

will drive up the industry's average sales price. As our Group does not produce high-priced products, our average sales prices are in general lower than the market average sales prices.

The Directors consider that pricing in the aluminum electrolytic capacitor market is transparent and the average sales prices of our Group's products are subject to the trend of market price movement.

As shown in the table above, the average sales prices of our Group's general purpose series chip type aluminum electrolytic capacitor decreased by approximately 11.5% in 2016 as compared with prior year. The average sales prices of our Group's general purpose series chip type aluminum electrolytic capacitor decreased further by approximately 21.7% in the four-month period ended 30 April 2017 as compared with the year ended 31 December 2016. Our Group's general purpose series radial lead type aluminum electrolytic capacitors decreased by approximately 15.8% in 2016 as compared with prior year. Our Group's general purpose series radial lead type aluminum electrolytic capacitors remained approximately the same in the four-month period ended 30 April 2017 as compared with the year ended 31 December 2016.

The Directors consider that the reasons for the steeper decrease in the average sales prices of each of our Group's general purpose series of its chip type and radial lead type aluminum electrolytic capacitors as compared with the overall price decrease of the aluminum electrolytic capacitors in the PRC market is due to our Group lowering their price to attract more customers for our products.

Nevertheless, according to the Crowe Horwath Report, the impact of the overall decrease in market prices of aluminum electrolytic capacitors is mitigated by the decrease in manufacturing costs, analysis of which is set out in the section headed "Industry overview — Price trends of aluminum electrolytic capacitors". Notwithstanding the decrease in average sales prices of our Group's products in 2016 as compared with prior year, our Group has been able to maintain the segment gross profit margin of its capacitors manufacturing business at around 28.4% on average for the two years ended 31 December 2016, and at approximately 24.6% for the four-month period ended 30 April 2017, which was similar to the segment gross profit margin of approximately 24.3% for the four-month period ended 30 April 2016, which in the Directors' view is mainly attributable to our Group's effective control on material costs with its suppliers.

Our Group complements its core business of manufacturing aluminum electrolytic capacitors by trading (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors; and (ii) LED and LED lighting products. Our Group purchases such products from Independent Third Party suppliers and re-sells them predominately to resellers as well as directly to the end-users, being electronic appliances manufacturers.

PRODUCTION FACILITIES AND PRODUCTION CAPACITIES

Production facility

Our Group commenced its manufacturing business in its production plant in Shaoguan, Guangdong Province, the PRC in 2007. This production plant in Shaoguan has been closed down and used as an office for our Group's trading business after the transfer of all its production lines to the Dongguan production plant in 2014.

Our Group's production activities are currently carried out in the Dongguan production plant. The Dongguan production plant is located in Dongguan, Guangdong Province, the PRC which occupies a total gross floor area of approximately 3,843 sq. m. Our Group rented the Dongguan production plant from the owner which is an Independent Third Party. The term of the current lease is from 2017 to 2021. The Dongguan production plant comprises production area and office area. Please refer to the paragraph headed "— Properties" below for further details on our Group's leased properties.

Production equipment

As at the Latest Practicable Date, our Group has 28 production lines and it owns all the production equipment in the Dongguan production plant. The key equipment used in our Group's manufacturing of chip type aluminum electrolytic capacitors include machinery for (i) slitting, (ii) stitching and winding, (iii) assembly, spraying and sealing, (iv) aging, (v) marking, and (vi) testing and taping, whilst the key equipment used in our Group's manufacturing of radial lead type aluminum electrolytic capacitors include machinery for (i) slitting, (ii) stitching and winding, (iii) impregnation, (iv) assembly and sealing, (v) sleeving, (vi) aging and (vii) testing. Please refer to the paragraph headed "— Production process" below for further details of our Group's production process. The table below sets out the information on the maximum design production capacity, actual production volume and utilisation rate of our Group's production lines during the Track Record Period:

	For the year ended 31 December 2015			For the year ended 31 December 2016			For the four-month period ended 30 April 2017		
	Maximum design production capacity (note 1) Thousand units	Actual production volume Thousand units	Utilisation rate (note 3) %	Maximum design production capacity (note 1) Thousand units	Actual production volume Thousand units	Utilisation rate (note 3) %	Maximum design production capacity (note 2) Thousand units	Actual production volume Thousand units	Utilisation rate (note 3) %
Chip type aluminum electrolytic capacitors	457,090	276,284	60.4	479,381	427,305	89.1	205,918	197,489	95.9
Radial lead type electrolytic capacitors	32,636	13,867	42.5	199,870	91,865	46.0	110,068	61,786	56.1

Note:

1. The maximum design production capacity is calculated based on 290 and 296 operating days in each of the two years ending 31 December 2015 and 2016 respectively.
2. The maximum design production capacity for a four-month period is calculated based on 103 operating days.
3. The utilisation rate is calculated by comparing the actual production of complete products against the maximum design production capacity for complete products, and therefore does not take into account the actual production of products which did not go through the complete production process at the request of our customers.

The increase in the actual production volumes of our Group's production equipment for aluminum electrolytic capacitors for the year ended 31 December 2016 as compared with those of prior year was mainly due to the expansion of production capacity through addition of new production equipment and higher utilisation rates.

Our Group's in-house technicians are responsible for the management and maintenance of our Group's equipment, as well as overseeing the installation of equipment and conducting quality check and testing. The in-house technicians also monitor the equipment and ensure the production lines are optimised for the patented production process. If required, our Group's in-house technicians may formulate the required conversions and adjustments to the production lines to facilitate the production of aluminum electrolytic capacitors of different types (such as different sizes, capacitance and voltage values) to cater for customers' product design needs.

Our Group carries out regular maintenance, repairs and inspections of our Group's production equipment. During the Track Record Period and up to the Latest Practicable Date, there has been no material disruption at our Group's production facility.

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, our Group incurred capital expenditure for the addition of property, plant and equipment, which mainly includes the purchases of equipment and machineries, amounting to approximately HK\$6.7 million, HK\$5.0 million and HK\$10,000, respectively. Based on the estimated maximum useful lives of our Group's equipment of 10 years, our Group does not anticipate any significant replacement expenditures for its equipment in the near future.

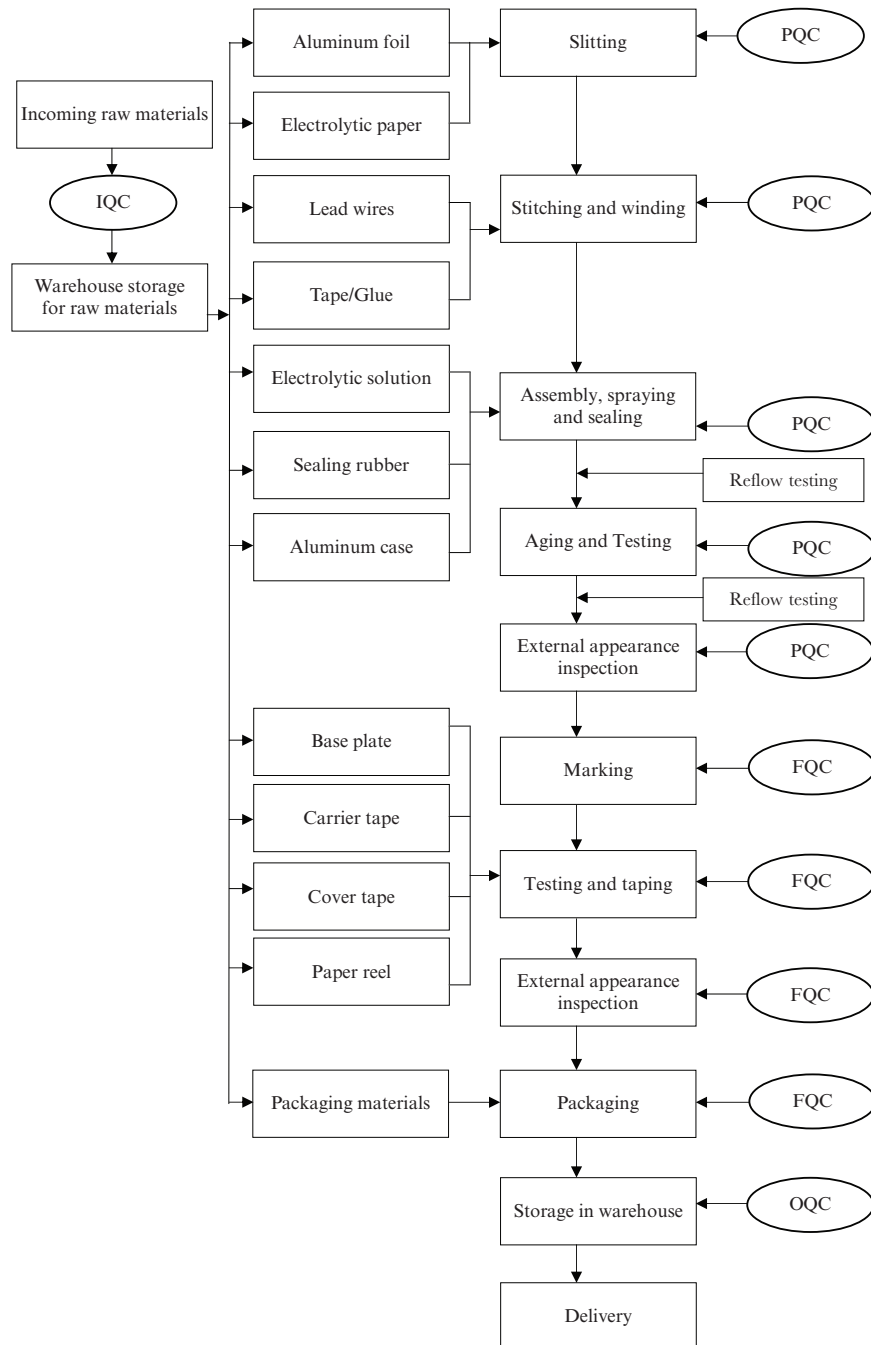
Production personnel

As at the Latest Practicable Date, our Group had a total of 147 employees in the Dongguan production plant.

Our Group plans to expand the production capacities by acquiring additional equipment, property and investing into research and development and patenting its manufacturing processes. Please refer to the paragraph headed "Business strategies" above and section headed "Future plans and use of proceeds — Implementation plans" in this prospectus for further details of the implementation plan in relation to expansion of our Group's existing production lines and establishment of new production plant.

PRODUCTION PROCESS

The diagram below illustrates the major steps involved in the manufacturing process of chip type aluminum electrolytic capacitors.

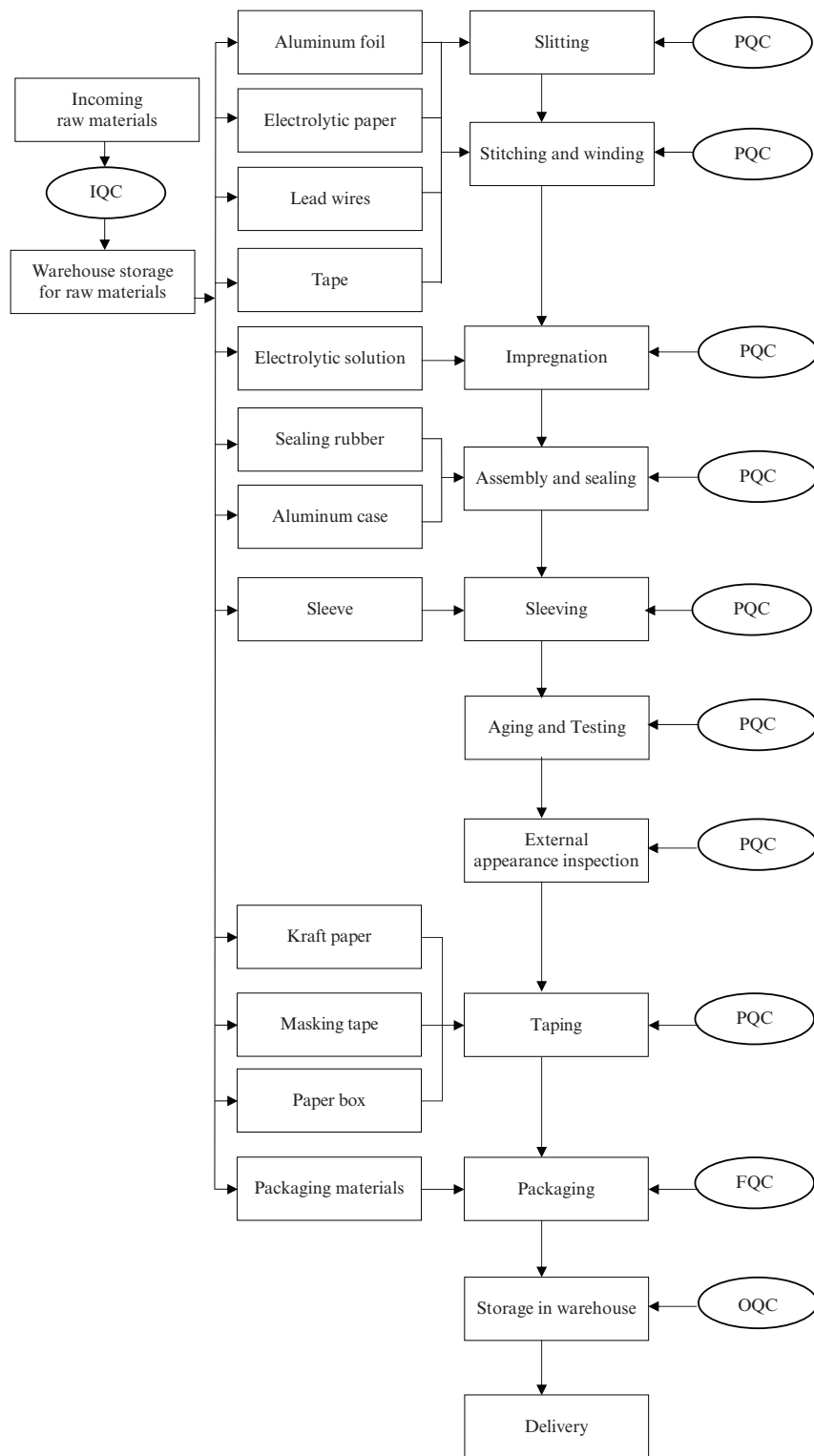


**Process of chip type
aluminum electrolytic
capacitors****Description/Explanation**

Slitting	Anode and cathode formed aluminum foils are slit into capacitor-size rolls.
Stitching and winding	A piece of electrolytic paper is slipped between the slit anode and cathode aluminum foils, which are then wounded together with other components including anode and cathode lead wires to form the wound element.
Assembly, spraying and sealing	Wound element is sprayed with electrolyte to form an electrolytic layer for energy storage, then placed into an aluminum case to form a capacitor, and sealed with rubber pellet sealants.
Reflow testing	The work-in-progress product is tested in accordance with the client's product specification to ensure it meets the client's requirements.
Aging	Capacitor is charged with a DC voltage for 60 to 80 minutes for energy storage.
Marking	The capacitor is marked with the appropriate series/product name.
Testing and taping	<p>The lead wires of chip type capacitors are bended perpendicularly and a mount is installed, allowing the capacitors to rest squarely on the printed circuit boards.</p> <p>All finished products are tested by testing equipment for quality assurance, which are then rolled up for packaging and shipment.</p>
Packaging and delivery	Capacitors are packed into rolls and delivered to customers.

BUSINESS

The diagram below illustrates the major steps involved in the manufacturing process of radial lead type aluminum electrolytic capacitors:



**Process of radial lead type
aluminum electrolytic
capacitors****Description/Explanation**

Slitting	Anode and Cathode formed aluminum foils are slit into capacitor-size rolls.
Stitching and winding	A piece of electrolytic paper is slipped between the slit anode and cathode aluminum foils, which are then wound together with other components including anode and cathode lead wires to form the wound element.
Impregnation	Wound element is immersed into electrolyte solvent to form an electrolytic layer for energy storage.
Assembly and sealing	Wound element is placed into an aluminum case to form a capacitor and sealed with rubber pellet sealants
Sleeving	A sleeve is put onto the aluminum case containing the capacitor
Aging	Capacitor is charged with a DC voltage for 60 to 80 minutes for energy storage
Testing	All finished products are tested by testing equipment for quality assurance
Taping	If specifically required by our customers, the capacitors would be packaged onto a roll of long tape
Packaging and delivery	Capacitors are packed into rolls and delivered to customers.

For quality control processes including IQC, PQC, FQC and OQC, please refer to the paragraph headed “Quality control, recognition and warranty” below.

The production process for both of our chip type and radial lead type aluminum electrolytic capacitors, from slitting to final testing, generally takes approximately eight days to complete.

QUALITY CONTROL, RECOGNITION AND WARRANTY

Overview and recognitions

As discussed in the section headed “— Competitive strengths” above, one of our Group’s competitive strengths is its reputation as a manufacturer of high-quality aluminum electrolytic capacitors, which is achieved by stringent quality controls throughout the different stages of our Group’s production process.

As at the Latest Practicable Date, our Group’s quality control department comprised 16 staff with three being senior quality control personnel to oversee our Group’s quality control system, which deals with incoming quality control (IQC), processing quality control (PQC), finished goods quality control (FQC) and outgoing quality control (OQC). Our Group’s senior quality control personnel have, on average, approximately 13 years of industry experience.

Vertical Technology obtained ISO 9001:2015, an internationally recognised accreditation on quality management system, on 19 December 2016.

In addition, Vertical Technology has, at the request of some of its customers, arranged with an Independent Third Party that is specialised in harmful chemical detection and testing to test, its aluminum electrolytic capacitors to ensure its products meet the EU’s safety standards.

Certain end users of our Group’s products have also performed quality audit on our Group’s production facility and management systems.

During the Track Record Period, there was no material return/replacement of our Group’s products by our customers due to quality or product defects, and there was no recall of our Group’s products by our Group.

Incoming quality control (IQC)

With respect to quality control on raw materials/services, our Group maintains an approved list of raw materials suppliers. These suppliers are selected based on factors such as, among other things, track record of material/service quality, timeliness of delivery, reliability and production capacity. Our Group requires its suppliers to provide quality check reports before delivery of the raw materials. Our Group conducts sample-checks on raw materials with respect to quality and compliance with requirements on specification. For more details, please refer to the paragraph headed “Suppliers — Supply agreements” below.

Processing quality control (PQC)

Manual and computerised inspections and reporting are conducted at systematic intervals to ensure a stable and controlled production environment throughout the aluminum electrolytic capacitors production processes. X-ray, computerised and manual inspections are conducted at each production interval to ensure that our Group's quality standards are met.

Finished goods quality control (FQC)

As the final step of the manufacturing process, final testing is conducted to ensure that the finished aluminum electrolytic capacitors meet the required performance specifications. Testing is conducted on every finished aluminum electrolytic capacitors and is an automated process carried out by testing machines powered by software programs.

Outgoing quality control (OQC)

Finished aluminum electrolytic capacitors which have undergone the FQC process are taped to the connectors and rolled up ready for packaging and shipment. Packed goods will be inspected for the final time in accordance with our Group's finished goods packaging and delivery policy.

Warranty period

In line with the general industry practice in the PRC, we do not have a warranty policy for our manufactured products, as our clients that are resellers are generally traders in nature and would not normally conduct further testing, and our manufactured products would instead be inspected by the end-users, being manufacturers of various electronic products, as part of their incoming raw materials inspection procedure. If there is any defect for our manufactured products, or our products do not match with their required specifications, we would normally resolve the issue via dialogue and provide a new replacement batch at our cost.

As for our trading of electronic components, we only provide back-to-back warranty if our supplier provides warranty to us, and the warranty period will not exceed the period within which we are entitled to claim against our supplier.

During the Track Record Period and up to the Latest Practicable Date, we have not had any material product recalls or received any material claim from our clients in relation to (i) our self manufactured aluminum electrolytic capacitors, and (ii) the products from our electronic components trading business. Our returned products amounted to approximately HK\$9,000, HK\$204,000 and HK\$2,400 for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively, and we did not make any provision for return products during the Track Record Period.

BUSINESS

SALES AND MARKETING

Sales markets

Our Group's products are sold into the PRC, Hong Kong, Malaysia and other Asian regions. Our Group operates sales office in Hong Kong. The Hong Kong sales office oversees our Group's sales and marketing operations.

The table below sets forth a geographical breakdown of our Group's revenue during the Track Record Period by distribution region:

	Year ended 31 December 2015		Year ended 31 December 2016		Four-month period ended			
	HK\$'000	%	HK\$'000	%	30 April 2016 HK\$'000	%	30 April 2017 HK\$'000	%
	(unaudited)							
Hong Kong	9,976	13.2%	24,741	26.7%	3,246	16.2%	7,533	23.2%
PRC	36,322	47.9%	50,160	54.1%	12,089	60.5%	18,907	58.1%
Malaysia <i>(Note 1)</i>	24,691	32.6%	10,407	11.2%	2,036	10.2%	4,421	13.6%
Other Asian regions <i>(Note 2)</i>	<u>4,777</u>	<u>6.3%</u>	<u>7,466</u>	<u>8.0%</u>	<u>2,622</u>	<u>13.1%</u>	<u>1,669</u>	<u>5.1%</u>
Total	<u>75,766</u>	<u>100.0%</u>	<u>92,774</u>	<u>100.0%</u>	<u>19,993</u>	<u>100.0%</u>	<u>32,530</u>	<u>100.0%</u>

Notes:

1. Our Group's sales to our Malaysian customer were conducted on "Free on Board" terms in Hong Kong and as a result, we were not responsible for customs clearance in Malaysia, and Malaysian laws and regulations would not be applicable to our Group.
2. Revenue generated from the Asian regions, other than Hong Kong, PRC and Malaysia mainly derived from the sales to Japan, Singapore, South Korea, Macau and Indonesia based customers.

Sales and distribution channels

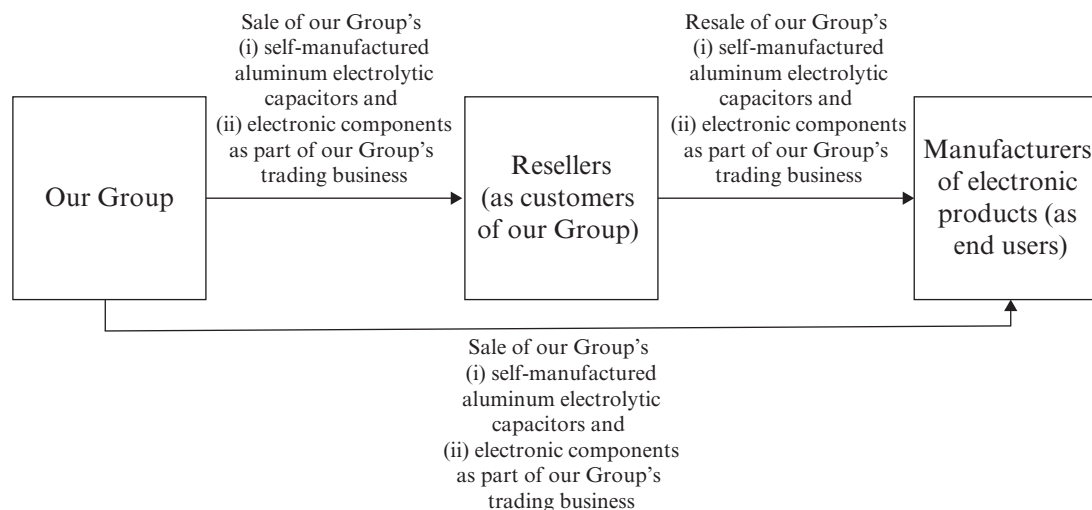
Although the customers of our Group's branded and non-branded products are predominantly resellers who in turn sell the aluminum electrolytic capacitor products to the end users, namely manufacturers of various electronic appliances, the relationship between our Group and the resellers is seller and purchaser relationship.

We do not have any distribution agreement with any of our clients who are resellers.

To the best knowledge of the Directors and according to the Crowe Horwath Report, it is the market practice of electronic appliances manufacturers to engage resellers to undertake the procurement process so that they only need to deal with a few resellers, as opposed to dealing with a large number of suppliers of various components and raw materials. These resellers centralise the procurement of raw materials and components for the end users which facilitates timely and efficient procurement.

BUSINESS

The chart below illustrates a typical value chain between our Group and the end users of our Group's (i) self manufactured aluminum electrolytic capacitors and (ii) electronic components as part of our Group's trading business:



Our Directors confirm that some of the resellers (as customers of our Group) would only procure our products if we are on the approved suppliers lists of the end users.

To become an approved supplier, we are generally required to pass the end users' product quality evaluation and quality audit of our Group's production facility. Such assessment procedures are carried out by end users of our Group's products.

According to our Directors, for our existing OEM clients, we were originally approached by them when they requested us to manufacture aluminum electrolytic capacitors on an OEM basis as a result of our reputation in the industry. We also send our marketing team to visit other resellers and end-users of our products to build up our customer bases.

We started our electronic components trading business in 2006. Since then, we have established a customer base of approximately 130 trading customers. From time to time, we also assist our manufacturing customers to source and sell certain electronic components to them upon their request.

Pricing strategies

Our Group's sales department is responsible for proposing the selling prices of both our Group's manufactured products and trading products, which will then be presented to the assistant sales manager and general manager for approval. In pricing its products, our Group will make reference to the prevailing market price of products with similar attributes including, but not limited to, specifications and performance. Other factors that are taken into account in pricing our Group's products would also include the profit margin to be derived and the order size.

Customer feedback and complaint handling

We consider customer feedback a valuable tool for improving our products, and we regularly send out surveys to our customers to obtain their feedback on the quality of our products, timeliness of our delivery, and after sales services. We take customer feedback seriously and have established a set of procedures for handling customer complaints. During the Track Record Period, we did not receive any complaint which had a material impact on our business and operation.

RESEARCH AND DEVELOPMENT

Our Group's research and development team is responsible for improvement of manufacturing method/process, product performance, and new product and technology development. Some team members have prior working experience in electronics companies. They possess the technical knowledge and industry know-how to design and develop products which help broaden product offerings.

Our Group's research and development team is based in the PRC. As at the Latest Practicable Date, our Group's research and development team comprised a total of four members. Our Group's research and development team is headed by Mr. Yi Hong Gui, who has over 10 years of experience in the aluminum electrolytic capacitors industry. As for the other three members of the research and development team, two of them graduated from technical institutes and have been working with our Group since 2007. The other member graduated from high school and had been working as a technician for an electronic factory for 14 years before he joined our Group in 2016.

Our Group's aluminum electrolytic capacitors utilised its own patented device manufacturing method, which is developed by our Group's in-house research and development team. For the two years ended 31 December 2015 and in 2016 and the four-month period ended 30 April 2017 (up to the Latest Practicable Date), our Group registered 11 utility model patents and had filed applications for the registration of five utility model patents and one invention patent of with respect to the manufacturing method of its aluminum electrolytic capacitors in the PRC. Please refer to the section headed "Statutory and General Information — B. Further information about our business — 2. Intellectual property of our Group — (b) Patents" in Appendix IV to this prospectus for details of our Group's patents.

The primary focus of our Group's research and development team is on the development of relevant and efficient manufacturing methods.

Our Group's patented manufacturing method allows us to achieve manufacturing efficiency and cost savings, by way of reducing the number of defective products produced by 98.9%, reducing wastage of certain raw materials by 79.8%, and reducing number of workers required for certain stages of the production. For details please refer to the paragraph headed "Competitive strengths — Reputation as a high-quality manufacturer of aluminum electrolytic capacitors" above. These benefits of our patented production methods allow us to keep our costs down to a certain extent without sacrificing quality, and

together with the other competitive strengths set out in the Business section of this prospectus, allow us to compete against the big players in the market in terms of pricing and quality.

Our Group's research and development process generally involves the development of our own patented manufacturing methods. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, (i) salaries for our Group's research and development team were approximately HK\$1.1 million, HK\$1.5 million and HK\$0.7 million, respectively; and (ii) other research and development expenses were approximately HK\$0.7 million, HK\$2.4 million and nil, respectively.

PRODUCT LIFE CYCLE

Since our Group's establishment in 2006, our Group has focused on the development and production of aluminum electrolytic capacitors in a variety of types and sizes.

According to the Crowe Horwath Report, capacitor plays an important role in the electronic components industry. Together with resistors and inductors, they are the indispensable basic electronic components in all electronic circuits.

Unlike some of the electronic products such as mobile phones and computers which have a relatively short life cycle, the demand for capacitors as basic building blocks of electronic circuits will not be affected.

The Directors are not aware of any development in the electronic industry or the technology involved which will render the use of aluminum electrolytic capacitors obsolete.

When our Group commenced its manufacturing business in 2007, it only manufactured chip type aluminum electrolytic capacitors. Based on past experience, the Directors are of the view that it will neither be technically difficult nor expensive for our Group to modify its production line to manufacture a different type of aluminum electrolytic capacitors without significant interruption to its operation, if a new generation of capacitors is developed as a result of advance in technology.

By way of example, our Group converted certain machines in our radial lead type capacitors' production lines to produce chip type capacitors in 2016, so as to increase our production capacity for chip type capacitors to meet a customer's demand. The conversion costed less than RMB8,000.

CUSTOMERS**Sales of manufactured aluminum electrolytic capacitors**

The customers of our Group's branded and non-branded products are predominantly resellers who in turn resell our Group's products to the end users, namely manufacturers of various electronic appliances. To the best knowledge of the Directors, the electronic products which utilise our Group's aluminum electrolytic capacitors range from household appliances, audio/visual equipment, personal computers, automotive electronic products, communications equipment and toys.

The customers of our Group's OEM business are engaged in manufacturing and trading of electronic components.

Trading of electronic components

Our Group also purchases a wide range of electronic components including integrated circuits and semi-conductors such as diodes and transistors, LED and LED lighting products. Our Group then sells such trading products to resellers as well as directly to the end-users, being electronic appliances manufacturers. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, the sales generated by the trading business of our Group were approximately HK\$37.3 million, HK\$35.6 million and HK\$11.6 million, representing approximately 49.3%, 38.3% and 35.8% of our Group's revenue, respectively.

Top customers

The percentage of revenue contributed by SAG Components Sdn. Bhd., the largest customer for the year ended 31 December 2015 amounted to approximately 32.6% and the percentage of revenue contributed by JYE FWE Electronics Co. Ltd. the largest customer for the year ended December 2016 amounted to approximately 14.2%. The percentage of revenue contributed by JYE FWE Electronics Co. Ltd., the largest customer for the four-month period ended 30 April 2017 amounted to approximately 15.6%, while the percentage of revenue contributed by the five largest customers for the two years ended 31 December 2016 and the four-month period ended 30 April 2017 combined amounted to approximately 41.8%, 41.5% and 55.2%, respectively.

BUSINESS

Set out below is a breakdown of our Group's revenue by major customers in terms of revenue contribution during the Track Record Period:

For the year ended 31 December 2015:

Rank	Customer	Revenue HK\$'000	Approximate % of total revenue %
1.	SAG Components Sdn. Bhd.	24,691	32.6
2.	Shenzhen Yue Jin Feng Electronics Co., Ltd* (深圳市粵進豐電子有限公司)	1,884	2.5
3.	Suntan Technology Company Limited	1,883	2.5
4.	Shenzhen Peng Dongsheng Technology Co., Ltd* (深圳市鵬東勝科技有限公司)	1,605	2.1
5.	Shenzhen Sanli Tong Electronic Technology Co., Ltd* (深圳市三利通電子科技有限公司)	<u>1,600</u>	<u>2.1</u>
	Five largest customers combined	31,663	41.8
	All other customers <i>(Note)</i>	<u>44,103</u>	<u>58.2</u>
	Total revenue	<u><u>75,766</u></u>	<u><u>100</u></u>

Note: Our group had 176 other customers for the year ended 31 December 2015. The transaction values ranged from HK\$359 to approximately HK\$1.6 million, with median of approximately HK\$53,000 and an average of approximately HK\$0.3 million.

BUSINESS

For the year ended 31 December 2016:

Rank	Customer	Revenue HK\$'000	Approximate % of total revenue %
1.	JYE FWE Electronics Co. Ltd.	13,168	14.2
2.	SAG Components Sdn. Bhd.	10,407	11.2
3.	Shenzhen Wanlianxin Technology Co., Ltd* (深圳市萬聯芯科技有限公司)	5,675	6.1
4.	Tectonic Technology Limited (盛科科技有限公司)	4,706	5.1
5.	Toshin Kogyo Co., Ltd.	4,508	4.9
	Five largest customers combined	38,464	41.5
	All other customers <i>(Note)</i>	54,310	58.5
	Total revenue	92,774	100

Note: Our group had 152 other customers for the year ended 31 December 2016. The transaction values ranged from HK\$436 to approximately HK\$2.7 million, with median of approximately HK\$0.1 million and an average of approximately HK\$0.4 million.

For the four-month period ended 30 April 2017:

Rank	Customer	Revenue HK\$'000	Approximate % of total revenue %
1.	JYE FWE Electronics Co. Ltd.	5,072	15.6
2.	SAG Components Sdn. Bhd.	4,421	13.6
3.	Shenzhen Mian Teng Electronics Co., Ltd* (深圳市勉騰電子有限公司)	4,283	13.2
4.	Shenzhen Oushida Electronics Co., Ltd* (深圳市歐士達電子有限公司)	2,129	6.5
5.	Shenzhen Wanlianxin Technology Co., Ltd* (深圳市萬聯芯科技有限公司)	2,042	6.3
	Five largest customers combined	17,947	55.2
	All other customers <i>(Note)</i>	14,583	44.8
	Total revenue	32,530	100

Note: Our group had 110 other customers for the four-month period ended 30 April 2017. The transaction values ranged from HK\$72 to approximately HK\$1.5 million, with median of approximately HK\$42,000 and an average of approximately HK\$0.1 million.

BUSINESS

The table below sets forth the background information of our Group's top customers mentioned in the above tables, who are all private companies:

Customer	Nature	Principal business	Location	Years of business relationship with our Group
SAG Components Sdn. Bhd.	Electronic components trading customer	Trading of electronic components	Malaysia	4
Shenzhen Yue Jin Feng Electronics Co., Ltd* (深圳市粵進豐電子有限公司)	Non-branded product customer	Trading of electronic components	PRC	3
Suntan Technology Company Limited	OEM customer	Manufacturing and trading of electronic components	Hong Kong	2
Shenzhen Peng Dongsheng Technology Co., Ltd* (深圳市鵬東勝科技有限公司)	Non-branded product customer	Trading of electronic components	PRC	3
Shenzhen Sanli Tong Electronics Technology Co., Ltd* (深圳市三利通電子科技有限公司)	Non-branded product customer	Trading of electronic components	PRC	2
JYE FWE Electronics Co. Ltd.	Electronic components trading customer	Trading of electronic components	Hong Kong	2
Shenzhen Wanlianxin Technology Co., Ltd* (深圳市萬聯芯科技有限公司)	Non-branded product customer	Trading of electronic components	PRC	2
Tectonic Technology Limited (盛科科技有限公司)	Own brand and Non-branded product customer	Trading of electronic components	Hong Kong	1
Toshin Kogyo Co., Ltd.	OEM customer	Manufacturing and trading of electronic components	Japan	2
Shenzhen Mian Teng Electronics Co., Ltd* (深圳市勉騰電子有限公司)	Electronic components trading customer	Trading of electronic components	PRC	0.5
Shenzhen Oushida Electronics Co., Ltd* (深圳市歐士達電子有限公司)	Electronic components trading customer	Trading of electronic components	PRC	0.5

BUSINESS

Note:

1. SAG Components Sdn. Bhd. is based in Malaysia and has sales offices in Thailand, Singapore and the PRC.
2. Shenzhen Yue Jin Feng Electronics Co., Ltd* (深圳市粵進豐電子有限公司) has an office in the PRC.
3. Suntan Technology Company Limited has two offices in the PRC and an office in Hong Kong.
4. Shenzhen Peng Dongsheng Technology Co., Ltd* (深圳市鵬東聖科技有限公司) has an office in the PRC.
5. Shenzhen Sanli Tong Electronics Co., Ltd* (深圳市三利通電子科技有限公司) has two offices in the PRC and an office in Hong Kong.
6. JYE FWE Electronics Co. Ltd. has an office in Hong Kong, Taiwan and the PRC.
7. Shenzhen Wanlianxin Technology Co., Ltd* (深圳市萬聯芯科技有限公司) has an office in the PRC.
8. Tectonic Technology Limited (盛科科技有限公司) has one office in Hong Kong and one office in the PRC.
9. Toshin Kogyo Co., Ltd. has three offices in Japan and sales offices in Hong Kong, Taiwan, the PRC and South Korea.
10. Shenzhen Mian Teng Electronics Co., Ltd* (深圳市勉騰電子有限公司) has an office in the PRC.
11. Shenzhen Oushida Electronics Co., Ltd* (深圳市歐士達電子有限公司) has an office in the PRC.

None of the Directors, their close associates, or any Shareholders who owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date had any interest in any of the five largest customers of our Group during the Track Record Period.

During the Track Record Period, we generated revenue from recurring customers and new customers, which demonstrates our ability to retain old customers and attract new customers. Please see tables below for a breakdown of our recurring customers and new customers as well as the revenue generated from such customers:

	For the year ended				For the four-month period ended	
	31 December 2015		31 December 2016		30 April 2017	
		%		%		%
New customers	92	44.2	48	18.8	19	6.9
Recurring customers <i>(Note)</i>	<u>116</u>	<u>55.8</u>	<u>208</u>	<u>81.3</u>	<u>256</u>	<u>93.1</u>
Total	<u>208</u>	<u>100</u>	<u>256</u>	<u>100</u>	<u>275</u>	<u>100</u>

Note: Recurring customers in any particular year or period are those customers who had purchased our Group's products in prior years.

BUSINESS

	For the year ended				For the four-month period ended	
	31 December 2015		31 December 2016		30 April 2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Revenue generated from new customers	14,232	18.8	11,442	12.3	1,803	5.5
Revenue generated from recurring customers ^(Note)	<u>61,534</u>	<u>81.2</u>	<u>81,332</u>	<u>87.7</u>	<u>30,727</u>	<u>94.5</u>
Total	<u>75,766</u>	<u>100</u>	<u>92,774</u>	<u>100</u>	<u>32,530</u>	<u>100</u>

Note: Recurring customers in any particular year or period are those customers who had purchased our Group's products in the prior years.

Although the number of competitors has been increasing in the PRC along with the excess capacity and intense competition in the industry, the demand for our Group's products remained strong throughout the Track Record Period, as evidenced by the increase of our Group's market share in 2016 along with a growing PRC market and despite the excess capacity and intense competition in the industry.

The increase in demand of our products can be attributable to business from our new customers which has accounted for 18.8%, 12.3% and 5.5% of our total revenue in the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively. In addition, as the market itself is growing, our recurring customers also demand more products from us, resulting in an increase of revenue generated from such recurring customers from approximately HK\$61.5 million in 2015 to approximately HK\$81.3 million in 2016.

Customer concentration

Our Group's top five customers accounted for approximately 41.8%, 41.5% and 55.2% of its total revenue for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively, while approximately 32.6%, 14.2% and 15.6% of our Group's total revenue were attributable to our largest customer for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively.

Based on the above, the Directors are of the view that there was no concentration of customers throughout the Track Record Period.

General terms of business with customers

We do not enter into any written agreement with our branded and non-branded products customers or trading customers. The basic terms of business with those customers are set out in the purchase orders issued by our customers to us, and they typically include the types of products required, quantity required, time and place of delivery, unit price, payment terms and quality assurance. The unit price is usually already agreed at the outset with our customers.

BUSINESS

The delivery cost is usually borne by us if the products are to be delivered to Hong Kong or within PRC. If the products are required to be delivered to overseas, our client usually bears the delivery cost.

There are no contractual terms specific for the Group's reseller customers. There is no minimum purchase obligation on the part of the reseller customers, and there is no product return arrangement other than in the case of defective products. All the reseller customers are Independent Third Parties.

During the Track Record Period, the number of the Group's reseller customers were as follow:

Number of reseller customers as at 1 January 2015	48
Increase of new reseller customers during the year ended 31 December 2015	<u>33</u>
Number of reseller customers as at 31 December 2015/1 January 2016	81
Increase of new reseller customers during the year ended 31 December 2016	<u>17</u>
Number of reseller customers as at 31 December 2016/1 January 2017	98
Increase of new reseller customers during the four-month period ended 30 April 2017	<u>6</u>
Number of reseller customers as at 30 April 2017	104

The Group had 81, 98 and 104 reseller customers in the two years ended 31 December 2016 and the four-month period ended on 30 April 2017, respectively, among which 33, 17 and 6 were new customers in the respective periods. The increase in the number of reseller customers was due to referral of new customers by existing customers who were satisfied with our products in terms of quality and pricing.

As there is no long term contract such as a distribution agreement between the Group and its reseller customers, the relationship between the Group and the reseller customers is seller/buyer and not principal/agent, and the Group is not in any position to control, monitor or manage the activities of the reseller customers. The Group has not adopted any measures to prevent competition between the reseller customers because (a) the Group has no control over the reseller customers; (b) the reseller customers are Independent Third Parties and there is no minimum purchase obligations on them to buy the Group's products. It therefore makes no commercial sense for them to stock up the Group's products if there is an oversupply of such products due to large number of reseller customers selling the same products in the market. Furthermore, the Group's products are commodities in nature, and the Group's market share in the chip type aluminum electrolytic capacitor in the PRC market was only 0.9% in 2016, and thus any attempt by the Group to prevent competition between our reseller customers is unlikely to be effective.

BUSINESS

We enter into trademark license agreement with all of our OEM customers. The basic terms of business with those customers are as follow:

Agreement term

The trademark license agreement generally has a term of one year which is renewable automatically for another year in the absence of objection by either side.

Intellectual property rights

The licensor grants the licensee rights to use the licensor's trademark on our Group's OEM products.

Credit period

The credit period allowed by our Group to its customers was up to 90 days from the date of issuing invoice. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, the average trade receivable turnover days were approximately 113.6 days, 138.3 days and 121.7 days, respectively. Payment by the customers to our Group is usually made by way of telegraphic transfer.

Seasonality

According to the Crowe Howath Report, aluminum electrolytic capacitor has a wide range of applications in electronic products, and therefore there is a high degree of diversity to the source of demand. As a result, seasonality factor does not have a strong impact on the demand for aluminum electrolytic capacitor in general. Nevertheless, the Directors confirm that, during the Track Record Period, the demand for our Group's products for the first quarter of the year is usually lower as a lot of companies close down during Chinese New Year.

SUPPLIERS

During the Track Record Period, suppliers of goods and services of our Group comprised:

- (i) suppliers of raw material for our aluminum electrolytic capacitors production, such as aluminum foil, electrolytic paper, electrolyte solution, sealing rubber, aluminum case, lead wires etc.;
- (ii) suppliers of electronic components for our trading business; and
- (iii) suppliers of other miscellaneous goods and services required for our business operations.

BUSINESS

The following table sets out a breakdown of our Group's cost of sales:

	For the year ended 31 December				For the four-month period ended			
	2015		2016		30 April 2016		30 April 2017	
	<i>HK\$'000</i>	<i>% of Total cost of sales</i>	<i>HK\$'000</i>	<i>% of Total cost of sales</i>	<i>HK\$'000 (unaudited)</i>	<i>% of Total costs of sales</i>	<i>HK\$'000</i>	<i>% of Total costs of sales</i>
Raw material consumed								
Aluminum foil (+)	2,788	4.6%	5,026	7.0%	910	5.5%	2,133	8.3%
Aluminum foil (–)	416	0.7%	653	0.9%	134	0.8%	262	1.0%
Aluminum case	2,884	4.8%	4,536	6.3%	793	4.8%	1,623	6.3%
Sealing rubber	2,317	3.9%	3,510	4.9%	680	4.1%	1,356	5.3%
Lead wires	1,620	2.7%	2,713	3.8%	564	3.4%	1,040	4.0%
Base plate	1,613	2.7%	2,182	3.0%	507	3.1%	1,037	4.0%
Electrolyte solution	1,392	2.3%	1,575	2.2%	306	1.9%	503	2.0%
Carrier tape	979	1.6%	1,204	1.7%	280	1.7%	570	2.2%
Electrolytic paper	535	0.9%	746	1.0%	143	0.9%	243	0.9%
Paper reel	704	1.2%	386	0.6%	63	0.4%	267	1.0%
Cover tape	476	0.8%	509	0.7%	178	1.1%	256	1.0%
Packaging materials	172	0.3%	490	0.7%	8	0.0%	238	0.9%
Sleeve	267	0.4%	216	0.3%	38	0.2%	37	0.1%
Others	61	0.1%	21	0.1%	14	0.1%	112	0.4%
Subtotal	16,224	27.0%	23,767	33.2%	4,618	28.0%	9,677	37.6%
Electronic components for trading	32,263	53.8%	31,315	43.7%	7,939	48.2%	9,966	38.8%
Other direct cost incurred for the year								
Employees' benefits expenses	6,171	10.3%	9,033	12.6%	2,758	16.8%	3,081	12.0%
Overhead	2,152	3.6%	3,695	5.2%	931	5.7%	1,509	5.9%
	8,323	13.9%	12,728	17.8%	3,689	22.5%	4,590	17.9%
Net changes in self-manufacturing inventories	3,207	5.3%	3,815	5.3%	209	1.3%	1,475	5.7%
Total cost of sales	60,017	100.0%	71,625	100.0%	16,455	100.0%	25,708	100.0%

During the Track Record Period, the gross profit margin of our Group remained steady at approximately 20.8%, 22.8% and 21.0%, respectively. Please refer to the section headed “Financial information — Principal components of results of operations — Cost of sales — Sensitivity analysis” in this prospectus for sensitivity analysis of the impacts of hypothetical fluctuations in material costs on gross profit and profit for the year for each period during the Track Record Period.

Top suppliers

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, the percentage of our Group's total purchases from our Group's largest supplier amounted to approximately 51.2%, 17.3% and 20.7% of the total purchases from suppliers, respectively, while the percentage of our Group's total purchases from our Group's five largest suppliers combined amounted to approximately 67.9%, 51.6% and 55.6% of the total purchases from suppliers, respectively.

BUSINESS

Set out below is a breakdown of our Group's total purchases during the Track Record Period from external suppliers, by major suppliers:

For the year ended 31 December 2015:

Rank	Supplier	Purchase amount during the period <i>HK\$'000</i>	Approximate % of total purchase %
1.	Supplier A	26,379	51.2
2.	Supplier B	2,956	5.7
3.	Supplier C	2,178	4.2
4.	Supplier D	1,748	3.4
5.	Supplier E	<u>1,743</u>	<u>3.4</u>
	Five largest suppliers combined	35,004	67.9
	All other suppliers <i>(Note)</i>	<u>16,565</u>	<u>32.1</u>
	Total purchases during the period	<u><u>51,569</u></u>	<u><u>100</u></u>

Note: Our group had 73 other suppliers for the year ended 31 December 2015. The transaction values ranged from HK\$336 to approximately HK\$1.6 million, with median of approximately HK\$32,000 and an average of approximately HK\$0.2 million.

For the year ended 31 December 2016:

Rank	Supplier	Purchase amount during the period <i>HK\$'000</i>	Approximate % of total purchase %
1.	Supplier A	9,091	17.3
2.	Supplier G	8,940	17.0
3.	Supplier B	3,945	7.5
4.	Supplier C	3,095	5.8
5.	Supplier F	<u>2,104</u>	<u>4.0</u>
	Five largest suppliers combined	27,175	51.6
	All other suppliers <i>(Note)</i>	<u>25,487</u>	<u>48.4</u>
	Total purchases during the period	<u><u>52,662</u></u>	<u><u>100</u></u>

Note: Our group had 102 other suppliers for the year ended 31 December 2016. The transaction values ranged from HK\$97 to approximately HK\$2.1 million, with median of approximately HK\$70,000 and an average of approximately HK\$0.2 million.

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For the four-month period ended 30 April 2017:

Rank	Supplier	Purchase amount during the period <i>HK\$'000</i>	Approximate % of total purchase %
1.	Supplier A	4,423	20.7
2.	Supplier G	3,196	15.0
3.	Supplier B	1,578	7.4
4.	Supplier C	1,355	6.4
5.	Supplier H	1,300	6.1
	Five largest suppliers combined	11,852	55.6
	All other suppliers <i>(Note)</i>	9,470	44.4
	Total purchases during the period	<u>21,322</u>	<u>100</u>

Note:

1. Our group had 61 other suppliers for the four-month period ended 30 April 2017. The transaction values ranged from HK\$229 to approximately HK\$1.1 million, with median of approximately HK\$39,000 and an average of approximately HK\$0.2 million.

We mainly purchased LED and LED lighting products from Supplier A for our trading business during the Track Record Period. As our Group has put more efforts on the sales of manufactured aluminum electrolytic capacitors as evidenced by the fact that the revenue generated from our trading business has reduced from 49.3% of our total revenue in 2015 to 38.3% in 2016, we purchased fewer products from Supplier A in 2016.

BUSINESS

The table below sets forth the background information of our Group's top suppliers mentioned in the above table, which are all private companies:

Supplier	Nature	Principal business	Location	Years of business relationship with our Group
Supplier A	Electronic components trading supplier	Manufacturing of electronic components	PRC	8
Supplier F	Raw material supplier	Manufacturing of base plate	PRC	10
Supplier B	Raw material supplier	Manufacturing of aluminum case	PRC	4
Supplier D	Electronic components trading supplier	Trading of electronic components	PRC	6
Supplier C	Raw material supplier	Manufacturing of rubber pellet sealants	PRC	7
Supplier E	Electronic components trading supplier	Trading of electronic components	PRC	7
Supplier G	Electronic components trading supplier	Manufacturing of electronic components	PRC	1
Supplier H	Raw material supplier	Trading of aluminum foil	Hong Kong	6

None of the Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest in any of the five largest suppliers of our Group during the Track Record Period.

For the manufacturing business, our Group maintains a list of approved suppliers which are selected with reference to, among other things, material/service quality, reliability and price. Our Group performs tests on raw materials to be supplied in selecting our Group's suppliers. Our Group also performs annual evaluation on our Group's suppliers with respect to raw materials/service quality, reliability and timely delivery. During the Track Record Period, our Group did not experience any difficulties in procuring material/services from its suppliers which resulted in a material adverse impact on our Group's operations. Further, during the Track Record Period, our Group did not experience any shortage of suppliers or delay in the supply of raw materials and services, nor did it experience any material price fluctuation in raw materials and services that would materially affect the business or profitability of our Group.

For the electronic components trading business, our Group only purchases electronic components from suppliers on our Group's approved supplier list.

Supply agreements

We do not have any written agreement with our suppliers in relation to the supply of raw materials.

However, our Group generally enters into a framework agreement for quality assurance with our suppliers which govern the quality of the raw material and/or electronic components that our Group purchases from our suppliers. Set out below are the major terms of the framework agreements for quality assurance:

Agreement term

The framework agreements generally have a contract term of up to one year which are renewable automatically for another year in the absence of objection by either side, while certain framework agreements do not have a definite term until otherwise terminated upon negotiation of the parties thereto.

Quality assurance and warranty

Our Group is entitled to examine/test the raw materials and electronic components purchased with respect to the designs and required specifications, as well as other specific properties such as electrical properties. Our Group is entitled to inform the suppliers of any defects/unconformities identified and request for product return or replacement. Under some framework supply agreements, our Group is also entitled to request for written report from suppliers for analyses on the defects/unconformities.

Confidentiality and intellectual property rights

Parties to a framework agreement for quality assurance undertake for the non-disclosure and non-use of all confidential information relating to the transaction, save for those exempted, and not to infringe any intellectual property rights or any lawful rights of any parties.

Termination

In general, the framework agreements for quality assurance that we enter into with our raw materials/electronic components suppliers do not contain termination provisions. They usually have a contract term of one year, which will be automatically renewed for another year if neither party objects to such renewal.

The framework agreements that we enter into with our raw materials and electronic components suppliers do not contain provisions in relation to order placement, shipment, pricing and payment terms. These provisions are set out in the purchase orders issued by us to our suppliers, details of which are set out below:

Order placement and shipment

Our Group will place a purchase order to effect each purchase, with each purchase order setting out, as the case may be, the products required, designs and specifications.

Pricing and payment terms

Pricing of the materials as well as the payment terms will be negotiated for each transaction which will be set out in the purchase order. During the Track Record Period, our Group's cost of sales were mainly denominated in RMB and USD, which accounted for approximately 85.1%, 67.6% and 72.3% of our Group's cost of sales for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively. Our Group generally settled its payment for purchases by way of telegraphic transfer. Credit period granted by our Group's suppliers range from 0 days to 90 days upon the issue of invoices. For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, the average trade payable turnover days were approximately 76.1 days, 87.8 days and 79.1 days, respectively.

OVERLAPPING OF CUSTOMER AND SUPPLIER

During the Track Record Period, JYE FWE Electronics Co. Ltd. ("JYE"), which was our largest customer for the year ended 31 December 2016 and the four-month period ended 30 April 2017, was also one of our top 10 suppliers in 2015. This is because JYE is in the business of electronic components trading, and therefore it buys and sells electronic components from and to us from time to time.

During the Track Record Period, the products purchased from JYE were anode formed aluminum foil, integrated circuits and radial lead type aluminum electrolytic capacitors, whereas the products sold to this customer were chip type and radial lead type aluminum electrolytic capacitors, diodes, transistors and other raw materials. The products sold to and purchased from JYE were electronic components in nature but we did not buy and sell the same components, other than radial lead type aluminum electrolytic capacitors. We bought radial lead type aluminum electrolytic capacitors from this customer in 2015 with a view to encouraging this customer to do more business with us. This has proven to be a successful strategy as it became our largest customer in 2016. In 2016, we came to the conclusion that the quality of radial lead type aluminum electrolytic capacitors purchased from JYE did not meet our standard, and therefore we stopped purchasing from it. On the other hand, JYE noticed the quality of the radial lead type aluminum electrolytic capacitor produced by our Group, and decided to buy this product from us.

We did not negotiate the terms of sales and purchases with JYE at the same time, and the sales and purchases were not related to or inter-conditional with each other.

Sales to JYE in the two years ended 31 December 2016 and the four-month period ended 30 April 2017 amounted to approximately HK\$0.3 million, HK\$13.2 million and HK\$5.1 million which accounted for 0.1%, 14.2% and 15.6% of our total revenue, respectively, and purchase from JYE in the two years ended 31 December 2016 and the four-month period ended 30 April 2017 amounted to approximately HK\$1.6 million, HK\$0.1 million and nil which accounted for 3.0%, 0.1% and nil of our total purchase, respectively.

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For the two financial years ended 31 December 2016 and the four-month period ended 30 April 2017, the gross profits generated from our transactions with JYE (including sales of our manufactured products to JYE and sales to third parties of products purchased from JYE) were approximately HK\$0.2 million, HK\$2.2 million and HK\$0.9 million, respectively.

Other than JYE, none of our top 10 customers and suppliers during the Track Record Period overlap.

INVENTORY MANAGEMENT

Our Group generally maintains inventory levels of raw materials and finished products primarily based on its production requirements, which are in turn estimated with reference to the market condition based on the experience of our Group's management and market intelligence collected by our parts and materials control department. Our Group conducts inventory counts regularly for inventory management to ensure the accuracy and completeness of stock-in and stock-out record. Provision will be made for inventories which are considered obsolete after taking into account the age. In determining allowance for inventories, the management of our Company will review the inventory ageing analysis at the end of reporting period and identifies for slow-moving inventory that are no longer suitable for consumption and saleable.

For the trading business, our Group does not keep any inventory. It will only purchase the necessary products in the market when it has received orders in writing from its trading customers.

OCCUPATIONAL HEALTH AND SAFETY

Our Group is subject to the requirements under the local laws, national standards and industrial standards in the PRC to maintain safe production conditions and to protect the occupational health of employees. Please refer to the section headed "Regulatory overview" in this prospectus for further information about these laws and regulations. Pursuant to these requirements, any entity that is not sufficiently facilitated or equipped to ensure safe production shall not engage in production and business operation activities. Entities operating in the PRC must provide production safety education and training programmes, as well as a safe working environment to its employees. The design, manufacture, installation, use, checking and maintenance of production facility and equipment are required to conform to applicable national or industrial standards in the PRC.

Our Group has implemented safety measures at our Group's production facility and established guidelines for work safety and occupational health safety and emergency safety handbook to minimise the risk of injury of employees. Our Group also conducts training sessions for employees at our Group's production facilities on accident prevention and safety handling of our production machinery.

The Directors confirm that, during the Track Record Period, our Group had complied with the relevant PRC health and workplace safety regulatory requirements in all material respects and did not experience any incidents or complaints which had materially and

adversely affected our Group's financial condition or business operations. As advised by our Group's PRC Legal Advisers, as confirmed by the local government authorities, no administrative penalties had been imposed on our Group for violating occupational health and safety laws and regulations in the PRC during the Track Record Period.

ENVIRONMENTAL COMPLIANCE

Our Group's business is subject to relevant PRC national and local environmental laws and regulations, such as the Environmental Protection Law of the PRC (中華人民共和國環境保護法). These laws and regulations govern a broad range of environmental matters, such as air pollution, noise emissions, discharge of waste water and waste residues. A summary of the environmental protection laws and regulations applicable to our Group is set out in the section headed "Regulatory overview — PRC Regulatory framework — Laws and regulations in the PRC — Environmental protection" in this prospectus.

The Directors believe that our Group's production process does not generate environmental hazards and does not otherwise have a significant adverse effect on the environment and that our Group's environmental protection measures are adequate to comply with all applicable current local and national PRC regulations.

Our Group observes environmental management for its production process, including measures to ensure its air pollution discharge and noise emission meet the PRC laws and regulations. On 30 November 2016, our Group has obtained the Approval on the Environmental Impact Assessment by the relevant environmental authority in the PRC. On 17 December 2016, our Group obtained a monitoring report issued by a third party which monitors our Group's air and noise pollution. Our Group has obtained Discharge Permit by the relevant environmental authority in the PRC.

For the two years ended 31 December 2016 and the four-month period ended 30 April 2017, our Group has incurred nil, approximately HK\$35,000 and HK\$72,000, respectively, being the costs of compliance with the relevant environmental laws and regulations. We expect that the annual cost to be incurred by our Group for compliance with the relevant environmental laws and regulations will be approximately HK\$88,000 for the year ending 31 December 2017.

During the Track Record Period and up to the Latest Practicable Date, our Group had not received any notice or warning in relation to pollution in respect of our Group's production, nor our Group had been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC and, so far as the Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof.

INSURANCE

Our Group has maintained insurance policies as set out in the following paragraphs.

Employees' compensation insurance

Our Group has made contribution to pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance and maternity insurance and social insurance for our Group's employees in compliance with the laws and regulations in the PRC and Hong Kong.

Machinery insurance

For the Dongguan production plant, our Group has maintained insurance covering the production equipment and certain inventory against loss or damages due to fire accident, theft, etc.

During the Track Record Period and up to the Latest Practicable Date, our Group has not made any material claims under its insurance policies and has not experienced any material business interruptions since its operations commenced, nor has our Group experienced any significant loss or damages to its production facilities.

The Directors consider that the existing insurance coverage is adequate and consistent with industry norm having regard to our Group's current operations and the prevailing industry practice. Our Group will continue to review and assess the risk portfolio of our Group and make necessary and appropriate adjustments to the insurance practice in line with our Group's business needs in the PRC and Hong Kong and with industry practice with respect to our Group's insurance coverage.

Product liability insurance

Our Group has not taken out any product liability insurance, which our Directors believe is in line with the industry practice.

HEDGING

Our Group is exposed to currency risks. Approximately 84.0%, 70.4% and 74.5%, respectively, of our Group's sales were settled in RMB and USD for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, which is not the functional currency of Vertical Technology, whilst approximately 85.1%, 67.6% and 72.3%, respectively, of the Group's cost of sales were not settled in the functional currency of Vertical Technology for the two years ended 31 December 2016 and the four-month period ended 30 April 2017. Shaoguan Hongfeng and Dongguan Shouke are not exposed to currency risks as their sales and cost of sales were settled in RMB, their functional currency.

During the Track Record Period and as at the Latest Practicable Date, our Group had not entered into any hedging transactions against currency risks or interest rate risks. While our Group may seek to enter into hedging transactions in the future, the availability and effectiveness of currency or interest rate hedging transactions may be limited, and our Group may not be able to hedge its exposure to currency risks or interest rate risks successfully, or at all.

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EMPLOYEES

Number of staff and employees by function

As at 31 December 2015, 31 December 2016, 30 April 2017 and as at the Latest Practicable Date, our Group had a total of 132, 140, 143 and 154 employees, respectively. Employees of our Group are stationed in the PRC and Hong Kong.

Set out below is the number of our Group's employees by function as at the Latest Practicable Date:

	Hong Kong	The PRC	Total	% of Total
Executive and management	2	4	6	3.9
Production line worker	0	80	80	51.9
Technicians	0	13	13	8.4
Sales and marketing	3	6	9	5.8
Procurement	0	1	1	0.7
Quality management	0	16	16	10.4
Inventory management and logistics	0	11	11	7.1
Research and development	0	4	4	2.6
Finance and accounting	2	5	7	4.6
General administration and others	0	7	7	4.6
Total	<u>7</u>	<u>147</u>	<u>154</u>	<u>100.0</u>

Relationship with staff

The Directors consider that our Group has maintained good relationship with its employees. The Directors confirm that our Group has complied with all applicable labour laws and regulations in the PRC and Hong Kong.

During the Track Record Period and up to the Latest Practicable Date, our Group did not have any labour unions. The Directors confirm that our Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has our Group experienced any difficulties in the retention of experienced staff or skilled personnel during the Track Record Period.

Training and recruitment policies

The Directors believe that the quality of the staff plays an important role in maintaining our Group's operation and production efficiency, as well as the consistency of our Group's product quality. Our Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with our Group's business development. We primarily rely on job

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advertisements online for our Hong Kong office. As for our recruitment in the PRC, we generally do not need to engage in job advertisements as the applicants generally apply directly at our Dongguan production plant in-person. Our Group provides an employee handbook concerning matters such as operational safety to its employees to illustrate our Group's internal rules. Our Group provides training to our Group's staff on areas such as technical know-how, safety education and hands-on skills.

Remuneration policy

Our Group entered into separate employment contracts with each of our Group's employees in accordance with the applicable employment laws in the PRC and Hong Kong.

Hong Kong

In Hong Kong, our Group has participated in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Our Directors confirm that there is no material non-compliance in accordance with the aforesaid law as at the Latest Practicable Date.

The PRC

In the PRC, our Group has participated in the basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance and maternity insurance prescribed by the Social Insurance Law of the PRC 《(中華人民共和國社會保險法)》 which was promulgated on 28 October 2010 and became effective on 1 July 2011, and housing fund prescribed by the Regulations on the Administration of Housing Fund (住房公積金管理條例) which was promulgated and became effective on 3 April 1999, as amended on 24 March 2002. Our Directors confirm that there is no material non-compliance in accordance with the aforesaid law as at the Latest Practicable Date.

PROPERTIES

Set out below is a summary of our Group's property interests in the PRC and Hong Kong. The Directors confirm that, as at the Latest Practicable Date, our Group owned one property in Hong Kong.

No	Location	Lease term	Landlord	Key terms of the tenancy	Usage
1.	Production plant at Dongguan, Guangdong Province, PRC	2017–2021	科廣電子(東莞)有限公司	Monthly rental of RMB65,334.40	Manufacturing and office
2.	Office at Shaoguan, Guangdong Province, PRC	2017–2019	廖武 and 周貴紅	Monthly rental of RMB4,000	Office
3.	Hong Kong office at Wong Chuk Hang	2016–2017	Ace Leader Limited	Monthly rental of HK\$13,000	Office
4.	Hong Kong workshop at Cheung Sha Wan	N/A (our Group owns this property)	N/A (our Group owns this property)	N/A (our Group owns this property)	Workshop

During the Track Record Period, our Group did not experience any difficulty in renewing the leases.

As of the Latest Practicable Date, we did not carry out any property activity (as that term is defined in the GEM Listing Rules), and we had no single property with a carrying amount of 15% or more of our total assets. On this basis, we are not required by Rule 8.01A of the GEM Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which requires a valuation report to all our interests in land and buildings.

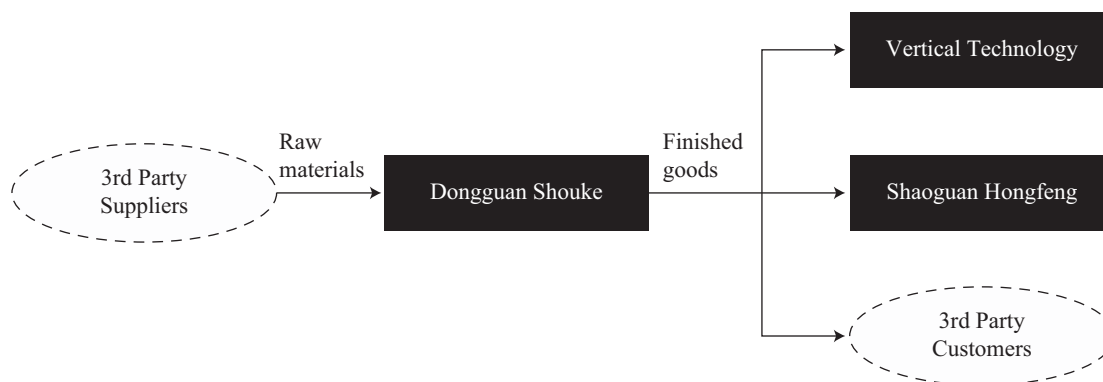
INTELLECTUAL PROPERTY RIGHTS

Our Group develops its own manufacturing method for aluminum electrolytic capacitors. Our Group utilises technology related intellectual property rights such as patents, and trademarks to protect its business asset and competitiveness.

For information about the intellectual property rights related to our Group, please refer to the section headed “Statutory and general information — B. Further information about our business — 2. Intellectual property of our Group” in Appendix IV to this prospectus.

TRANSFER PRICING ARRANGEMENT

For the Track Record Period, production of the Group’s products was carried out by Dongguan Shouke, where some of the finished products were sold to Vertical Technology and Shaoguan Hongfeng for onward selling to third party customers.



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In addition, during the Track Record Period, Shaoguan Hongfeng also had transactions with Vertical Technology, where Shaoguan Hongfeng procured products from Dongguan Shouke and third party suppliers for forward selling to Vertical Technology.



The Group has engaged an independent tax adviser, which is an affiliate of an international professional accounting firm in Hong Kong, to conduct a transfer pricing study to evaluate the transfer pricing arrangement in relation to the above related party transactions for the Track Record Period based on, among other things, the applicable regulations and guidance on transfer pricing in the PRC.

In general, transactions between related parties should be consistent with the arm's length standard. The relevant transfer pricing regulations in the PRC prescribed a number of methods as appropriate methods for transfer pricing analysis purposes. One of such methods is the Transactional Net Margin Methods ("TNMM").

TNMM requires the use of an appropriate profit level indicator ("PLI") that produces the most reliable measure of income the tested party would have earned had it dealt with related parties at arm's length, taking into account all facts and circumstances. For this purpose, the net cost plus ("NCP") margin and operating margin ("OM") are selected as appropriate PLIs for Dongguan Shouke and Shaoguan Hongfeng, respectively.

OM is the ratio of operating profit to net sales which is appropriate for trading companies like Shaoguan Hongfeng, while NCP is the ratio of operating profit to total costs and is considered more appropriate for manufacturing companies like Dongguan Shouke.

Appropriate comparable companies were then selected and their NCPs and OM were used as benchmarks to compare against the NCP and OM of Dongguan Shouke and Shaoguan Hongfeng, respectively.

Based on the benchmarking results, the NCPs of Dongguan Shouke during the Track Record Period are above median of NCPs established by comparable companies.

As for Shaoguan Hongfeng, its OM in 2015 is above the median of OM established by comparable companies. However, its OM in 2016 is below the median (i.e. 1.41%) and may be subject to challenges from the PRC tax authorities on its related party transactions in 2016.

However, Shaoguan Hongfeng's total net revenue in 2016 is approximately RMB5.2 million with an OM of 1.05%. The Directors are of the view that any transfer pricing adjustment imposed by the PRC tax authorities will not exceed HK\$5,500, which is immaterial.

With regard to the four-month period ended 30 April 2017, Shaoguan Hongfeng did not conduct any transactions with related companies.

On the basis of these findings, the Directors are of the view that the transactions conducted by Dongguan Shouke and Shaoguan Hongfeng during the Track Record Period in general should satisfy the arm's length principle from PRC transfer pricing perspective, and any transfer pricing exposure for the Group should not be material.

From Hong Kong transfer pricing perspective, during the Track Record Period, Shaoguan Hongfeng has been paying PRC EIT at a rate of 25%, which is higher than the Hong Kong profits tax rate of 16.5%. Therefore in the event of any transfer pricing adjustment imposed by the Inland Revenue Department of Hong Kong ("IRD"), Shaoguan Hongfeng is entitled to apply for double tax relief under the PRC-Hong Kong Double Taxation Agreement, and should not result in any additional tax to the Group overall.

Same applies to Dongguan Shouke for its transactions with Vertical Technology in 2015. However, in 2016 and the four-month period ended 30 April 2017, since Dongguan Shouke qualified as a High and New Technology Enterprise and is entitled to a reduced EIT rate of 15% (i.e. lower than Vertical Technology's tax rate of 16.5%), any transfer pricing adjustments imposed by the IRD would result in additional tax to the Group due to the 1.5% tax difference. Based on the revenue of Vertical Technology from its related party transactions with Dongguan Shouke in 2016 and the four-month period ended 30 April 2017, which is approximately HK\$14.9 million, the potential additional tax calculated based on such 1.5% tax difference should not exceed HK\$3,200, which is immaterial.

Notwithstanding the immaterial tax exposure as disclosed above, if investigations into the Group's past transfer pricing practices are initiated by tax authorities in the future, in addition to reputation risks, the Group may also need to incur additional expenses and divert management resources to deal with such investigations.

As confirmed by the Directors, as of the Latest Practicable Date, the relevant tax authorities in the PRC and the Inland Revenue Department of Hong Kong have not conducted any enquiry or investigation as to the Group's compliance with the applicable transfer pricing regulations and guidelines. The Controlling Shareholders' indemnification in favour of the Company pursuant to the Deed of Indemnity will cover any potential tax liabilities and penalties arising from the Group's transfer pricing arrangement on or before the date on which the Share Offer becomes unconditional.

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The Group has adopted the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations in the PRC and Hong Kong:

- the Group’s transfer pricing arrangements are monitored by Ms. Chow, our Executive Director, to ensure the Group’s transactions with related party(ies) are conducted in compliance with the arm’s length principle pursuant to the applicable transfer pricing guidelines;
- the transactions with related party(ies) are properly recorded, filed and maintained for inspection by the Group’s finance and accounting team, and the records of the transactions with related party(ies) are reconciled between Group companies on a monthly basis;
- the Group’s finance and accounting team will monitor the amount of transactions with related party(ies) to determine whether contemporaneous documentation reports in relation to transfer pricing are required to be prepared and filed to the relevant tax authority; and
- the Group will continue to engage a tax advisor to conduct transfer pricing reviews on an annual basis to ensure the related party transactions of the Group are conducted on an arm’s length basis, with reference to the contemporaneous benchmarking studies conducted by the tax advisor. Ms. Chow will actively participate in meetings and seminars organised by the tax advisor and receive updates on new transfer pricing regulations and laws in jurisdictions where the Group has major operations.

Having considered the above, the Directors are of the view, and the Sole Sponsor concurs, that such measures are sufficient and effective. Please refer to the section headed “Risk factors — Our Group’s operations may be subject to transfer pricing adjustment” in this prospectus for details of the Group’s risks in relation to transfer pricing.

LEGAL AND COMPLIANCE

Our Directors and our PRC Legal Advisers confirm that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements in all material aspects, and there were no material incidents of regulatory non-compliance that led to regulatory measures or fines imposed by any regulatory authorities in the PRC.

Our Directors and our Company’s legal counsel on Hong Kong law confirm that, during the Track Record Period and up to the Latest Practicable Date, there were no material incidents of regulatory non-compliance that led to prosecution or enforcement measures or fines imposed by any government authorities in Hong Kong.

INDEMNITY GIVEN BY THE CONTROLLING SHAREHOLDERS

The Controlling Shareholders have entered into the Deed of Indemnity whereby the Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and losses which may arise as a result of any non-compliance of our Group with the applicable laws, rules or regulations, including those regarding the registration and licensing requirements for our Group's operation, on or before the date on which the Share Offer becomes unconditional. Further details of the Deed of Indemnity are set out in the section headed "Statutory and general information — E. Other information — 1. Estate duty, tax and other indemnity" in Appendix IV to this prospectus.

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, our Group was not involved in any litigations and/or claims against our Group.

LICENCES AND CERTIFICATIONS

Set out below are the material licenses and certifications required for our Group's business in the PRC and Hong Kong as at the Latest Practicable Date:

Type of license/certification	Date of grant	Expiry date of the license/certification
Business Registration Certificate (Hong Kong)	07 June 2017	06 June 2018
Business License (No. 91441900086766858N) (Dongguan Shouke)	12 January 2017	23 December 2033
Business License (No. 91440200796205019N) (Shaoguan Hongfeng)	12 April 2017	27 November 2036

Note: Please refer to the section headed "— Environmental compliance" above for further details on the required approvals obtained by our Group in compliance with the applicable environmental protection laws and regulations in the PRC.

The Directors confirmed that our Group has obtained all relevant permits/registrations for its existing operations in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date.

As advised by the PRC Legal Advisers, our Group has obtained relevant material requisite licenses, permits and approvals for operating its business in the PRC during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

To ensure ongoing compliance with the applicable requirements, laws and regulations by the relevant members of our Group, the finance department and human resources and administration department of our Group shall be responsible for the following:

- (i) to identify and review any approvals, permits, licenses and certificates required for our Group's operations and to ensure compliance with relevant laws and regulations;
- (ii) to identify any information that shall be provided for application/submission such as company profile, job experience, resources, financial information, management systems and certificates, technical proposal, schedule, customer satisfaction and etc.;
- (iii) to designate suitable personnel/department to follow up on the submission of our Group's information to the relevant authorities within the time stipulated under the prevailing laws and regulations;
- (iv) to provide up-to-date information mentioned in (ii) above to our Group's clients if and when necessary;
- (v) to identify new requirements, operation and control procedures under statutory requirements and other relevant regulations; and
- (vi) to keep the members of the senior management team updated on all changes to the applicable requirements, laws and regulations.

In addition, Mr. Boon, an Executive Director and the compliance officer, together with Ms. Chow, an Executive Director, as well as the senior management team, are responsible for the supervision of the ongoing compliance with the applicable requirements, laws and regulations of our Group and our Group may also seek consultation from the legal advisers as and when required.

INTERNAL CONTROL AND RISK MANAGEMENT

Our Group has engaged an independent internal control advisor to perform a detailed assessment of our Group's internal control system including the areas of financial, operation, compliance and risk management with an aim to, among other matters, improve our Group's corporate governance.

The independent internal control advisor provides internal control review services, and has been previously engaged in internal control review projects for a number of companies listed on the Stock Exchange and companies preparing for listing in Hong Kong. The engagement team of the independent internal control advisor includes members of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants and the Institute of Internal Auditors.

The independent internal control advisor began the review of the design and operating effectiveness of our Group's internal control system on 21 April 2016, conducted follow-up review and reported back to company on 11 April 2017.

View of the Directors and the Sole Sponsor

Based on the follow-up review performed by the independent internal control advisor, the Directors confirmed, as concurred by the Sole Sponsor, that our Group did not have significant deficiencies in its internal control design.

Corporate governance

We continuously strive to strengthen the role of our Board as a body responsible for decision-making concerning our fundamental policies and upper-level management issues, and supervising the execution of our operation. Our Board includes three independent non-executive Directors to ensure transparency in management and fairness in business decisions and operations. The independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge.

We have strengthened our auditing system to ensure the appropriate functioning of the risk management and operation oversight systems. We have established the Audit Committee which comprises our three independent non-executive Directors being Mr. Liu, Mr. Wong and Mr. Chik to review and monitor the effectiveness of our financial controls, internal control and risk management systems.

Credit control

Our customers consist mostly of corporate customers. The credit period allowed by our Group to its customers was up to 90 days from the date of issuing invoice. Our finance manager reviews the credit terms for each existing and prospective corporate customer. The settlement and credit terms granted to corporate customers are determined with reference to, among other things, the payment history of the customer.

New customers

In respect of our new customers (whether they are our reseller customers, end-users or OEM customers), our sales staff are required by our internal control policy to (i) request our new customers to provide copies of their business registrations, tax registration certificates, the National Organization Code Certificate, as well as (ii) visiting our new customers' factories and/or offices as part of our due diligence check on our new customers. Our sales staff are then required to complete a new customer application form for our internal approval, and our new customers are set with an initial credit limit of RMB30,000.

Credit risk management

In order to mitigate the credit risks that we are exposed to in relation to the collectability of trade receivables, we have adopted credit risk management policies to review and monitor our account receivables from time to time, including reviewing the payment history and records of our customers and only raising the credit limit of our customers after we have conducted internal assessment on the financial position of the relevant customer and approved by the finance manager. To deal with material overdue payments, we have adopted procedures which include (i) close monitoring of material overdue payments; (ii) evaluation of the risk level based on the relevant customer's financial position; and (iii) appropriate follow-up actions (for example, visiting customer's office).

In general, the management will review each individual debt on a weekly basis, and make adequate impairment losses for irrecoverable amounts that have been overdue for 24 months.

The Directors are of the view that the policies and procedures in respect of the assessment of impairment of trade and other receivables are effective, and the credit periods provided are on normal commercial terms and are fair and reasonable after taking into consideration the financial strength of the counterparties, the credit history of our customers and the current market condition. This is clearly evidenced by the fact that our Group's impairment loss recognised on trade receivables was only 0.4% of the turnover for the year ended 31 December 2015, nil for the year ended 31 December 2016 and nil for the four-month period ended 30 April 2017.

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), our Company will be owned as to 75% by Vertical Investment, which is in turn wholly-owned by Mr. Boon. Vertical Investment will control over 30% of the issued share capital of our Company and therefore, Mr. Boon (by virtue of his interest in Vertical Investment) together with Vertical Investment will be regarded as our Controlling Shareholders.

Neither of our Controlling Shareholders, our Directors nor their respective close associates have any interest in any business, apart from the business operated by the members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Management independence

Although our Controlling Shareholders will retain controlling interest in our Company upon completion of the Share Offer and the Capitalisation Issue, the day-to-day management and operation of the business of our Group will be the responsibility of our Executive Directors and senior management of our Group. Our Board has five Directors comprising two Executive Directors and three independent non-executive Directors. With three independent non-executive Directors out of a total of five Directors in our Board, there will be sufficient independent voice within our Board to protect the interests of our independent Shareholders.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he/she (i) acts for the benefit of and in the best interests of our Shareholders and our Company as a whole; and (ii) does not allow any conflict between his or her duties as a Director and his or her personal interests to affect the performance of his or her duties as a Director. In the event that 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 close associates, the interested Director(s) will abstain from voting at the relevant board meetings of our Company in respect of such transaction and will not be counted in the quorum.

Having considered the above factors, our Directors are satisfied that our Board, as a whole and together with our senior management, is capable of managing our Group's business independently from our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational independence

Our Group has established our own organisational structure made up of individual departments, each with specific areas of responsibilities. We have sufficient operational resources, such as sales and marketing resources to operate our business independently. Our Group has also established a set of internal control measures to facilitate the effective operation of our business. We are the holders of all relevant licences and qualifications material to our business.

Our Group does not currently have any intention to enter into any other transactions with our Controlling Shareholders and/or their close associates and, if such event happens in the future, the connected transactions/continuing connected transactions will be conducted in compliance with the GEM Listing Rules. Accordingly, our Directors do not consider that there is any material reliance by our Group on the Controlling Shareholders or their close associates.

Financial independence

We have our own accounting and finance department and independent financial system, and we make financial decisions according to our business needs. In view of our Group's internal resources and the estimated net proceeds from the Share Offer, our Directors believe that our Group will have sufficient capital for our financial needs without dependence on our Controlling Shareholders or their close associates.

During the Track Record Period, Mr. Boon provided personal guarantees to secure the repayment obligations under banking facilities granted by a financial institution to Vertical Technology. Such personal guarantees provided by Mr. Boon will be released and replaced by corporate guarantees provided by our Group upon Listing.

In view of our Group's internal resources and the estimated net proceeds from the Share Offer, our Directors believe that our Group will have sufficient capital for its financial needs without dependence on our Controlling Shareholders. Our Directors further believe that, upon the Listing, our Group is capable of obtaining financing from external sources independently without the support of our Controlling Shareholders. Therefore, our Group will be financially independent from our Controlling Shareholders and/or any of their respective close associates.

DEED OF NON-COMPETITION

On 24 October 2017, our Controlling Shareholders (each a “**Covenantor**” and collectively, the “**Covenantors**”) entered into the Deed of Non-competition in favour of our Company (for itself and as trustee of the other members of our Group), under which each of the Covenantors irrevocably and unconditionally, jointly and severally, undertakes to and covenants with our Company (for itself and as trustee of the other members of our Group) that, among others:

- (a) he/it shall not, and shall procure each of his/its close associates and/or companies controlled by him/it (excluding any member of our Group) not to, whether on his/its own account or in conjunction with or on behalf of any person, firm or company, whether directly or indirectly, carry on a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as an investor, a shareholder, partner, principal, agent, director, employee or otherwise and whether for profit, reward, interest or otherwise) any Restricted Business (as defined below);
- (b) if he/it and/or any of his/its close associates and/or companies controlled by him/it (excluding any member of our Group) is offered or becomes aware of any project or new business opportunity (“**New Business Opportunity**”) that relates to the Restricted Business, whether directly or indirectly, he/it shall: (i) promptly within ten (10) Business Days notify or procure the relevant close associate(s) and/or the companies controlled by him/it to notify our Company in writing of such New Business Opportunity and provide such information as is reasonably required by our Company in order to enable our Company to come to an informed assessment of such New Business Opportunity; and (ii) use his/its best endeavours to procure that such New Business Opportunity is offered to our Group on terms no less favourable than the terms on which such opportunity is offered to him/it and/or his/its close associates and/or companies controlled by him/it;
- (c) he/it or any Directors who has an actual or potential material interest in the New Business Opportunity (if any) shall abstain from attending and voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity. The remaining non-interested independent non-executive Director(s) shall be responsible for assessing the New Business Opportunity and making the decision as to whether or not to take up any particular New Business Opportunity;
- (d) he/it shall provide our Company and our Directors (including our independent non-executive Directors) with all information necessary, including but not limited to monthly turnover records and any other relevant documents considered necessary by our independent non-executive Directors from time to time, for the annual review by our independent non-executive Directors with regard to compliance and enforcement of the non-competition undertakings; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (e) (i) he/it will not and will procure that none of his/its close associates and/or companies controlled by him/it (excluding any member of our Group) will solicit or entice away from any member of our Group any existing or then existing directors, employees, customers or suppliers of our Group;
- (ii) he/it will not without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to his/its knowledge in his/its capacity as the controlling shareholder (within the meaning of the GEM Listing Rules) of our Company for any purposes;
- (iii) he/it will not, in the course of carrying on any trade or business, claim, represent or otherwise indicate he/it is a member, director or employee of our Group for the purpose of obtaining or retaining any business and to the detriment of our Group;
- (iv) he/it will not use or divulge to any person, or publish or disclose or permit to be published or disclosed, any information (whether or not being secret or confidential information) relating to our Group which he/it has received or obtained (whether or not in the case of documents, they are marked as confidential);
- (v) he/it will not, otherwise than as required by our Company, retain, duplicate or remove from the premises of our Group information relating to our Group in whatever form (whether written, or recorded in some other form, or oral) which is supplied by our Group;
- (vi) he/it will not engage in any trade or business or be associated with any person or firm or company that engages in any trade or business using any of our Group's trademark (whether registered or not) or any trade or business name owned by our Group or used by our Group from time to time in connection with its business, or incorporating all or any material part of any of them or any colourable imitation thereof;
- (vii) he/it will not serve as senior management, consultant, chief executive or director of or otherwise operate or enter into any negotiation, agreement or arrangement with any person to operate any Restricted Business; and
- (viii) he/it will abstain from attending and voting at any general meeting if there is any actual or potential conflict of interests in relation to the Restricted Business and any New Business Opportunity.

For the purpose of the Deed of Non-Competition, “**Restricted Business**” means our Group's business of (a) manufacturing of chip type and radial lead type aluminum electrolytic capacitors; and (b) trading of (i) a wide range of electronic components including integrated circuits and semi-conductors such as diodes and transistors and (ii) LED and LED lighting products in the PRC and Hong Kong, and any other business in Hong Kong and such other places from time to time conducted, carried on or contemplated to be carried on by any member of our Group or in which any member of our Group is

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

engaged or has invested in or which any member of our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement).

The Deed of Non-competition will take effect from the date on which dealings in the Shares first commence on GEM and shall cease to have effect upon the earliest of the date on which (i) the relevant Covenantor and his/its close associates, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as a controlling shareholder (within the meaning of the GEM Listing Rules) of our Company and do not have power to control our Board or there is at least one other independent Shareholder other than the relevant Covenantor and his/its close associates holding more Shares than the relevant Covenantor and his/its close associates taken together; or (ii) the Shares cease to be listed on GEM or other recognised stock exchange.

CORPORATE GOVERNANCE MEASURES TO SAFEGUARD THE INTEREST OF SHAREHOLDERS

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of our Shareholders:

- (1) the Articles provide that a Director shall not vote on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested unless otherwise permitted by the Articles. Further, the attendance of that Director shall not be counted towards the quorum at the meeting;
- (2) the independent non-executive Directors will review on an annual basis the compliance with the respective non-competition undertakings by our Controlling Shareholders;
- (3) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the respective non-competition undertakings;
- (4) our Company will disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the respective non- competition undertakings of our Controlling Shareholders in the annual reports of our Company;
- (5) our Controlling Shareholders will make an annual declaration on compliance with their respective non-competition undertakings in the annual report of our Company;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (6) the independent non-executive Directors will be responsible for deciding whether or not to allow our Controlling Shareholders and/or their respective close associates to be involved or participate in a Restricted Business, and if so, any condition to be imposed;
- (7) the independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertakings or connected transaction(s) at the cost of our Company; and
- (8) our Company has appointed Vinco Capital Limited as the compliance adviser which shall provide our Company with professional advice and guidance in respect of compliance with the GEM Listing Rules.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of our Group has experienced any material dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out above, our Directors believe that the interest of the Shareholders, in particular the minority Shareholders, will be protected.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board currently consists of five Directors, comprising two Executive Directors and three independent non-executive Directors. The following table sets out the information regarding our Directors:

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Boon Ho Yin Henry (溫浩然)	42	Chairman, chief executive officer and Executive Director	3 January 2017	7 June 2006	Major decision-making, overall strategic planning, determining corporate policies, daily operations and management of our Group	Nil
Ms. Chow Cheung Chu (周祥珠)	33	Executive Director	7 April 2017	12 January 2015	Overall management of our Company and supervision of financial activities and internal control of our Group	Nil
Mr. Liu Kwan (劉筠)	45	Independent non-executive Director	24 October 2017	24 October 2017	Overseeing the management independently and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company	Nil
Mr. Chik Kin Man Paul (戚健民)	43	Independent non-executive Director	24 October 2017	24 October 2017	Overseeing the management independently and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company	Nil

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Wong Wai Leung (黃偉樑)	39	Independent non-executive Director	24 October 2017	24 October 2017	Overseeing the management independently and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company	Nil

Executive Directors

Mr. Boon Ho Yin Henry (溫浩然), aged 42, was appointed as a Director on 3 January 2017 and re-designated as an Executive Director, the chairman and the chief executive officer of our Group on 7 April 2017. Mr. Boon is responsible for our Group's major decision-making, overall strategic planning, determining corporate policies and daily operations and management of our Group. As one of the founders of our Group, Mr. Boon has 10 years of experience in the industry of trading and manufacturing electronic components. Mr. Boon is also a director of Vertical (BVI), Vertical Technology, and Vertical Engineering.

Prior to co-founding our Group, Mr. Boon was a finance professional. From September 2000 to September 2003 he worked as a financial analyst of the personal computing division of IBM China/Hong Kong Limited and was mainly responsible for financial review, budgeting, cash flow forecasting, accounting and project management. After his resignation in September 2003, Mr. Boon had been preparing the business plan of Vertical Technology which commenced business in 2006.

Mr. Boon graduated in June 1997 from the University of Toronto in Canada with a degree of Bachelor of Commerce. He is a member of the CFA Institute (formerly known as the Association for Investment Management and Research), and was designated as chartered financial analyst in September 2001. Mr. Boon is also a member of the Hong Kong Society of Financial Analysts.

Our Company's corporate governance practices are based on principles and code provisions as set out in the CG Code. Except for the deviation from code provision A.2.1 of the CG Code, our Company's corporate governance practices have complied with the CG Code.

DIRECTORS AND SENIOR MANAGEMENT

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Boon is the chairman and the chief executive officer of our Company. In view of Mr. Boon is one of the founders of our Group and has been operating and managing our Group since its incorporation, the Board believes that it is in the best interest of our Group to have Mr. Boon take up both roles for effective management and business development. Therefore, the Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

Mr. Boon has not held any directorships in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus.

Ms. Chow Cheung Chu (周祥珠), aged 33, was appointed as an Executive Director of our Group on 7 April 2017 and is principally responsible for the overall management of our Company and supervising of financial activities and internal control of our Group. Ms. Chow joined our Group in January 2015 as the finance manager of Vertical Technology. Since January 2015, Ms. Chow has been managing our Group's financial activities and overseeing our Group's back office functions including finance and accounting, and general administration, from which she has obtained an extensive experience in the management and operation of our Group's business and the industry. She is also responsible for the internal control of our Group and has been monitoring and ameliorating our Group's business workflow.

Prior to joining our Group, Ms. Chow was an auditor and was mainly responsible for accounting, auditing and providing assurance services. She was an audit junior at East Asia Sentinel Limited from May 2009 to May 2010 and an audit semi-senior at Raymond Y.L. Lai & Co. from July 2010 to July 2011, and from January 2012 to December 2012. She was later promoted to the position of audit senior in January 2013 until she resigned in January 2015. She was mainly responsible for handling audit assignments along with related tax and secretarial works.

Ms. Chow obtained her degree of Bachelor of Business Administration with a major in accountancy and a minor in financial services from The Hong Kong Polytechnic University in October 2008. Ms. Chow became a member of the HKICPA in May 2013.

Ms. Chow has not held any directorships in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus.

Given that (i) Mr. Boon is a co-founder of our Group who has 10 years of experience in the industry of trading and manufacturing electronic components, and is mainly responsible for decision-making, overall strategic planning and daily operation of our Group; and (ii) Ms. Chow has obtained an extensive managerial experience in the operation of our Group's business and industry in the past years, especially on supervising financial activities and internal control of our Group, this composition of the Executive Directors could derive a balance of skills and experience for managing the business of our Group. Thus, the Sole Sponsor is of the view that the Executive Directors are able to manage and monitor the

DIRECTORS AND SENIOR MANAGEMENT

operations of our Group. As Ms. Chow is a degree holder of Bachelor of Business Administration and a member of the HKICPA together with her 5-year accounting and auditing experience, the Sole Sponsor is also of the view that Ms. Chow has sufficient knowledge and expertise to discharge her duties as an Executive Director.

Independent non-executive Directors

Mr. Liu Kwan (劉筠), aged 45, was appointed as an independent non-executive Director on 24 October 2017 and is mainly responsible for overseeing the management of our Group independently and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company.

Mr. Liu has over 18 years of experience in accounting and auditing. He worked at Deloitte & Touche LLP in Canada from September 1997 to October 2000 with the last held position as senior staff accountant, and was primarily responsible for auditing and due diligence review. He was a financial analyst at the TD Securities Division of the Toronto Dominion Bank in Canada from October 2000 to March 2001 and was primarily responsible for business and market analysis. He was at American International Assurance Company, Limited in Hong Kong from October 2001 to November 2005, where he worked as a staff auditor from October 2001 to December 2003, and as a senior auditor from January 2004 to November 2005. He was primarily responsible for auditing and compliance review. He was at New York Life International, LLC in Hong Kong from November 2005 to November 2010, where he worked as a director of audits in the internal audit department from November 2005 to September 2009, and as an assistant general auditor in the internal audit department from October 2009 to November 2010. He was primarily responsible for auditing and risk review. From November 2010 to July 2011, he was at KPMG in Hong Kong with his last held position as senior manager in the risk and compliance division, and was primarily responsible for providing assurance, risk, compliance and business promotion services. From August 2011 to November 2014, he worked as an audit manager at Prudential Services Limited in Hong Kong and was primarily responsible for development, execution and management of audit work. From December 2014 and until now, he has become the regional anti-money laundering manager of Prudential Services Limited and is primarily responsible for drafting and implementing regional anti-money laundering standards and overseeing the sanctions screening operations in Asia.

Mr. Liu obtained his Bachelor of Arts degree and his Bachelor of Administrative Studies degree from York University in Canada in June 1994 and June 1997 respectively. Mr. Liu became a chartered accountant and a chartered professional accountant of the Institute of Chartered Accountants of Ontario (now known as Chartered Professional Accountants of Ontario) November 2000 and November 2012, respectively. He became a certified internal auditor of the Institute of Internal Auditors in Hong Kong in August 2009 and a certified anti-money laundering specialist of Association of Certified Anti-Money Laundering Specialists in Hong Kong in May 2016.

Mr. Liu has not held any directorships in any other public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chik Kin Man Paul (戚健民), aged 43, was appointed as an independent non-executive Director on 24 October 2017 and is mainly responsible for overseeing the management of our Group independently and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company.

Mr. Chik has over 19 years of experience in the IT industry. He has been working at IBM China/Hong Kong Limited in Hong Kong since July 1998, where he is currently an infrastructure architect in global technology services department and he is primarily responsible for IT consulting as well as services design and integrated technology delivery.

Mr. Chik obtained his degree of Bachelor of Science from the University of Hong Kong in November 1996, and his Master degree of practicing accounting from Monash University in Australia in November 2001. He then obtained a degree of Bachelor of Laws from University of London in August 2005. Mr. Chik was qualified as a certified practising accountant of CPA Australia in September 2005. He was also a certified information systems auditor from August 2006 to January 2010. He was awarded the Information Technology Infrastructure Library (ITIL) Expert in IT service management in June 2010 and he was also qualified as an ISO/IEC 20000 practitioner in June 2012.

Mr. Chik has not held any directorships in any other public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus.

Mr. Wong Wai Leung (黃偉樑), aged 39, was appointed as an independent non-executive Director on 24 October 2017 and is mainly responsible for overseeing the management of our Group independently and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company.

Mr. Wong worked at Ernst & Young in audit assurance from September 2000 to July 2009 with his last held position as senior manager in the assurance and advisory business services department. He was subsequently seconded to the assurance and advisory business services department of the New York office of Ernst & Young in the United States as a senior accountant from November 2004 to March 2006. Mr. Wong worked at Lianjie Capital (Hong Kong) Limited from September 2009 to March 2012 with his last held position as chief financial officer. He was subsequently transferred to Lianjie Sports Investments Limited, a private company which manages investments and trusts for a family office, between April 2012 and December 2015 with his last position as chief financial officer. He was appointed as a director of Lianjie Sports Investments Limited in January 2016. Mr. Wong has become an executive director, chief financial officer and company secretary of Qinqin Foodstuffs Group (Cayman) Company Limited, a company principally engaging in the manufacturing, distribution and sale of food and snacks products in the PRC, since June 2016 up to the present and is responsible for corporate development, investment, accounting and financial matters.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong received a degree of Bachelor of Business Administration in Accounting from The Hong Kong University of Science and Technology in November 2000. He has also been a member of the HKICPA since July 2004, and a fellow member of the Association of Chartered Certified Accountants since September 2010.

Mr. Wong currently holds the following directorships in the companies set out below and which are listed on the Stock Exchange:

Appointment date	Name of listed company	Stock code	Position
22 March 2016	Qinqin Foodstuffs Group (Cayman) Company Limited (親親食品集團(開曼)股份有限公司)	1583	Executive director
19 May 2016	MediNet Group Limited (醫匯集團有限公司)	8161	Independent non-executive director

Save as disclosed above, Mr. Wong has not held any directorship in any other public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, each of our Directors did not have any interests in any business apart from business of our Group which competes or is likely to compete, either directly or indirectly, with the business of our Group. Save as disclosed herein, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 17.50(2)(h) to (v) of the GEM Listing Rules as at the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table sets out certain information concerning our senior management:

Name	Age	Position	Date of first joining our Group	Roles and responsibilities	Relationship with Director(s)/or other senior management
Mr. Li Xinjun (李新軍)	36	Deputy general manager of the sales and marketing department of Dongguan Shouke	January 2007	Management of sales assistants of our Group and marketing	Nil
Ms. Zhang Jing (張靜)	43	Quality control supervisor of the quality control department of Dongguan Shouke	September 2010	Manufacturing process analysis, product design, sample production and quality control of supplies	Nil

Mr. Li Xinjun (李新軍), aged 36, is the deputy general manager of the sales and marketing department of Dongguan Shouke and is mainly responsible for management of sales assistants and marketing of our Group. Mr. Li was promoted to the position of deputy general manager of the sales and marketing department of Dongguan Shouke on 1 July 2016. He joined Vertical Technology in January 2007 as a salesperson based in the PRC and up to February 2014, where he was responsible for sales and marketing. Mr. Li was subsequently seconded to Dongguan Shouke in March 2014 as a supervisor and focused on sales and marketing.

Mr. Li graduated from 粵北技工學校 in the PRC in July 2003, with a specialisation in electrical and mechanical engineering.

Mr. Li has not held any directorships in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus.

Ms. Zhang Jing (張靜), aged 43, is the quality control supervisor of the quality control department of Dongguan Shouke and is responsible for monitoring manufacturing process analysis, product design, sample production as well as quality control of supplies. Ms. Zhang was the head of quality control office of CapXon Electronic (Shen Zhen) (深圳豐賓電子有限公司) from September 2005 to September 2010, responsible for overseeing the quality control of the production of snap-in type and chip type aluminum electrolytic capacitors. Ms. Zhang joined Vertical Technology in September 2010 as the quality control supervisor based in the PRC and up to February 2014, where she was responsible for maintaining quality control during the production process, monitoring the quality of supplies from time to time as well as handling customers' audit requirements. Ms. Zhang has subsequently been seconded to Dongguan Shouke since February 2014 as the quality control supervisor of its quality control department.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhang obtained the certification of OHSAS 18001: 2007, ISO 14001: 2004 and TS 16949: 2009 internal auditor from Jingyi Management Ltd in the PRC in July 2011. She also obtained the certification of QCO 8000: 2012 and ISO 9001: 2015 internal auditor from JingYi Management Ltd in May 2013 and May 2016, respectively.

Ms. Zhang has not held any directorship in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus.

COMPANY SECRETARY

Ms. Cheung Yuet Fan (張月芬), aged 52, was appointed as the company secretary of our Company on 16 October 2017 and she is responsible for the company secretarial and related matters of our Company. Ms. Cheung has over 25 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. She is a chartered secretary and an associate of both the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Cheung obtained a Bachelor of Arts degree in Accountancy from City Polytechnic of Hong Kong (now known as City University of Hong Kong). Ms. Cheung is currently a senior manager of corporate services division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Cheung is currently a joint company secretary of China Zhongwang Holdings Limited (stock code: 1333), the shares of which are listed on the Stock Exchange. Before joining the Tricor Group, Ms. Cheung worked in the corporate secretarial department of Deloitte Touche Tohmatsu in Hong Kong and in various Hong Kong listed companies in the role of company secretary and corporate governance areas.

Ms. Cheung does not act as an individual employee of our Company, but as an external service provider in respect of the appointment of Ms. Cheung as the company secretary of our Company. Pursuant to code provision F.1.1 of the CG Code, an issuer can engage an external service provider as its company secretary, provided that the issuer should disclose the identity of a person with sufficient seniority at the issuer whom the external provider can contact. In this respect, our Company has nominated Mr. Boon as its contact person for Ms. Cheung.

While our Company is well aware of the importance of the company secretary in supporting the Board on governance matters, our Company, after having considered that Tricor Services Limited, a professional services provider with professional specialists providing a comprehensive range of services including corporate administration and secretarial services, both our Company and Ms. Cheung are of the view that there will be sufficient time, resources and supporting for fulfillment of the company secretary requirements. Ms. Cheung will allocate and devote sufficient time to our Group (together with the assistance from other staff of Tricor Services Limited) for fulfilling the company secretary requirements. With Ms. Cheung's experience in handling listed companies for so many years, our Directors believe that she can discharge her duties efficiently as the company secretary of our Company.

DIRECTORS AND SENIOR MANAGEMENT

In view of Ms. Cheung's experience in company secretarial functions, our Directors believe that Ms. Cheung has the appropriate company secretarial expertise for the purpose of Rule 5.14 of the GEM Listing Rules.

Ms. Cheung has not held any directorship in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this prospectus.

BOARD COMMITTEES

The Board has established an audit committee (the “**Audit Committee**”), a nomination committee (the “**Nomination Committee**”) and a remuneration committee (the “**Remuneration Committee**”). The committees operate in accordance with the terms of reference established by the Board.

Audit Committee

The Audit Committee has been established in compliance with Rules 5.29 of the GEM Listing Rules and the CG Code pursuant to a resolution of our Board passed on 24 October 2017 with written terms of reference in compliance with code provision C3.3 of the CG Code. The primary duties of the Audit Committee are to oversee the financial reporting system and internal control procedures to our Company, review the financial information of our Company and consider the issues relating to the external auditors (including their appointment and removal). The Audit Committee consists of three independent non-executive Directors, namely Mr. Wong Wai Leung, Mr. Chik Kin Man Paul and Mr. Liu Kwan. Mr. Wong Wai Leung is the chairman of the Audit Committee.

Nomination Committee

The Nomination Committee has been established in compliance with the CG Code pursuant to a resolution of the Board passed on 24 October 2017 with written terms of reference in compliance with code provision A5.2 of the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, assess independence of independent non-executive Directors and to make recommendations to the Board on the appointment and removal of Directors. The Nomination Committee comprises Mr. Boon, Mr. Chik Kin Man Paul and Mr. Liu Kwan. Mr. Boon is the chairman of the Nomination Committee.

Remuneration Committee

The Remuneration Committee has been established in compliance with Rule 5.35 of the GEM Listing Rules and the CG Code pursuant to a resolution of the Board passed on 24 October 2017 with written terms of reference in compliance with code provision B1.2 of the CG Code. The primary duties of the Remuneration Committee are to make recommendations to our Board on our Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal

DIRECTORS AND SENIOR MANAGEMENT

and transparent procedure for developing policy on such remuneration. The Remuneration Committee comprises Mr. Boon, Mr. Chik Kin Man Paul and Mr. Liu Kwan. Mr. Chik Kin Man Paul is the chairman of the Remuneration Committee.

REMUNERATION OF DIRECTORS AND REMUNERATION OF FIVE HIGHEST PAID INDIVIDUALS

Our Directors and members of our senior management receive compensation in the form of salaries, allowances, discretionary bonuses and other benefits in kind, including our Group's contribution to the pension schemes on their behalf. We determine the salaries of our Directors and members of our senior management based on each person's qualifications, responsibilities and seniority.

Under the current arrangements, the aggregate remuneration (excluding discretionary bonus) payable to our Directors for the year ending 31 December 2017 is estimated to be approximately HK\$0.5 million. For the years ended 31 December 2015 and 2016, the total remuneration (including fees, salaries, contribution to retirement benefit schemes and other allowances and benefits in kind and discretionary bonus) received by our Directors for services to our Group amounted to approximately HK\$0.4 million and HK\$0.5 million respectively.

For the years ended 31 December 2015 and 2016, the aggregate amount or value of fees, salaries, allowances and benefits in kind (including contribution to our Group's retirement scheme on behalf of the five highest paid individuals) or any bonuses paid by our Group to the five highest paid individuals (excluding our Directors among the five highest paid individuals) in relation to services rendered to our Group were approximately HK\$0.6 million and HK\$0.6 million respectively.

During the Track Record Period, no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors or the five highest paid individuals for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors had waived any remuneration and/or emoluments during the Track Record Period.

SHARE OPTION SCHEME

Our Company has adopted conditionally the Share Option Scheme. For details of the Share Option Scheme, please refer to the section headed "Statutory and General Information — D. Share Option Scheme" in Appendix IV to this prospectus.

COMPLIANCE ADVISOR

Pursuant to Rule 6A.19 of the GEM Listing Rules, our Company has appointed Vinco Capital Limited as the compliance adviser. The compliance adviser will advise us on the following matters pursuant to Rule 6A.23 of the GEM Listing Rules:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results deviate from any forecast, estimate or other information of this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules.

The terms of the appointment shall commence on the Listing Date and is expected to end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules on the distribution of the annual report in respect of the financial results for our Company's second full financial year commencing after the Listing Date.

SHARE CAPITAL

SHARE CAPITAL

The table below set forth information with respect to the authorised and issued share capital of our Company immediately before and following the completion of the Capitalisation Issue and Share Offer (without taking into account of any Shares that may be issued upon the exercise of any options which may be granted under the Share Option Scheme):

As of the date of this prospectus

<i>Authorised share capital:</i>	<i>HK\$</i>
38,000,000 Shares of HK\$0.01 each	<u>380,000</u>
<i>Issued share capital:</i>	
<u>100</u> Shares of HK\$0.01 each	<u>1</u>

Immediately after completion of the Share Offer and Capitalisation Issue

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>5,000,000,000</u> Shares of HK\$0.01 each	<u>50,000,000</u>
Shares in issue or to be issued, fully paid or credited as fully paid:	
100 Shares in issue as at the date of this prospectus	1
599,999,900 Shares to be issued pursuant to the Capitalisation Issue	5,999,999
<u>200,000,000</u> Shares to be issued pursuant to the Share Offer	<u>2,000,000</u>
<u>800,000,000</u> Total	<u>8,000,000</u>

ASSUMPTIONS

The table as shown above assumes the Share Offer becoming unconditional and the allotment and issue of Shares pursuant thereto and under the Capitalisation Issue and Share Offer are made as described herein. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase Shares as referred to in the paragraphs headed “General mandate to issue Shares” or “General mandate to repurchase Shares” below, as the case may be.

SHARE CAPITAL

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the total issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

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, made or paid on the Shares in respect of a record date which falls after the date of this prospectus, save for entitlements under the Capitalisation Issue.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus being fulfilled, our Directors will be granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers or agreements which might require such Shares to be allotted and issued or dealt with subject to the requirement that the total number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed the sum of:

- (a) 20% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares that may be issued upon the exercise of any options which may be granted under the Share Option Scheme); and
- (b) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as referred to in the section headed “— General mandate to repurchase Shares” below.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue. This general mandate to issue Shares will remain in effect until:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company’s next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (c) it is varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

SHARE CAPITAL

For further details of this general mandate, please refer to the section headed “Statutory and General Information — A. Further information about our Company and our subsidiaries — 3. Written resolutions of our sole Shareholder passed on 24 October 2017” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on conditions as stated in the section headed “Structure and Conditions of the Share Offer — Conditions of the Share Offer” being fulfilled, our Directors will be granted a general unconditional mandate to exercise all the powers to repurchase Shares with a total number of not more than 10% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account of any Shares that may be issued upon the exercise of any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed “Statutory and General Information — A. Further information about our Company and our subsidiaries — 7. Repurchase by our Company of its own securities” in Appendix IV to this prospectus.

The general mandate to repurchase Shares will remain in effect until:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company’s next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (c) it is varied or revoked or renewed by ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the section headed “Statutory and General Information — A. Further information about our Company and our subsidiaries — 3. Written resolutions of our sole Shareholder passed on 24 October 2017” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into shares of smaller amount;

SHARE CAPITAL

and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. For details, please see the section headed “Summary of the Constitution of our Company and the Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, all or any of the special rights attached to the Share or any class of Shares may 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. For details, please see the section headed “Summary of the Constitution of our Company and the Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed “Summary of the Constitution of our Company and the Cayman Islands Company Law” in Appendix III to this prospectus.

SHARE OPTION SCHEME

Our Company has adopted conditionally the Share Option Scheme. For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) the following persons will have an interest and/or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be 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 our Company or any other member of our Group:

Name	Nature of interests	As at the date of this prospectus		Immediately following the completion of the Share Offer and the Capitalisation Issue	
		Number of Shares	Percentage of shareholding	Number of Shares ⁽¹⁾	Percentage of shareholding
Vertical Investment	Beneficial owner ⁽²⁾	100	100%	600,000,000 (L)	75%
Mr. Boon	Interest in a controlled corporation ⁽²⁾	100	100%	600,000,000 (L)	75%
Ms. Sun Koon Kwan	Interest of spouse ⁽³⁾	100	100%	600,000,000 (L)	75%

Notes:

- (1) The letter “L” denotes the long position (as defined under Part XV of the SFO) in such Shares.
- (2) Vertical Investment is wholly and beneficially owned by Mr. Boon. Under the SFO, Mr. Boon is deemed to be interested in the same number of Shares which Vertical Investment is interested in.
- (3) Ms. Sun Koon Kwan is the spouse of Mr. Boon. Ms. Sun Koon Kwan is deemed to be interested in the same number of Shares in which Mr. Boon is interested by virtue of the SFO.

Save as disclosed above, none of our Directors is aware of any other person who will, immediately following the Share Offer and the Capitalisation Issue and without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, have an interest or short position in the Shares or underlying Shares which would be fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, 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 member of our Group. None of our Directors is aware of any arrangement which may at a subsequent date result in a change of control of our Company.

UNDERTAKINGS

Each of our Controlling Shareholders has 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 GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

Our Controlling Shareholders have further voluntarily undertaken to the Joint Lead Managers, the Sole Bookrunner, the Sole Sponsor, the Co-Managers and the Public Offer Underwriters that unless with the prior written consent of the Joint Lead Managers (for themselves and on behalf of the Sole Bookrunner, the Sole Sponsor, the Co-Managers and the Public Offer Underwriters) the Shares held by them will be subject to lock-up for certain period after the Listing in addition to the requirements under the GEM Listing Rules (for details, please refer to the section headed “Underwriting — Undertakings pursuant to the Public Offer Underwriting Agreement — Undertaking by our Controlling Shareholders” in this prospectus).


FINANCIAL INFORMATION

You should read this section in conjunction with our Group's audited consolidated financial statements, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. Our Group's consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections depends on a number of risks and uncertainties over which our Group does not have control. For further information, you should refer to the section headed "Risk factors" in this prospectus.

OVERVIEW

Our Group's core business is the manufacturing of chip type and radial lead type aluminum electrolytic capacitors. This core business is complemented by the trading of (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors; and (ii) LED and LED lighting products. Please refer to the section headed "Business — Overview" in this prospectus for further details of our Group's business.

Our Group maintains its own research and development team in the PRC, with a primary focus on improvement of manufacturing method/process, product performance, and new product and technology development. Our Group's manufacturing process of aluminum electrolytic capacitors utilised its own patented manufacturing method, developed by our Group's in-house research and development team. As at the Latest Practicable Date, our Group held 11 utility model patents registered and had filed applications for the registration of five utility model patents and one invention patent in the PRC with respect to the manufacturing method of its aluminum electrolytic capacitors. On the other hand, as at the Latest Practicable Date, our Group had registered (i) the trademarks "VTCL" in Hong Kong the PRC; and (ii) the trademark  in the PRC and had filed an application for the registration of the trademarks "VTOS-CON" and "VT" in the PRC.

The revenue of our Group (i) increased from approximately HK\$75.8 million for the year ended 31 December 2015 to approximately HK\$92.8 million for the year ended 31 December 2016, representing an increase of approximately 22.4%, or HK\$17.0 million and (ii) increased from approximately HK\$20.0 million for the four-month period ended 30 April 2016 to approximately HK\$32.5 million for the four-month period ended 30 April 2017, representing an increase of approximately 62.7% or HK\$12.5 million. The gross profit margin of our Group remained steady at approximately 20.8%, 22.8%, 17.7% and

FINANCIAL INFORMATION

21.0% for the two years ended 31 December 2016 and the four-month periods ended 30 April 2016 and 30 April 2017, respectively. Our Group's profit for the year increased from approximately HK\$6.7 million for the year ended 31 December 2015 to HK\$9.1 million for the year ended 31 December 2016, representing an increase of approximately HK\$2.4 million or 37.2% primarily due to the increased in revenue and gross profit for the period. However, the profit for the period decreased from approximately HK\$1.0 million for the four-month period ended 30 April 2016 to a loss of approximately HK\$3.7 million for the four-month period ended 30 April 2017, representing a decrease of approximately HK\$4.7 million, or 485.4% primarily due to the listing expenses of approximately HK\$7.4 million incurred in the four-month period ended 30 April 2017. Please refer to the paragraph headed "Comparison of results of operations" below for details.

BASIS OF CONSOLIDATION

We have prepared our financial information on the historical cost basis, and in accordance with accounting policies which conform with HKFRSs, on the basis set out in note 3 to the Accountants' Report as set out in Appendix I to this prospectus. In addition, our financial information includes the applicable disclosure required by the GEM Listing Rules and by the Companies Ordinance.

Pursuant to the Reorganisation as more fully explained in the section headed "History, development and reorganisation — Reorganisation", our Company became the holding company of the companies now comprising our Group on 17 March 2017. The immediate and ultimate holding company is Vertical Investment, a company incorporated in the BVI which Mr. Boon is the ultimate controlling party. Our Company and our subsidiaries have been under the common control of Mr. Boon throughout the Track Record Period or since our respective date of incorporation, where there is a shorter period. Our Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information has been prepared on the basis as if our Company had always been the holding company of our Group.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising our Group as if our Company had always been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period.

The consolidated statements of financial position of our Group as at 31 December 2015, 31 December 2016 and 30 April 2017 have been prepared to present the assets and liabilities of the companies now comprising our Group as if our Company had always been the holding company of our Group and the current group structure had been in existence at those dates taking into account the respective dates of incorporation, where applicable.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS OF OUR COMPANY

Our Group's financial positions and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Our Group's business relationship with major suppliers

For the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, the amount of purchases from the five largest suppliers of our Group accounted for approximately 67.9%, 51.6%, 45.3% and 55.6% respectively, of our Group's total purchases. As a result, our Group relies on the continued supply of products from a few major suppliers. In the event that these suppliers cease or reduce their supplies to our Group so that our Group is unable to obtain adequate supplies of the necessary raw materials in a timely manner, or if there is a significant increase in the costs of the raw materials which our Group cannot pass on to our Group's customers, our Group's operation and financial position could be adversely affected.

Our Group's business relationship with major customers

Our Group's top five customers accounted for approximately 41.8%, 41.5%, 35.2% and 55.2% of our Group's revenue for the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, respectively. The top five customers are not obligated in any way to continue to provide our Group with new businesses in the future at a level similar to that in the past or at all. Moreover, if any of our Group's key customers reduces, delays or cancels its orders to our Group, or the financial condition of our Group's key customers deteriorates, our Group's business, financial position and results of operations may be adversely affected.

Raw materials price

The total costs of raw materials consumed accounted for approximately 27.0%, 33.2%, 28.0% and 37.6% of our Group's total cost of sales for the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, respectively. The prices of raw materials are subject to fluctuations as a result of various factors beyond our Group's control, such as global economic and financial conditions. In addition, since our Group has not entered into long-term supply contracts with the suppliers, prices of raw materials are subject to market fluctuations from time to time. Since the products face keen competition, our Group may not be able to shift the increase in prices of raw materials to its customers, and our Group's business operations and financial performance may be adversely affected.

Production capacity utilisation rate

Given that approximately 29.7% of our Group's total assets comprised property, plant and equipment as at 30 April 2017, decreases in capacity utilisation rates of our Group's production facilities can have a significant effect on our Group's business, results of operations and financial performance. Accordingly, our Group's ability to maintain or

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enhance our Group's gross profit margin depends, in part, on maintaining satisfactory capacity utilisation rates for our Group's production lines. In the event that a customer reduces or cancels orders unexpectedly after our Group has invested in increasing the production capacity, our Group's gross profit and operating income could be adversely affected because our Group may not be able to recover our Group's expenditures for the materials purchased and our Group may not be able to realise optimal asset utilisation of our Group's production facilities.

Labour costs

Our Group relies on our Group's employees located in the PRC for our Group's packaging and operating activities. The average wages paid for manufacturing labour in the PRC have recently increased and may continue to increase as a result of the macroeconomic and other policies of the PRC government. If our Group fails to offset the increase in our Group's labour costs by way of automation or otherwise or effectively pass along these increased labour costs to its customers, our Group's operation and financial position may be adversely affected.

Foreign currency exchange rate

Our Group mainly operates in Hong Kong and the PRC. The functional currency of our Company is HK\$, with certain of their business transactions being settled in currencies other than the functional currency, which exposes our Group to foreign exchange risk. Our Group exposed to currency risk mainly through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. Any significant changes in the exchange rates between functional currency and these various other currencies may result in losses for our Group and could adversely affect our Group's business, results of operations and financial position.

The economic and political conditions in the PRC

Our Group conducts a majority of its business in the PRC. For the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, approximately 47.9%, 54.1%, 60.5% and 58.1%, respectively, of our Group's revenue were generated from the PRC, and a significant portion of our Group's assets are located in the PRC. Accordingly, our Group's results of operations, financial conditions and prospects are subject to a significant degree to the economic and political developments in the PRC.

SIGNIFICANT ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Those accounting policies which are significant to the results of operations and financial position of our Group, and those areas which require critical judgements by the management in applying for our Group's accounting policies are set forth in note 3 and

FINANCIAL INFORMATION

note 4, respectively, to the Accountants' Report set out in Appendix I to this prospectus. The following paragraphs discuss certain significant accounting policies applied in preparing our Group's financial information:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to our Group and when specific criteria have been met for each of our Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

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

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

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Leasing

Leases are classified as finance leases 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of each 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Inventories

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

Taxation

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

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit (loss) before taxation" as reported in the consolidated statements of profit or loss and other comprehensive income because of items of

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income or expenses that are taxable or deductible in other years/period and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information (as defined on page I-1 in the section headed "Accountants' Report" in Appendix I to this prospectus) 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 differences 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 the initial recognition of 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, 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 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 is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each 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 each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its assets 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

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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 of disposal 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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the application of our Group's accounting policies, which are described in note 3 to the Accountants' Report set out in Appendix I to this prospectus, our Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Please see note 4 to the Accountants' Report set out in Appendix I to this prospectus for details.

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SUMMARY OF RESULTS OF OPERATIONS

The following table sets forth selected data from the consolidated statements of profit or loss and other comprehensive income for the years indicated, which have been derived from, and should be read in conjunction with the Accountants' Report set forth in Appendix I to this prospectus:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Revenue	75,766	92,774	19,993	32,530
Cost of sales	<u>(60,017)</u>	<u>(71,625)</u>	<u>(16,455)</u>	<u>(25,708)</u>
Gross profit	15,749	21,149	3,538	6,822
Other income	261	200	22	11
Other gains and losses	(48)	46	(1)	(51)
Selling and distribution costs	(1,432)	(2,308)	(655)	(714)
Administrative expenses	(5,017)	(5,199)	(1,473)	(2,051)
Finance costs	(475)	(284)	(90)	(92)
Listing expenses	<u>—</u>	<u>(2,171)</u>	<u>—</u>	<u>(7,414)</u>
Profit (loss) before taxation	9,038	11,433	1,341	(3,489)
Income tax expense	<u>(2,388)</u>	<u>(2,307)</u>	<u>(381)</u>	<u>(211)</u>
Profit (loss) for the year/period	6,650	9,126	960	(3,700)
Other comprehensive (expense) income for the year/period				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences arising on translation of foreign operations	<u>(568)</u>	<u>(2,022)</u>	<u>73</u>	<u>614</u>
Total comprehensive income (expense) for the year/period	<u>6,082</u>	<u>7,104</u>	<u>1,033</u>	<u>(3,086)</u>

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PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

The following table sets out revenue contribution by two business segments during the Track Record Period:

	Year ended 31 December 2015		Year ended 31 December 2016		Four-month period ended			
	HK\$'000	%	HK\$'000	%	30 April 2016 HK\$'000 (unaudited)	%	30 April 2017 HK\$'000	%
Sales of manufactured aluminum electrolytic capacitors	38,451	50.7%	57,199	61.7%	11,245	56.2%	20,889	64.2%
Trading of electronic components	37,315	49.3%	35,575	38.3%	8,748	43.8%	11,641	35.8%
Total	75,766	100.0%	92,774	100.0%	19,993	100.0%	32,530	100.0%

The following table sets out revenue, sales volume and average sales prices of aluminum electrolytic capacitors by types during the two years ended 31 December 2016:

Type	For the year ended 31 December								Decrease rate of average sales price between 2015 and 2016
	2015				2016				
	Revenue	% of revenue	Units sold	Avg. sales price	Revenue	% of revenue	Units sold	Avg. sales price	
				<i>HK\$ per thousand unit</i>				<i>HK\$ per thousand unit</i>	
	<i>HK\$ '000</i>		<i>'000</i>		<i>HK\$ '000</i>		<i>'000</i>		
Chip type aluminum electrolytic capacitors	34,050	88.5	257,716	132	49,326	86.2	423,332	117	11.4
Radial lead type aluminum electrolytic capacitors	4,401	11.5	114,986	38	7,873	13.8	244,147	32	15.8
Total	38,451	100	372,702	103	57,199	100	667,479	86	16.5

The following table sets out revenue, sales volume and average sales prices of aluminum electrolytic capacitors by types for the four-month period ended 30 April 2016 and 2017:

Type	For the four-month period ended 30 April								Increase rate of average sales price between 30 April 2016 and 30 April 2017
	2016				2017				
	Revenue	% of revenue	Units sold	Avg. sales price	Revenue	% of revenue	Units sold	Avg. sales price	
				<i>HK\$ per thousand unit</i>				<i>HK\$ per thousand unit</i>	
	<i>HK\$ '000</i> (unaudited)		<i>'000</i>		<i>HK\$ '000</i>		<i>'000</i>		
Chip type aluminum electrolytic capacitors	8,841	78.6	104,511	85	18,825	90.1	203,807	92	8.2
Radial lead type aluminum electrolytic capacitors	2,404	21.4	118,475	20	2,064	9.9	64,235	32	60.0
	11,245	100	222,986	50	20,889	100	268,042	78	56.0

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The Directors consider that pricing in the aluminum electrolytic capacitor market is transparent and the average sales prices of our Group's products are similar to those of the industry. The average sales prices of our Group's chip type of aluminum electrolytic capacitors decreased by approximately 11.4% in 2016 as compared with prior year, which in the Directors' view were mainly due to rapid advancement of China's technology in manufacturing aluminum electrolytic capacitors at a lower cost and higher efficiency. Please refer to the section headed "Business — Products of our Group" in this prospectus for further details of our Group's products.

For the two years ended 31 December 2016, the number of units sold for chip type aluminum electrolytic capacitors and radial lead type electrolytic capacitor in aggregate were about 372,702,000 units and 667,479,000 units, respectively. For the four-month period ended 30 April 2016 and 30 April 2017, the number of units sold for chip type aluminum electrolytic capacitors and radial lead type electrolytic capacitor in aggregate were about 222,986,000 units and 268,042,000 units, respectively.

We sold more radial lead type products than we produced in the two years ended on 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017 because we also produced radial lead type products which did not go through the whole production process at the request of our customers. In order not to cause confusion, these products are not counted as part of the products completely produced by our Group.

The table below sets forth a geographical breakdown of our Group's revenue during the Track Record Period by distribution region:

	Year ended 31 December 2015		Year ended 31 December 2016		Four-month period ended			
	HK\$'000	%	HK\$'000	%	30 April 2016 HK\$'000	%	30 April 2017 HK\$'000	%
	(unaudited)							
Hong Kong	9,976	13.2%	24,741	26.7%	3,246	16.2%	7,533	23.2%
PRC	36,322	47.9%	50,160	54.1%	12,089	60.5%	18,907	58.1%
Malaysia ^(Note 1)	24,691	32.6%	10,407	11.2%	2,036	10.2%	4,421	13.6%
Other Asian regions ^(Note 2)	4,777	6.3%	7,466	8.0%	2,622	13.1%	1,669	5.1%
Total	<u>75,766</u>	<u>100.0%</u>	<u>92,774</u>	<u>100.0%</u>	<u>19,993</u>	<u>100.0%</u>	<u>32,530</u>	<u>100.0%</u>

Notes:

1. Our Group's sales to our Malaysian customer were conducted on "Free on Board" terms in Hong Kong and as a result, we were not responsible for customs clearance in Malaysia, and Malaysian laws and regulations would not be applicable to our Group.
2. Revenue generated from the Asian regions, other than Hong Kong, PRC and Malaysia mainly derived from sales to Japan, Singapore, South Korea, Macau and Indonesia based customers.

During the Track Record Period, the Hong Kong market contributed approximately 13.2%, 26.7%, 16.2% and 23.2% of total revenue for the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, respectively, the PRC market contributed approximately 47.9%, 54.1%, 60.5% and 58.1% of total revenue

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for the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, respectively, and the other Asian regions other than Malaysia, the PRC and Hong Kong, contributed approximately 6.3%, 8.0%, 13.1% and 5.1% of total revenue for the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, respectively. The revenue generated from the Malaysian market accounted for approximately 32.6%, 11.2%, 10.2% and 13.6% of the total revenue for the two years ended 31 December 2016, and the four-month period ended 30 April 2016 and 30 April 2017, respectively. The decrease of approximately HK\$14.3 million or 57.9% in such market for the year ended 31 December 2016 was mainly due to our Company spending more efforts to expand the PRC and Hong Kong market. The increase of approximately HK\$2.4 million, or 117.1%, in the Malaysian market from approximately HK\$2.0 million for the four-month period ended 30 April 2016 to approximately HK\$4.4 million was mainly due to more orders were received by the Malaysian customer.

During the Track Record Period, the Group has experienced an increase in demand of the Group's products which is the result of orders placed by new customers and the increased demand of the Group's product from recurring customers.

The new customers are mainly referred to the Group by existing customers, as they are satisfied with the Group's products in terms of quality and pricing.

Among the new customers, 34 and 21 are new customers for the Group's manufacturing business in 2015 and 2016, respectively. The average revenue attributable to each of these new customer for manufacturing business in 2015 and 2016 were approximately HK\$307,000 and HK\$470,000, respectively.

The Directors believe that among aluminum electrolytic capacitors manufacturers of considerable size in the PRC, most of them are not willing to accept such small orders. On the other hand, due to spare capacity of the Group for the production of chip type and radial lead type aluminum electrolytic capacitors in 2015 and 2016, the Group was willing to accept small orders to increase the utilisation rate of its production plants.

Although the revenue attributable to each new customer was small, in absolute dollar term, the revenue attributable to these new customers for manufacturing business amounted to approximately HK\$10.4 million and HK\$9.9 million in 2015 and 2016, respectively, and had significantly contributed to the revenue growth of our Group in 2015 and 2016.

The other driver behind the increase in demand of the Group's product is because the whole PRC market is growing for reasons already set out in the section headed "Industry overview" in this prospectus. The market size of chip type and radial lead type aluminum electrolytic capacitors had been growing at a CAGR of 14.06% and 13.19%, respectively, between 2012 and 2016.

When the whole market size increases, all players, including the Group, will benefit from it, as evidenced by the fact that the revenue attributable to recurring customers increased from approximately HK\$61.5 million in 2015 to approximately HK\$81.3 million in 2016.

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Cost of sales

Cost of sales primarily consisted of material costs and other direct costs. The following table sets out a breakdown of cost of sales during the Track Record Period:

	For the year ended 31 December				For the four-month period ended			
	2015		2016		30 April 2016	30 April 2017		
	<i>HK\$'000</i>	<i>% of Total Cost of Sales</i>	<i>HK\$'000</i>	<i>% of Total Cost of Sales</i>	<i>HK\$'000</i> (unaudited)	<i>% of Total Cost of Sales</i>	<i>HK\$'000</i>	<i>% of Total Cost of Sales</i>
Raw material consumed								
Aluminum foil (+)	2,788	4.6%	5,026	7.0%	910	5.5%	2,133	8.3%
Aluminum foil (–)	416	0.7%	653	0.9%	134	0.8%	262	1.0%
Aluminum case	2,884	4.8%	4,536	6.3%	793	4.8%	1,623	6.3%
Sealing rubber	2,317	3.9%	3,510	4.9%	680	4.1%	1,356	5.3%
Lead wires	1,620	2.7%	2,713	3.8%	564	3.4%	1,040	4.0%
Base plate	1,613	2.7%	2,182	3.0%	507	3.1%	1,037	4.0%
Electrolyte solution	1,392	2.3%	1,575	2.2%	306	1.9%	503	2.0%
Carrier tape	979	1.6%	1,204	1.7%	280	1.7%	570	2.2%
Electrolytic paper	535	0.9%	746	1.0%	143	0.9%	243	0.9%
Paper reel	704	1.2%	386	0.6%	63	0.4%	267	1.0%
Cover tape	476	0.8%	509	0.7%	178	1.1%	256	1.0%
Packaging materials	172	0.3%	490	0.7%	8	0.0%	238	0.9%
Sleeve	267	0.4%	216	0.3%	38	0.2%	37	0.1%
Others	61	0.1%	21	0.1%	14	0.1%	112	0.4%
Subtotal	16,224	27.0%	23,767	33.2%	4,618	28.0%	9,677	37.6%
Electronic components for trading	32,263	53.8%	31,315	43.7%	7,939	48.2%	9,966	38.8%
Other direct cost incurred for the year								
Employees' benefits expenses	6,171	10.3%	9,033	12.6%	2,758	16.8%	3,081	12.0%
Overhead	2,152	3.6%	3,695	5.2%	931	5.7%	1,509	5.9%
	8,323	13.9%	12,728	17.8%	3,689	22.5%	4,590	17.9%
Net changes in self-manufacturing inventories	3,207	5.3%	3,815	5.3%	209	1.3%	1,475	5.7%
Total Cost of Sales	60,017	100.0%	71,625	100.0%	16,455	100.0%	25,708	100.0%

Cost of sales increased by approximately 19.3%, or HK\$11.6 million, from approximately HK\$60.0 million for the year ended 31 December 2015 to approximately HK\$71.6 million for the year ended 31 December 2016 which was in line with the increase of revenue by approximately 22.4% for the same years.

Cost of sales increased by approximately 56.2%, or HK\$9.3 million, from approximately HK\$16.5 million for the period ended 30 April 2016 to approximately HK\$25.7 million for the period ended 30 April 2017 which was in line with the increase of revenue by approximately 62.7% for the same period.

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Material costs

Material costs mainly represented the materials consumed in the manufacturing process of aluminum electrolytic capacitors, including aluminum foil, electrolytic paper, electrolyte solution, sealing rubber, aluminum case, lead wires, base plate, paper reel, cover tape, packaging materials and sleeve which are consumed in the manufacturing of aluminum electrolytic capacitors.

Material costs constituted approximately 27.0%, 33.2%, 28.0% and 37.6% of the total cost of sales for the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, respectively. Material costs increased by approximately 46.5%, or HK\$7.6 million, from approximately HK\$16.2 million for the year ended 31 December 2015 to approximately HK\$23.8 million for the year ended 31 December 2016, primarily due to increased sales volume of aluminum electrolytic capacitors. For the four month period ended 30 April 2017, material costs increased by approximately 109.5%, or HK\$5.1 million, from approximately HK\$4.6 million for the four-month period ended 30 April 2016 to HK\$9.7 million, primarily due to increase in production volume.

Electronic components for trading

Electronic components for trading represented the trading of (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors and (ii) LED and LED lighting products.

Electronic components for trading constituted approximately 53.8%, 43.7%, 48.2% and 38.8% of the total cost of sales for the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, respectively. Electronic components for trading decreased by approximately 2.9% or approximately HK\$1 million, from approximately HK\$32.3 million for the year ended 31 December 2015 to approximately HK\$31.3 million for the year ended 31 December 2016, primarily due to more efforts being shifted to our Group's manufacturing business. Electronic components for trading increased by approximately 25.5%, or approximately HK\$2.0 million, from approximately HK\$7.9 million for the four-month period ended 30 April 2016 to approximately HK\$10.0 million for the four-month period ended 30 April 2017, primarily due to increased in demand from our customers of our electronic components for trading.

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Segment profit and segment gross profit margin

The following table sets out the segment profit and segment gross profit margin during the Track Record Period:

	Sales of manufactured aluminum electrolytic capacitors				Trading of electronic components			
	Year ended		Four-month period ended		Year ended		Four-month period ended	
	31 December		30 April		31 December 2016		30 April	
	2015	2016	2016	2017	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)				(unaudited)	
Segment revenue	38,451	57,199	11,245	20,889	37,315	35,575	8,748	11,641
Segment profit	10,463	16,889	2,729	5,147	5,001	4,260	809	1,675
Segment gross profit margin	27.2%	29.5%	24.3%	24.6%	13.4%	12.0%	9.2%	14.4%

For the two years ended 31 December 2016 and the four-month periods ended 30 April 2016 and 30 April 2017, segment profit generated from sales of manufactured aluminum electrolytic capacitors accounted for approximately 67.7%, 79.9%, 77.1% and 75.4% respectively, of total segment profit, while segment profit generated from trading of electronic components accounted for approximately 32.3%, 20.1%, 22.9% and 24.6% respectively, of total segment profit for the same years.

Our Group generally achieves a higher segment gross profit margin on sales of manufactured aluminum electrolytic capacitors than trading of electronic components. Segment gross profit margin for sales of manufactured aluminum electrolytic capacitors for the two years ended 31 December 2016 and the four-month periods ended 30 April 2016 and 30 April 2017 were approximately 27.2%, 29.5%, 24.3% and 24.6% respectively, while segment gross profit margin of trading of electronic components were approximately 13.4%, 12.0%, 9.2% and 14.4% respectively, for the same years and period. The segment gross profit margin of sales of manufactured aluminum electrolytic capacitors for the year ended 31 December 2016 and the four-month period ended 30 April 2017 increased primarily due to (i) increased utilisation rate of our Group's production lines and (ii) decrease in raw material cost during the Track Record Period. The segment gross profit margin of trading of electronic components for the year ended 31 December 2016 remained stable compared with that of prior year. The segment gross profit margin of trading of electronic components for the four-month period ended 30 April 2017 increased by 56.5%, from 9.2% for the four-month period ended 30 April 2016 to 14.4% for the four-month period ended 30 April 2017.

As our Group only accepts orders from trading customers when our Group is confident that the trade will generate the desired gross profit margin after making enquiries with our suppliers, the gross profit margin for our trading business remained stable during the Track Record Period. Within a financial year, the gross profit margin for our trading business for any given period may however still fluctuate because we can demand a high mark up for some products and certain products can only have a thin profit margin due to market condition.

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Sensitivity analysis

The following is a sensitivity analysis of the impacts of hypothetical fluctuations in average sales price, material costs and direct labour costs on gross profit and net profit for each year during the Track Record Period. The sensitivity analysis is performed for reasonably possible changes in assumptions regarding the average sales price, material costs and direct labour costs of each year with all other assumptions held constant.

	Hypothetical fluctuations (Note 1)	Year ended 31 December 2015		Year ended 31 December 2016		For the four-month period ended 30 April 2017	
		Increase/ (Decrease) in profit for the year (Note 2)		Increase/ (Decrease) in profit for the year (Note 1)		Increase/ (Decrease) in profit for the period (Note 1)	
	Increase/ (Decrease) in percentage	Increase/ (Decrease) in gross profit HK\$'000	Increase/ (Decrease) in gross profit HK\$'000	Increase/ (Decrease) in gross profit HK\$'000	Increase/ (Decrease) in gross profit HK\$'000	Increase/ (Decrease) in gross profit HK\$'000	Increase/ (Decrease) in gross profit HK\$'000
Average sales price	12%	4,614	3,853	6,864	5,731	2,507	2,093
Material costs	5%	(811)	(677)	(1,188)	(992)	(484)	(404)
Direct labour costs	5%	(309)	(258)	(452)	(377)	(154)	(129)

Notes:

1. The increase or decrease in percentage of hypothetical fluctuations was based on the historical fluctuation of the average sales price, material costs and direct labour costs during the Track Record Period.
2. The Hong Kong profits tax rate of 16.5% is applied for the illustration of increase or decrease in profit for the year/period.

Breakeven analysis

For the year ended 31 December 2015, it is estimated that (i) with a decrease in revenue of approximately 8.8% and all other variables held constant, our Group would achieve breakeven (meaning net profit being HK\$0); and (ii) with an increase in cost of sales rendered of approximately 11.1% and all other variables held constant, our Group would achieve breakeven.

For the year ended 31 December 2016, it is estimated that (i) with a decrease in revenue of approximately 9.8% and all other variables held constant, our Group would achieve breakeven; and (ii) with an increase in cost of sales rendered of approximately 12.7% and all other variables held constant, our Group would achieve breakeven.

For the four-month period ended 30 April 2017, it is estimated that (i) with an increase in revenue of approximately 11.4% and all other variables held constant, our Group would achieve breakeven; and (ii) with a decrease in cost of sales rendered of approximately 14.4% and all other variables held constant, our Group would achieve breakeven.

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Other income

Other income primarily represented sales of scrap materials, government subsidy, interest income derived from bank deposits and sundry income from sponsorships from our suppliers. The following table sets out the breakdown of our Group's other income during the Track Record Period indicated:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Scrap sales	215	157	—	5
Government subsidy	37	—	—	—
Bank interest income	6	9	1	4
Sundry income	3	34	21	2
	<u>261</u>	<u>200</u>	<u>22</u>	<u>11</u>

Other gains and losses

The following table sets out the breakdown of our Group's other gains and losses for the Track Record Period indicated:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Net foreign exchange gain (loss)	162	59	17	(44)
Impairment loss recognised on trade receivables	(285)	—	—	—
Gain (loss) on disposal of property, plant and equipment	99	(9)	—	—
Loss on written off of property, plant and equipment	—	—	—	(7)
Others	(24)	(4)	(18)	—
	<u>(48)</u>	<u>46</u>	<u>(1)</u>	<u>(51)</u>

Selling and distribution costs

Selling and distribution costs mainly comprise freight and transportation expenses, sales commissions, salaries and employee benefits of sales personnel and other miscellaneous expenses. Freight and transportation expenses related to expenses incurred in the delivery of products to customers. Sales commissions related to payments to our Group's own staff and independent contractors who were engaged by our Group to assist

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our Group in maintaining old and obtaining new customers. Salaries and employee benefits mainly represented the wages and welfare of the sales personnel and the travelling expenses incurred.

The following table sets out the breakdown of our Group's distribution and selling expenses during the Track Record Period indicated:

	For the year ended 31 December				Four-month period ended 30 April			
	2015		2016		2016		2017	
	HK\$'000	In %	HK\$'000	In %	HK\$'000	In %	HK\$'000	In %
	(unaudited)							
Freight and transportation	293	20.5%	573	24.8%	138	21.1%	233	32.6%
Sales commissions	593	41.4%	998	43.2%	366	55.9%	216	30.3%
Salaries and employee benefits	451	31.5%	556	24.1%	132	20.1%	129	18.1%
Others	95	6.6%	181	7.9%	19	2.9%	136	19.0%
	<u>1,432</u>	<u>100%</u>	<u>2,308</u>	<u>100%</u>	<u>655</u>	<u>100%</u>	<u>714</u>	<u>100%</u>

Administrative expenses

Administrative expenses mainly comprise salaries and staff benefits for the Directors and administrative staff, depreciation expenses, local and overseas travelling expenses, rent, rates and building management fees, professional fees and other expenses such as utilities. For the two years ended 31 December 2016 and the four-month period ended 30 April 2016 and 30 April 2017, the administrative expenses represented approximately 6.6%, 5.6%, 7.4% and 6.3% of total revenue, respectively.

The following table sets out the breakdown of our Group's administrative expenses for the Track Record Period indicated:

	For the year ended 31 December				Four-month period ended 30 April			
	2015		2016		2016		2017	
	HK\$'000	In %	HK\$'000	In %	HK\$'000	In %	HK\$'000	In %
	(unaudited)							
Salaries and employee benefits	1,966	39.2%	2,464	47.5%	467	31.7%	1,047	51.0%
Depreciation	1,581	31.5%	1,497	28.8%	601	40.8%	318	15.5%
Travelling expenses	129	2.6%	163	3.1%	3	0.2%	59	2.9%
Rental expenses	398	7.9%	156	3.0%	88	6.0%	108	5.3%
Water and electricity	191	3.8%	236	4.5%	56	3.8%	82	4.0%
Professional fees	239	4.8%	27	0.5%	6	0.4%	28	1.4%
Other expenses	513	10.2%	656	12.6%	252	17.1%	409	19.9%
	<u>5,017</u>	<u>100%</u>	<u>5,199</u>	<u>100%</u>	<u>1,473</u>	<u>100%</u>	<u>2,051</u>	<u>100%</u>

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Finance costs

The following table sets out the breakdown of our Group's finance costs for the Track Record Period indicated:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Interest on bank borrowings	410	217	80	56
Interest on bank overdraft	<u>65</u>	<u>67</u>	<u>10</u>	<u>36</u>
	<u>475</u>	<u>284</u>	<u>90</u>	<u>92</u>

Income tax expense

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Current tax:				
Hong Kong	176	161	—	44
PRC EIT	<u>2,153</u>	<u>2,121</u>	<u>319</u>	<u>519</u>
	<u>2,329</u>	<u>2,282</u>	<u>319</u>	<u>563</u>
Under (over) provision in prior year				
PRC EIT	—	14	14	(332)
Deferred tax charge (credit)	<u>59</u>	<u>11</u>	<u>48</u>	<u>(20)</u>
	<u>2,388</u>	<u>2,307</u>	<u>381</u>	<u>211</u>

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The income tax expense for the Track Record Period can be reconciled to the profit before income tax in the consolidated statements of profit or loss and other comprehensive income as follows:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Profit (loss) before taxation	<u>9,038</u>	<u>11,433</u>	<u>1,341</u>	<u>(3,489)</u>
Tax at the domestic income tax rate of 25%	2,259	2,858	335	(872)
Tax effect of expenses not deductible for tax purposes	393	999	280	1,923
Tax effect of different tax rate of subsidiary operating in other jurisdiction	(131)	(89)	(25)	(91)
Tax concession	(20)	—	—	—
Income tax at preferential tax rate	—	(1,419)	(212)	(399)
Under (over) provision in prior year	—	14	14	(332)
Utilisation of tax loss previously not recognised	<u>(113)</u>	<u>(56)</u>	<u>(11)</u>	<u>(18)</u>
Income tax expense	<u>2,388</u>	<u>2,307</u>	<u>381</u>	<u>211</u>

Income tax expense represented current and deferred tax charges. Under the rules and regulations of the Cayman Islands and BVI, our Group are not subject to any income tax in the Cayman Islands and BVI. Our Group carries on business in the PRC and Hong Kong thus is subject to PRC Enterprise Income Tax and Hong Kong Profits Tax in respect of profits arising in or derived from the PRC and Hong Kong from such business. Hong Kong Profits Tax is calculated at tax rate of 16.5% on the estimated assessable profits arising in or derived from Hong Kong. Subsidiaries in the PRC are subject to PRC Enterprise Income Tax at the rate of 25%. Pursuant to the relevant laws and regulations in the PRC, Dongguan Shouke is granted tax incentives as a High and New Technology Enterprise and is entitled to a preferential tax rate of 15% for 3 years from 1 January 2016 to 31 December 2018.

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The effective tax rate of our Group for the year ended 31 December 2016 was approximately 20.2% which was lower than that of 2015 of approximately 26.4%. The effective tax rate (excluding the impact of listing expense) of our Group for the four-month period ended 30 April 2017 was approximately 5.4% which was lower than the effective tax rate for the four-month period ended 30 April 2016 of 28.4%. For the year ended 31 December 2016, our Group's effective tax rate was lower than the tax rates applicable to the respective jurisdictions primarily due to the preferential tax rate enjoyed by Dongguan Shouke as a High and New Technology Enterprise for the year ended 31 December 2016. For the four-month period ended 30 April 2017, our Group's effective tax rate was lower than the tax rates applicable to the respective jurisdictions primarily due to over provision in prior year in the sum of approximately HK\$0.3 million.

Deferred tax is recognised on temporary difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. For further details, please refer to notes 10 and 23 of the section headed "Accountants' Report" in Appendix I to this prospectus.

The Directors confirm that our Group had paid all relevant taxes and was not subject to any disputes or tax issues during the Track Record Period.

COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2016 compared to year ended 31 December 2015

Revenue

Revenue increased by approximately 22.4%, or HK\$17.0 million, from approximately HK\$75.8 million for the year ended 31 December 2015 to approximately HK\$92.8 million for the year ended 31 December 2016. The increase in total revenue was mainly due to increased demand of our Group's chip type and radial lead type aluminum electrolytic capacitor products, in which the segment revenue for the sales of manufactured aluminum electrolytic capacitors recorded an increase of approximately HK\$18.7 million or 48.8%, from approximately HK\$38.5 million for the year ended 31 December 2015 to approximately HK\$57.2 million for the year ended 31 December 2016.

Revenue by geographic location

The PRC and Hong Kong markets collectively accounted for approximately 61.1% and 80.8% respectively, of total revenue for the two years ended 31 December 2016. Revenue derived from sales in the PRC market increased by approximately 38.1%, or HK\$13.9 million, from approximately HK\$36.3 million for the year ended 31 December 2015 to approximately HK\$50.2 million for the year ended 31 December 2016. Revenue derived from sales in the Hong Kong market also experienced an increase by approximately 148.0%, or HK\$14.7 million, from approximately HK\$10.0 million for the year ended 31 December 2015 to approximately HK\$24.7 million for the year ended 31 December 2016. The increases in these markets were primarily due to the continuous efforts of our Group to expand business in these regions. The revenue generated from Malaysia and other Asian regions, other than the PRC and Hong Kong, contributed approximately 38.9% and 19.2%

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of total revenue for the two years ended 31 December 2016, which represented a decrease of approximately HK\$11.6 million or 39.3% due to more resources and effort being shift to the PRC and Hong Kong markets.

Cost of sales

Cost of sales increased by approximately 19.3%, or HK\$11.6 million, from approximately HK\$60.0 million for the year ended 31 December 2015 to approximately HK\$71.6 million for the year ended 31 December 2016 which was in line with the increase of revenue by approximately 22.4% for the same year.

Material costs

Material costs increased by approximately 46.5%, or HK\$7.6 million, from approximately HK\$16.2 million for the year ended 31 December 2015 to approximately HK\$23.8 million for the year ended 31 December 2016, primarily due to increased sales volume of both sales of aluminum electrolytic capacitors and trading of electronic components. Aluminum foil and aluminum case cost attributable to the material costs increased by approximately 67.8% or HK\$4.1 million, from approximately HK\$6.1 million for the year ended 31 December 2015 to approximately HK\$10.2 million for the year ended 31 December 2016, which was in line with the increased sales volume of aluminum electrolytic capacitors in the year of 2016.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by approximately 34.3%, or HK\$5.4 million, from approximately HK\$15.7 million for the year ended 31 December 2015 to approximately HK\$21.1 million for the year ended 31 December 2016, which was primarily in line with the increased revenue. Gross profit margin maintained steady at approximately 20.8% and 22.8% respectively, for the two years ended 31 December 2016. Segment gross profit margin for sales of manufactured aluminum electrolytic capacitors maintained at approximately 27.2% for the year ended 31 December 2015, and approximately 29.5% for the year ended 31 December 2016, primarily due to (i) increased utilisation rate of our Group's production lines and (ii) decreased in raw material cost. Segment gross profit margin for trading of electronic components remained stable from approximately 13.4% for the year ended 31 December 2015 to approximately 12.0% for the year ended 31 December 2016.

Selling and distribution costs

Selling and distribution costs increased by approximately 61.2%, or HK\$0.9 million, from approximately HK\$1.4 million for the year ended 31 December 2015 to approximately HK\$2.3 million for the year ended 31 December 2016, primarily reflecting an increase in the sales commissions and freight and transportation expenses as a result of our increase in business.

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Administrative expenses

Administrative expenses increased by approximately 3.6%, or HK\$0.2 million, from approximately HK\$5.0 million for the year ended 31 December 2015 to approximately HK\$5.2 million for the year ended 31 December 2016, primarily reflecting (i) increased in staff costs of approximately HK\$0.5 million or approximately 25.3% as a result of increased headcount of 8 employees from 132 employees as at 31 December 2015 to 140 employees as at 31 December 2016 mainly for production line workers which was attributable to the organic growth of our Group and was in line with the revenue growth of our Group of approximately 22.4% year-on-year for the year ended 31 December 2016; (ii) decrease in rental expenses of approximately HK\$0.2 million mainly for expiry of a lease for a Hong Kong property which was not renewed; and (iii) decreased in depreciation expenses of approximately HK\$0.1 million, during the year.

Finance costs

Finance costs decreased by approximately HK\$0.2 million mainly due to the repayment of bank borrowings during 2016 and a new bank loan was raised close to the end of 2016.

Other gains and losses

The other gains and losses for the year ended 31 December 2015, mainly contributed by net foreign gain for approximately HK\$0.2 million and gain on disposal of property, plant and equipment for approximately HK\$0.1 million and offset by impairment loss recognised on trade receivables for approximately HK\$0.3 million. The other gains or losses for the year ended 31 December 2016, mainly contributed by net foreign gain for approximately HK\$0.1 million and offset by loss on disposal of property, plant and equipment.

Listing expenses

Our listing expenses increased by approximately HK\$2.2 million from nil for the year ended 31 December 2015 to approximately HK\$2.2 million for the year ended 31 December 2016 as we only commenced preparation work for the Listing during the year ended 31 December 2016.

Other income

Other income remains stable for the two years ended 31 December 2016 and 2017 and mainly represents scrap sales and government subsidy.

Profit before taxation

Our Group's profit before taxation increased from approximately HK\$9.0 million for the year ended 31 December 2015 to HK\$11.4 million for the year ended 31 December 2016, representing an increase of approximately HK\$2.4 million or 26.5%. The increase was mainly due to the increase in revenue.

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Income tax expense

Income tax expense decreased by approximately 3.4%, or HK\$0.1 million, from approximately HK\$2.4 million for the year ended 31 December 2015 to approximately HK\$2.3 million for the year ended 31 December 2016. The effective tax rate of our Group for the year ended 31 December 2016 was approximately 20.2% which was lower than that of 2015 of approximately 26.4%, primarily due to the preferential tax rate enjoyed by Dongguan Shouke as a High and New Technology Enterprise.

Profit for the year and net profit margin

Our Group's profit for the year increased from approximately HK\$6.7 million for the year ended 31 December 2015 to HK\$9.1 million for the year ended 31 December 2016, representing an increase of approximately HK\$2.4 million or 37.2%. The increase was mainly due to increased revenue.

Net profit margin for the year is calculated by dividing the profit for the year by revenue. Net profit margins were approximately 8.8% and 9.8%, respectively, for the two years ended 31 December 2016. The increase in net profit margin was primarily due to a 34.3% increase in gross profit, a reduction in finance cost because of repayment of bank borrowings during 2016, and a decrease of income tax expenses as a result of preferential tax rate enjoyed by Dongguan Shouke in 2016.

Four-month period ended 30 April 2017 compared to the four-month period ended 30 April 2016

Revenue

Revenue increased by approximately 62.7%, or HK\$12.5 million from approximately HK\$20 million for the four-month period ended 30 April 2016 to HK\$32.5 million for the four-month period ended 30 April 2017. The increase in total revenue was mainly due to increased demand for our Group's chip type and radial lead type aluminum electrolytic capacitor products, in which the segment revenue for the sales of manufactured aluminum electrolytic capacitors recorded an increase of approximately HK\$9.7 million or 85.8%, from approximately HK\$11.2 million for the four-month period ended 30 April 2016 to approximately HK\$20.9 million for the four-month period ended 30 April 2017.

Revenue by geographic location

The PRC and Hong Kong markets collectively accounted for approximately 76.7% and 81.3%, respectively, of the total revenue for the four-month periods ended 30 April 2016 and 30 April 2017. Revenue derived from the sales in the Hong Kong market increased by approximately 132.1%, or HK\$4.3 million, from approximately HK\$3.2 million for the four-month period ended 30 April 2016 to approximately HK\$7.5 million for the four-month period ended 30 April 2017. Revenue derived from the sales in the PRC market also experienced an increase by approximately 56.4%, or HK\$6.8 million, from approximately HK\$12.1 million for the four-month period ended 30 April 2016 to approximately HK\$18.9 million for the four-month period ended 30 April 2017. The increase in both the total

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revenue from the Hong Kong market and the PRC market for the four-month period ended 30 April 2017 compared to the four-month period ended 30 April 2016 was mainly due to our Group spending more efforts to expand the PRC and Hong Kong markets. The increase of approximately HK\$2.4 million, or 117.1%, in the Malaysian market from approximately HK\$2.0 million for the four-month period ended 30 April 2016 to approximately HK\$4.4 million was mainly due to more orders were received by the Malaysian customer.

Cost of sales

Cost of sales increased by approximately 56.2%, or HK\$9.3 million, from approximately HK\$16.5 million for the four-month period ended 30 April 2016 to approximately HK\$25.7 million for the four-month period ended 30 April 2017 which was in line with the increase in revenue by approximately 62.7% for the same period.

Material costs

Material costs increased by approximately 109.5%, or HK\$5.1 million, from approximately HK\$4.6 million for the four-month period ended 30 April 2016 to approximately HK\$9.7 million for the four-month period ended 30 April 2017, primarily due to an increase in the sales of our self-manufactured aluminum electrolytic capacitors. Aluminum foil and aluminum case's attribution to the material costs increased by approximately 118.7% or HK\$2.2 million, from approximately HK\$1.8 million for the four-month period ended 30 April 2016 to approximately HK\$4.0 million for the four-month period ended 30 April 2017, which was in line with the increased sales volume of aluminum electrolytic capacitors for the four-month period ended 30 April 2017.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by approximately 92.8% or HK\$3.3 million, from approximately HK\$3.5 million for the four-month period ended 30 April 2016 to HK\$6.8 million for the four-month period ended 30 April 2017. Gross profit margin remained steady at approximately 17.7% and 21.0% respectively, for the four-month period ended 30 April 2016 and the four-month period ended 30 April 2017. Segment gross profit margin for the sales of manufactured aluminum electrolytic capacitors maintained at approximately 24.3% and 24.6% for the four-month periods ended 30 April 2016 and 30 April 2017, respectively. There has been an increase in the segment gross profit margin for the trading of electronic components, from 9.2% for the four-month period ended 30 April 2016 to 14.4% for the four-month period ended 30 April 2017.

Selling and distribution costs

Selling and distribution costs increased by approximately 9.0%, or HK\$0.1 million, from approximately HK\$0.6 million for the four-month period ended 30 April 2016 to approximately HK\$0.7 million for the period ended 30 April 2017, primarily reflecting a growth in the freight and transportation expenses as a result of our growth in business.

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Administrative expenses

Administrative expenses increased by approximately 39.2%, or HK\$0.6 million, from approximately HK\$1.5 million for the four-month period ended 30 April 2016 to HK\$2.1 million for the four-month period ended 30 April 2017, primarily due to the increase in staff costs of approximately HK\$0.5 million, or 124.2%, as a result of the recruitment of additional staff by our Group.

Finance costs

Finance costs for the four-month periods ended 30 April 2016 and 30 April 2017 remained stable at approximately HK\$0.1 million.

Other gains and losses

The other gains and losses for the four-month period ended 30 April 2016 were contributed by a net foreign exchange gain of approximately HK\$17,000, partially offset by our sponsorship expenses of approximately HK\$18,000. The other gains or losses for the four-month period ended 30 April 2017 were mainly contributed by a net foreign exchange loss of HK\$44,000.

Listing expenses

Our listing expenses increased by approximately HK\$7.4 million from nil for the four-month period ended 30 April 2016 to approximately HK\$7.4 million for the four-month period ended 30 April 2017 as our professional parties had performed substantial work for the Listing, including the submission of the application proof of this prospectus, during the four-month period ended 30 April 2017.

Other income

Other income decreased by HK\$11,000, or 50%, from HK\$22,000 for the four-month period ended 30 April 2016 to HK\$11,000 for the four-month period ended 30 April 2017, mainly as a result of the decrease of sundry income.

Profit before taxation

Profit before taxation decreased from approximately HK\$1.3 million for the four-month period ended 30 April 2016 to a loss before taxation in the sum of HK\$3.5 million for the four-month period ended 30 April 2017, representing a decrease of approximately 4.8 million, or 360.2%. The decrease was mainly due to the listing expenses in the sum of approximately HK\$7.4 million which was incurred in the four-month period ended 30 April 2017. If such non-recurring expenses are excluded, we would have recorded a profit before taxation of HK\$3.9 million for the four-month period ended 30 April 2017.

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Income tax expenses

Income tax expenses decreased by approximately 44.6%, or HK\$0.2 million, from approximately HK\$0.4 million for the four-month period ended 30 April 2016 to approximately HK\$0.2 million for the four-month period ended 30 April 2017. The effective tax rate (excluding the impact of the listing expenses) of our Group for the four-month period ended 30 April 2017 was approximately 5.4% which was lower than that of the four-month period ended 30 April 2016 of approximately 28.4%, primarily due to an over provision in the prior year in the sum of approximately HK\$0.3 million.

Profit (loss) for the four-month periods and net profit (loss) margin

Our Group's profit decreased by approximately 485.4%, or HK\$4.7 million, from approximately HK\$1.0 million for the four-month period ended 30 April 2016 to a loss for the four-month period ended 30 April 2017 of approximately HK\$3.7 million, primarily due to the listing expenses of approximately HK\$7.4 million incurred in the four-month period ended 30 April 2017.

Net profit (loss) margins were approximately 4.8% and (11.4%), respectively, for the four-month periods ended 30 April 2016 and 30 April 2017. The decrease in net profit margin was primarily due to the listing expenses incurred for the four-month period ended 30 April 2017.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our Group's principal liquidity and capital requirements primarily relate to our Group's operating costs and capital expenditures. Historically, our Group has met its working capital and other liquidity requirements principally from cash generated from our Group's operations, bank borrowings and advances from a shareholder. Going forward, our Group expects to fund its working capital and other liquidity requirements with a combination of various sources, including but not limited to cash generated from our Group's operations, banking facilities, the net proceeds from the Listing as well as other external debt financing when the needs come.

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Cash flows

The following table set forth selected cash flows data from our Group's consolidated statements of cash flows for the Track Record Period indicated:

	Year ended 31 December		Four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Net cash from operating activities	602	9,293	1,590	2,494
Net cash used in investing activities	(3,767)	(2,126)	(152)	(6)
Net cash from/(used in) financing activities	3,680	(2,629)	1,850	(586)
Net increase in cash and cash equivalents	515	4,538	3,288	1,902
Cash and cash equivalents at the beginning of year/period	1,804	2,178	2,178	5,969
Effect of foreign exchange rate change	(141)	(747)	37	290
Cash and cash equivalent at the end of year/period	2,178	5,969	5,503	8,161

Operating activities

Our Group generates its cash inflow from operating activities principally from the receipt of payments for the sale of its products. Our Group's cash outflow for operating activities is principally for the purchase of materials, and all other operating expenses such as payment of listing expenses, employee benefits, insurance expenses, repairs and maintenance costs, and rental expenses.

For the year ended 31 December 2015, our Group's operating cash flows before movements in working capital was approximately HK\$12.7 million, consisting of profit before income tax expense of approximately HK\$9.0 million, adjusted by (i) depreciation of property, plant and equipment of approximately HK\$2.1 million; (ii) write-down of inventories of approximately HK\$0.9 million; (iii) impairment loss on trade receivables of approximately HK\$0.3 million; and (iv) interest expenses of approximately HK\$0.5 million, netting off mainly by gain on disposal of property, plant and equipment of approximately HK\$0.1 million. The working capital changes of approximately HK\$12.0 million was mainly due to the increase in inventories of approximately HK\$1.3 million and increase in trade and bills receivables of approximately HK\$21.2 million offset with decrease in deposits, prepayments and other receivables of approximately HK\$0.4 million and increase in trade payables of approximately HK\$9.1 million and increase in other payables and accruals of approximately HK\$1.0 million. Based on the foregoing, our Group's net cash generated from operating activities after the income tax paid amounted to approximately HK\$0.6 million.

For the year ended 31 December 2016, our Group's operating cash flows before movements in working capital was approximately HK\$14.4 million, consisting of profit before income tax expense of approximately HK\$11.4 million, adjusted by non-cash items mainly of depreciation of property, plant and equipment of approximately HK\$2.4 million. The working capital changes of approximately HK\$3.8 million were mainly the results of

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the increase in inventories of approximately HK\$0.8 million and the increase in trade and bills receivables of approximately HK\$4.4 million and deposits, prepayment and other receivables, of approximately HK\$2.1 million and the increase in trade payables of approximately HK\$1.4 million and other payables and accruals approximately HK\$2.0 million. Therefore, our Group's net cash generated from operating activities after the income tax paid amounted to approximately HK\$9.3 million.

For the four-month period ended 30 April 2016, our Group's operating cash flows before movements in working capital was approximately HK\$2.2 million, consisting of profit before income tax expense of approximately HK\$1.3 million, adjusted by non-cash items mainly of depreciation of property, plant and equipment of approximately HK\$0.8 million. The working capital changes of approximately HK\$0.6 million were mainly the results of the increase in inventories of approximately HK\$4.9 million and the increase in deposits, prepayment and other receivables of approximately HK\$0.7 million and increase in trade and bills payables of approximately HK\$7.0 million, offset by the decrease in trade and bills receivables of approximately HK\$2.5 million and decrease in other payables and accruals of approximately HK\$4.4 million. Therefore, our Group's net cash generated from operating activities after the income tax paid amounted to approximately HK\$1.6 million.

For the four-month period ended 30 April 2017, our Group's operating cash flows before movements in working capital was cash outflow of approximately HK\$2.6 million, consisting of loss before income tax expense of approximately HK\$3.5 million, adjusted by non-cash items mainly of depreciation of property, plant and equipment of approximately HK\$0.8 million. The working capital changes of approximately HK\$7.4 million were mainly the result of decrease in trade and bills receivables of approximately HK\$7.2 million, offset by increase in trade and bills payables of approximately HK\$0.7 million, increase in deposits, prepayments and other receivables of approximately HK\$0.5 million, increase in inventories of approximately HK\$0.3 million, and increase in other payables and accruals of approximately HK\$0.3 million. Therefore, our Group's net cash generated from operating activities after the income tax paid amounted to approximately HK\$2.5 million.

Investing activities

During the Track Record Period, our Group's cash outflow from investing activities primarily consisted of the purchases of property, plant and equipment.

For the year ended 31 December 2015, our Group recorded net cash used in investing activities of approximately HK\$3.8 million primarily as a result of the purchases of equipment and machinery of approximately HK\$1.2 million and the placement of restricted bank deposit of approximately HK\$2.7 million.

For the year ended 31 December 2016, our Group recorded net cash used in investing activities of approximately HK\$2.1 million primarily as a result of the purchases of equipment and machinery of approximately HK\$5.0 million, which was mainly due to the expansion of manufacturing capacity and offset by the withdrawal of restricted bank deposit of approximately HK\$2.7 million.

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For the four-month period ended 30 April 2016, our Group recorded net cash used in investing activities of approximately HK\$0.2 million primarily as a result of the purchases of equipment and machinery of approximately HK\$2.9 million, which was mainly due to the expansion of manufacturing capacity and offset by the withdrawal of restricted bank deposit of approximately HK\$2.7 million.

For the four-month period ended 30 April 2017, our Group recorded net cash used in investing activities of approximately HK\$6,000 primarily as a result of the purchases of equipment of approximately HK\$10,000.

Financing activities

During the Track Record Period, our Group's cash outflow for financing activities consisted primarily of repayment of bank borrowings, repayments of amounts due to a shareholder and interest payment on bank borrowings and our Group's cash inflow from financing activities consisted primarily of increase in bank borrowings, advances from a shareholder and proceed from issue of shares in a subsidiary company of our Group.

For the year ended 31 December 2015, our Group recorded net cash generated from financing activities of approximately HK\$3.7 million primarily as a result of (i) repayment to a shareholder of approximately HK\$10.3 million, (ii) repayment of bank borrowings of approximately HK\$8.7 million, and offset by (i) the advance from a shareholder of approximately HK\$3.2 million and (ii) proceed from issue of shares in a subsidiary of our Group of approximately HK\$20.0 million.

For the year ended 31 December 2016, our Group recorded net cash used in financing activities of approximately HK\$2.6 million primarily as a result of (i) increase in new bank borrowings raised in the sum of approximately HK\$2.4 million, and (ii) advance from a shareholder in the sum of HK\$5.4 million and offset by repayment to a shareholder of approximately HK\$8.0 million and repayment of bank borrowing of approximately HK\$2.2 million.

For the four-month period ended 30 April 2016, our Group recorded net cash generated from financing activities of approximately HK\$1.9 million primarily as a result of (i) bank borrowings raised of approximately HK\$2.4 million, and (ii) advance from shareholder in the sum of HK\$0.9 million, partially offset by repayment to a shareholder of approximately HK\$0.6 million, and repayment of bank borrowings of approximately HK\$0.8 million.

For the four-month period ended April 30 April 2017, our Group recorded net cash used in financing activities of approximately HK\$0.6 million as a result of repayment of bank borrowings of approximately HK\$0.5 million and payment of interest of approximately HK\$0.1 million.

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Working capital

During the Track Record Period, our Group met its working capital and other liquidity requirements principally from cash from operations, bank borrowings and funds from shareholder and the latest details are as below:

- our Group's cash and cash equivalents on hand of approximately HK\$8.2 million as at 30 April 2017;
- As at 30 September 2017, our Group had banking facilities amounting in aggregate to approximately HK\$8.5 million, of which approximately HK\$3.2 million was utilised and approximately HK\$5.3 million was unutilised. Such bank facilities are secured by personal guarantee provided by Mr. Boon, which will be replaced by corporate guarantee of our Group upon Listing; and
- the estimated net proceeds from the Share Offer of approximately HK\$29.5 million to be received by our Group. Our Group currently plans to use approximately HK\$13.1 million, HK\$13.8 million and HK\$2.6 million of the net proceeds from the Share Offer during each of the years ending 31 December 2017, 2018 and 2019, respectively, after Listing.

The Directors are of the opinion that, taking into consideration our Group's internal resources, available banking facilities and the estimated net proceeds from the Share Offer to be received by our Group, our Group has sufficient working capital for its present requirements, for at least the next 12 months from the date of this prospectus.

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NET CURRENT ASSETS

The following table sets out our Group's current assets and current liabilities as at the dates indicated:

	As at 31 December		As at	As at
	2015	2016	30 April	30 September
	HK\$'000	HK\$'000	2017	2017
			HK\$'000	HK\$'000
				(unaudited)
Current assets				
Inventories	7,818	7,844	8,214	10,545
Trade and bills receivables	33,807	36,592	29,674	32,609
Deposits, prepayments and other receivables	243	2,266	2,753	2,422
Tax recoverable	—	—	30	—
Restricted bank deposit	2,700	—	—	—
Bank balances and cash	3,791	7,927	10,101	8,753
	<u>48,359</u>	<u>54,629</u>	<u>50,772</u>	<u>54,329</u>
Current liabilities				
Trade and bills payables	16,868	17,579	18,431	26,466
Other payables and accruals	10,005	11,506	11,839	13,617
Amount due to a shareholder	9,326	6,584	—	—
Tax payable	2,086	2,901	940	1,309
Bank borrowings	4,014	4,298	3,804	3,175
Bank overdraft	1,613	1,958	1,940	61
	<u>43,912</u>	<u>44,826</u>	<u>36,954</u>	<u>44,628</u>
Net current assets	<u>4,447</u>	<u>9,803</u>	<u>13,818</u>	<u>9,701</u>

Our net current assets increased from approximately HK\$4.4 million as at 31 December 2015 to approximately HK\$9.8 million as at 31 December 2016. Such increase was mainly due to (i) the increase in trade and bills receivables, deposits, prepayments and other receivables by approximately HK\$4.8 million; (ii) the increase in bank balances and cash by approximately HK\$4.1 million due to the increase in operating cash flow; as partially offset by (iii) an increase in trade and other payables of approximately HK\$2.2 million; and (iv) increase in tax payables of approximately HK\$0.8 million. Please refer to the paragraph headed “Description and analysis of principal items in the consolidated statements of financial position” below for details on the fluctuations in trade, bills and other receivables and trade and other payables.

Our net current assets increased from approximately HK\$9.8 million as at 31 December 2016 to approximately HK\$13.8 million as at 30 April 2017. Such increase was mainly due to (i) full settlement of the amount due to a shareholder of approximately

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HK\$6.6 million (ii) decrease in the amount of tax payable of approximately HK\$2.0 million, (iii) increase in bank balances and cash of approximately HK\$2.2 million, partially offset by a decrease in trade and bills receivables of approximately HK\$6.9 million.

Our Group's net current assets decreased by approximately HK\$4.1 million, or 29.8%, from approximately HK\$13.8 million as at 30 April 2017 to approximately HK\$9.7 million as at 30 September 2017. This was mainly due to (i) increase in trade and bills payables by approximately HK\$8.0 million, (ii) increase in other payables and accruals by approximately HK\$1.8 million, (iii) decrease in bank balances and cash by approximately HK\$1.3 million and partially offset by (i) increase in inventories by approximately HK\$2.3 million, (ii) increase in trade and bills receivables by approximately HK\$2.9 million, and (iii) decrease in bank overdraft by approximately HK\$1.9 million.

DESCRIPTION AND ANALYSIS OF PRINCIPAL ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

The following table sets out our Group's inventories balance as at the dates indicated below:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Raw materials and consumables	2,231	3,623	3,636
Work in progress	798	2,092	1,663
Finished goods	<u>4,789</u>	<u>2,129</u>	<u>2,915</u>
	<u>7,818</u>	<u>7,844</u>	<u>8,214</u>

Our Group's inventories consisted of raw materials, work-in-progress and finished goods. Our Group adopted weighted average method in determining the cost of the inventory. Raw materials mainly include paper reel, cover tape, packaging materials and sleeve, aluminum foil, electrolytic paper, electrolyte solution, sealing rubber, aluminum case, lead wires, base plate, which are used in the manufacturing process. Our Group's finished goods represented the aluminum electrolytic capacitors which are manufactured in a variety of types. Our Group generally maintains inventory levels of raw materials based on the rolling purchase forecasts prepared by our Group. Our Group conducts inventory counts regularly for inventory management to ensure the accuracy and completeness of stock-in and stock-out record. Please refer to the section headed "Business — Inventory management" in this prospectus for details of inventory management policies. For the two years ended 31 December 2016 and four-month period ended 30 April 2016 and 30 April 2017, our Group has write-down of inventories of approximately HK\$0.9 million, HK\$0.3 million, nil and nil respectively.

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The following table sets out our Group's average inventory turnover days for the Track Record Period:

	Year ended 31 December		For the four-month period ended
	2015	2016	30 April 2017
Average inventory turnover days (<i>Note 1</i>)	37.8	30.8	29.6
Average finished goods turnover days (<i>Note 2</i>)	17.5	13.6	9.3

Notes:

- For each of the two years ended 31 December 2016, average inventory turnover days are calculated by dividing average inventory (net of write-down of inventories) by sales for the year, multiplying by the number of days of the year (i.e. 365 days).

For the four-month period ended 30 April 2017, average inventory turnover days are calculated by dividing average inventory (net of write-down of inventories) by sales for the four-month period ended 30 April 2017, multiplied by the number of days of the four-month period ended 30 April 2017 (i.e. 120 days).

- For each of the two years ended 31 December 2016, average finished goods turnover days are calculated by dividing average finished goods (net of write-down of inventories) by sales of finished goods for the year multiplying the number of days of the year (i.e. 365 days).

For the four-month period ended 30 April 2017, average finished goods turnover days are calculated by dividing average finished goods (net of write-down of inventories) by sales of finished goods for the four-month period ended 30 April 2017 multiplying the number of days of the four-month period ended 30 April 2017 (i.e. 120 days).

Average inventory turnover days were approximately 37.8 days, 30.8 days, and 29.6 days respectively, for the two years ended 31 December 2016 and the four-month period ended 30 April 2017. The slight decrease in average inventory turnover days for 2016 was primarily due to increase in sales, while average finished goods turnover days decreased from approximately 17.5 days for 2015 to approximately 13.6 days for 2016 mainly due to increase in sales.

The average inventory turnover days remained approximately the same for the year ended 31 December and the four-month period ended 30 April 2017, while average finished goods turnover days decreased from approximately from 13.6 days for the year ended 31 December 2016 to 9.3 days for the four-month period ended 30 April 2017 mainly due to increase in sales.

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The following table sets out the ageing analysis of inventory as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	4,570	3,957	3,914
31 to 90 days	1,562	1,770	657
91 to 180 days	665	845	1,878
181 to 365 days	225	375	684
Over 365 days	<u>796</u>	<u>897</u>	<u>1,081</u>
	<u><u>7,818</u></u>	<u><u>7,844</u></u>	<u><u>8,214</u></u>

As at 30 April 2017, approximately 55.6% of inventories were aged within three months. As at the Latest Practicable Date, approximately HK\$7.5 million or 91.4% of inventory as at 30 April 2017 had been used or sold as at the Latest Practicable Date.

Trade and bills receivables and deposits, prepayments and other receivables

The following table sets out our Group's trade and bills receivables and deposits, prepayments and other receivables as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bill receivables, net of allowance for doubtful debts	33,807	36,592	29,674
Deposits and prepayments and other receivables	<u>243</u>	<u>2,266</u>	<u>2,753</u>
	<u><u>34,050</u></u>	<u><u>38,858</u></u>	<u><u>32,427</u></u>

Trade and bills receivables related to goods sold to customers and consisted of outstanding amounts receivable by our Group from customers. Prepayment, deposits and other receivables mainly represented rental deposits, prepaid listing fees and recoverable PRC value-added tax. Trade and bills receivables increased from approximately HK\$33.8 million as at 31 December 2015 to approximately HK\$36.6 million as at 31 December 2016, primarily due to increased sales volume of both sales of manufactured aluminum electrolytic capacitors and trading of electric components. Trade and bills receivables decreased from approximately HK\$36.6 million as at 31 December 2016 to approximately HK\$29.7 million as at 30 April 2017, primarily due to reduced turnover time by our customers to settle our accounts. Prepayment, deposits and other receivables increased from approximately HK\$0.2 million as at 31 December 2015 to approximately HK\$2.3 million as

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at 31 December 2016, primarily due to increased deferred listing expenses of approximately HK\$0.7 million. Prepayment, deposits and other receivables increased slightly from approximately HK\$2.3 million as at 31 December 2016 to approximately HK\$2.8 million as at 30 April 2017, primarily due to increase in deferred listing expenses of approximately HK\$0.6 million.

Our Group does not hold any collateral over trade and other receivables. Impairment of approximately HK\$0.3 million had been recognised during the year ended 31 December 2015.

The ageing analysis of trade receivables (net of allowance for doubtful debts), based on delivery date, as of the end of each of the Track Record Period is as follow:

	As at 31 December		As at
	2015	2016	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	10,406	16,151	10,910
31 to 60 days	6,960	9,156	11,077
61 to 90 days	5,171	4,644	3,648
91 to 180 days	5,598	5,728	3,258
181 days to 1 year	5,553	913	402
Over 1 year	—	—	77
	<u>33,688</u>	<u>36,592</u>	<u>29,372</u>

Our Group's policy for impairment on trade receivables take into consideration of the financial strength of the counterparties, the credit history of the customers and the current market condition. Impairment would be applied to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Management closely reviews the trade receivables balances and any overdue balances on an ongoing basis and assessments are made by the management on the collectability of overdue balances.

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The following table sets out the ageing analysis of trade receivables which were past due but not impaired based on their respective due date as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	3,234	3,598	2,750
31 to 60 days	2,673	2,143	1,219
61 to 90 days	1,987	465	866
91 to 180 days	4,091	418	575
181 days to 1 year	<u>852</u>	<u>116</u>	<u>49</u>
	<u>12,837</u>	<u>6,740</u>	<u>5,459</u>

Trade receivables that were past due but not impaired related to a number of independent customers for whom there was no recent history of default and who have good payment record with our Group. As at 31 December 2015 and 2016 and 30 April 2017, the amounts of past due but not impaired trade receivables were approximately HK\$12.8 million and HK\$6.7 million and HK\$5.5 million, respectively. Based on past experience, our management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in the relevant credit quality and the balances are still considered fully recoverable.

As at the Latest Practicable Date, approximately HK\$27.3 million or 93.0% of trade receivables outstanding as at 30 April 2017 were settled.

The following table sets out our Group's trade receivables turnover days during the Track Record Period:

	Year ended 31 December		Four-month period ended
	2015	2016	30 April 2017
Average trade receivables turnover days			
(Note)	113.6	138.3	121.7

Note: For each of the two years ended 31 December 2016, average trade receivables turnover days are calculated by dividing average trade receivables (net of allowance for doubtful debts) by revenue for the relevant year, multiplying the resulting value by the number of days of the relevant year (i.e. 365 days).

For the four-month period ended 30 April 2017, average trade receivables turnover days are calculated by dividing average trade receivables (net of allowance for doubtful debts) by revenue for that four-month period, multiplying the resulting value by the number of days for that four-month period (i.e. 120 days).

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The credit period allowed by our Group to its customers was up to 90 days from the date of issuing invoice. Average trade receivables turnover days were approximately 113.6 days, 138.3 days and 121.7 days, respectively, for the two years ended 31 December 2016 and the four-month period ended 30 April 2017. The increase in 2016 is because of a significant increase in revenue of our Group in the last quarter of 2016. The decrease in the average trade receivables turnover days for the four-month period ended 30 April 2017 is because of the reduced turnover time by our customers to settle our accounts.

Trade and bills payables and other payables and accruals

Trade and bills payables are initially recognised at fair value and thereafter stated at amortised costs, using the effective interest method.

The following table sets out trade and other payables as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Trade and bills payables	16,868	17,579	18,431
Other payables and accruals	<u>10,005</u>	<u>11,506</u>	<u>11,839</u>
	<u>26,873</u>	<u>29,085</u>	<u>30,270</u>

Trade and bills payables mainly related to the purchase of raw materials and subcontracting fees incurred from suppliers. Other payables and accruals primarily related to payables for plant and equipment, operating expenses including salaries and benefits for employees, accrued legal and professional fees and utilities.

Trade payables increased by approximately HK\$0.7 million or 4.2%, from approximately HK\$16.9 million as at 31 December 2015 to approximately HK\$17.6 million as at 31 December 2016, primarily due to increased purchase of raw materials during the Track Record Period to support the expanded manufacturing capacity.

Trade and bills payables increased by approximately HK\$0.8 million or 4.8% from approximately HK\$17.6 million as at 31 December 2016 to approximately HK\$18.4 million as at 30 April 2017, primarily due to the increased purchase of raw materials during the Track Record Period to support the expanded manufacturing capacity.

Other payables and accruals slightly increased by approximately HK\$1.5 million or 15%, from approximately HK\$10.0 million as at 31 December 2015 to approximately HK\$11.5 million as at 31 December 2016, primarily due to the increased purchase of equipment and machinery in the year ended 31 December 2016 as compared with prior year.

Other payables and accruals slightly increased by approximately HK\$0.3 million or 2.9%, from approximately HK\$11.5 million as at 31 December 2016, to approximately HK\$11.8 million as at 30 April 2017, primarily due to approximately HK\$5.7 million being

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incurred as accrued listing expense, partially offset by decrease in other payables of approximately HK\$3.8 million and decrease in VAT payables by approximately HK\$1.8 million.

The following table sets out the ageing analysis of trade payables as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
0 to 30 days	7,357	10,410	9,011
31 to 60 days	7,506	4,162	5,944
61 to 90 days	961	1,986	493
90 to 180 days	180	446	280
181 days to 1 year	864	284	114
Over 1 year	—	291	460
	<u>16,868</u>	<u>17,579</u>	<u>16,302</u>

As at the Latest Practicable Date, approximately HK\$15.1 million or 92.4% of trade payables outstanding as at 30 April 2017 were settled.

The following table sets out our Group's average trade payables turnover days for the Track Record Period:

	Year ended 31 December		Four-month period ended
	2015	2016	30 April
			2017
Average trade payables turnover days			
(Note)	76.1	87.8	79.1

Note: Average trade payables turnover days are calculated by dividing average trade payables by cost of sales for the relevant year/four-month period, multiplying the resulting value by the number of days of the relevant year/four-month period (i.e. 365 days for the two years ended 31 December 2016 and 120 days for the four-month period ended 30 April 2017).

The credit period granted by our Group's suppliers ranges from 0 to 90 days upon the issue of invoice.

Average trade payables turnover days as defined above were approximately 76.1 days, 87.8 days and 79.1 days, respectively, for the two years ended 31 December 2016 and the four-month period ended 30 April 2017. If the average trade payables turnover days were calculated by dividing average trade payables by purchases during the relevant year/four-

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month period, the average trade payables turnover days would be approximately 88.6 days, 119.4 days, and 95.3 days respectively, for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, which was within the range of the effective credit period granted by suppliers.

Bank balances and cash

Bank balances and cash increased by approximately HK\$4.1 million from approximately HK\$3.8 million as at 31 December 2015 to approximately HK\$7.9 million as at 31 December 2016, which was in line with increased revenue.

Bank balances and cash increased by approximately HK\$2.2 million from approximately HK\$7.9 million as at 31 December 2016, to approximately HK\$10.1 million as at 30 April 2017, which was in line with the increased revenue.

Cash at bank carried interest at floating rates based on the prevailing market interest rate on bank balances for the Track Record Period.

INDEBTEDNESS

During the Track Record Period, our Group's borrowings mainly included (i) bank borrowings; (ii) bank overdraft and (iii) amount due to a shareholder.

The following table sets forth our Group's indebtedness as at the dates indicated:

	As at 31 December		As at	As at
	2015	2016	30 April	30 September
	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)
Bank borrowings	4,014	4,298	3,804	3,175
Bank overdraft	1,613	1,958	1,940	61
Amount due to a shareholder	9,326	6,584	—	—
	<u>14,953</u>	<u>12,840</u>	<u>5,744</u>	<u>3,236</u>

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Unutilised banking facilities

The table below summarises the detail of our banking facilities as at 30 September 2017:

	Facility granted <i>HK\$'000</i>	Utilisation <i>HK\$'000</i>	Unutilised <i>HK\$'000</i>
Trade finance	3,400	—	3,400
Bank borrowings	3,175	3,175	—
Bank overdraft	<u>2,000</u>	<u>61</u>	<u>1,939</u>
Total	<u><u>8,575</u></u>	<u><u>3,236</u></u>	<u><u>5,339</u></u>

Bank borrowings and overdraft

The following table sets out details of bank borrowings and overdraft as at the dates indicated:

	As at 31 December 2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	As at 30 April 2017 <i>HK\$'000</i>	As at 30 September 2017 <i>HK\$'000</i> (Unaudited)
Bank borrowing, unsecured and guaranteed	4,014	2,127	1,742	1,251
Bank borrowing, secured and guaranteed	—	2,171	2,062	1,924
Bank overdraft, secured and guaranteed	<u>1,613</u>	<u>1,958</u>	<u>1,940</u>	<u>61</u>
	<u><u>5,627</u></u>	<u><u>6,256</u></u>	<u><u>5,744</u></u>	<u><u>3,236</u></u>

Bank borrowings totaling approximately HK\$3.3 million as at 30 April 2017 are repayable within one year.

Bank borrowings totaling approximately HK\$2.1 million as at 30 April 2017 are scheduled for repayment in the second to fifth years and amount of approximately HK\$0.3 million are scheduled for repayment after five years. These bank borrowings are subject to repayment on demand clause that the bank has unconditional right to demand repayment at any time at its own discretion.

Our Group's bank borrowings during the Track Record Period and as at 30 September 2017 were secured by the leasehold land and building held by a subsidiary of the Company and jointly guaranteed by personal guarantees provided by Mr. Boon, an Executive

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Director of our Company and guarantee provided by the Government under the SME Financing Guarantee Scheme. Such personal guarantees provided by Mr. Boon will be fully released and replaced by corporate guarantee provided by our Group upon Listing.

The bank borrowings as at 30 April 2017 are denominated in HK dollars and interest-bearing at best lending rate plus/minus certain basis points adjusted by certain percentage per annum. The annual interest rates of our Group's bank borrowings as at 30 April 2017 ranged from approximately 2.50% to 5.75% per annum.

Mortgage

The workshop at Cheung Sha Wan, Hong Kong which is owned by our Group with the carrying value of approximately HK\$5.3 million as at 30 April 2017 is pledged to a bank to secure banking facilities of HK\$9.3 million granted to our Group during the period ended 30 April 2017.

Contingent liabilities

As at 30 September 2017, being the latest practicable date for this indebtedness statement, our Group did not have any significant contingent liabilities.

Save as aforesaid and as otherwise disclosed in the section headed “— Indebtedness” above and apart from intra-group liabilities and normal trade payables, our Group did not have any mortgages, charges, debt securities, term loans, other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, or any guarantees or other material contingent liabilities at the close of business on 30 September 2017.

DISTRIBUTABLE RESERVES

As at 30 April 2017, our Company did not have any distributable reserve available for distribution to Shareholders.

RELATED PARTY TRANSACTIONS

Our Group did not have any Related Party Transaction during the Track Record Period.

OFF-BALANCE SHEET TRANSACTIONS

Our Group has not entered into any material off-balance sheet transactions or arrangements during the Track Record Period.

ACCUMULATED LOSSES

As at 1 January 2015, our Group had accumulated losses in the sum of approximately HK\$1.9 million. This was mainly due to the relocation of all our production lines from Shaoguan, Guangdong Province, the PRC to our Dongguan production plant in February

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2014. We subsequently conducted trial run of our production lines at our Dongguan production plant which lasted until late June 2014 during which no sales from manufactured aluminum electrolytic capacitors were made, and full operation and production did not commence until July 2014. Therefore, there were only 6 months of full operation during the year ended 31 December 2014 for our Dongguan production plant. Moreover, due to the relocation of the production plant, there were certain one-off expenses in the aggregate sum of approximately HK\$1.4 million incurred during the year ended 31 December 2014.

The loss incurred for the year ended 31 December 2014 for our manufacturing business was HK\$2.7 million which offset the accumulated profit generated from our trading business for approximately of HK\$0.8 million. As a result, there was an accumulated loss of approximately HK\$1.9 million as at 1 January 2015.

For reasons set out below, our Group manages to generate profit for the year in the sum of approximately HK\$6.7 million, HK\$9.1 million in the financial years ended on 31 December 2015 and 31 December 2016, respectively. As discussed under the paragraph headed “Comparison of results of operations — Profit (loss) for the four-month periods and net profit (loss) margin” above, our Group’s loss for the four-month period ended 30 April 2017 was primarily due to the listing expenses of approximately HK\$7.4 million incurred in the four-month period ended 30 April 2017.

(i) Change in product matrix

The profit margin improved due to the change of product matrix. The profit margin from the trading of electronic components is lower than that of the sales of manufactured aluminum electrolytic capacitors. The segment gross profit margins for trading of electronic components and sales of manufactured aluminum electrolytic capacitors were 13.4% and 27.2%, respectively, for the year ended 31 December 2015 and 12.0% and 29.5%, respectively, for the year ended 31 December 2016, and 9.2% and 24.3%, respectively, for the four-month period ended 30 April 2016, and 14.4% and 24.6%, respectively, for the four-month period ended 30 April 2017 (for details please see the section headed “Business — Business model — segment profit and segment gross profit margin”).

Starting from the year ended 31 December 2015, our Group has put more efforts in the sales of manufactured aluminum electrolytic capacitors. The revenue generated from trading of electronic components and sales of manufactured aluminum electrolytic capacitors accounted for approximately 49.3% and 50.7%, respectively, of the total revenue for the year ended 31 December 2015, approximately 38.3% and 61.7%, respectively, of the total revenue for the year ended 31 December 2016, approximately 43.8% and 56.2%, respectively, of the total revenue for the four-month period ended 30 April 2016, and approximately 35.8% and 64.2%, respectively, of the total revenue for the four-month period ended 30 April 2017. Thus, the gross profit and further the profit for the year have improved during the Track Record Period.

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(ii) Higher bargaining power against suppliers and higher utilisation rate as a result of our increased production volume

Higher production volume attributable to orders from new customers and increased orders from recurring customers allows the Group to put pressure on the suppliers of raw materials for a lower unit price. For reasons of orders from new customers and increased orders from recurring customers, please refer to the paragraph headed “Principal components of results of operations — Revenue” above.

Improvement in the Group’s utilisation rate of its production line as a result of the higher production volume also means lower other direct costs per unit, as the other direct costs are mainly employees’ benefits expenses and overhead.

Please see table below for a detailed analysis:

	For the year ended 31 December		Increase/ (Decrease)
	2015	2016	
Revenue generated from sales of manufactured aluminum electrolytic capacitors business (<i>HK\$’000</i>)	38,451	57,199	48.8%
Units sold (<i>’000</i>)	372,702	667,479	79.1%
Revenue per unit (<i>HK\$</i>)	0.103	0.086	(16.9%)
Costs of raw materials consumed (<i>HK\$’000</i>)	16,224	23,767	46.5%
Units sold (<i>’000</i>)	372,702	667,479	79.1%
Costs of raw material per unit (<i>HK\$</i>)	0.044	0.036	(18.2%)
Other direct costs (being overhead and employees’ benefits expenses) which form part of the costs of sales (<i>HK\$’000</i>)	8,323	12,728	52.9%
Units sold (<i>’000</i>)	372,702	667,479	79.1%
Other direct costs per unit (<i>HK\$</i>)	0.022	0.019	(14.6%)
Segment gross profit margin for sales of manufactured aluminum electrolytic capacitors	27.2%	29.5%	

The stronger bargaining power against raw material suppliers resulted from higher production volume combined to drive the costs of raw material per unit down by approximately 18.2% in the year ended 31 December 2016 when compared with the year ended 31 December 2015.

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The higher utilisation rate of the production line as a result of the higher production volume combined to drive the other direct costs by unit down by approximately 14.6% in the year ended 31 December 2016 when compared with the year ended 31 December 2015.

The reduced costs of sales allowed the Group to maintain its gross profit margin despite the drop of unit price, and the increased revenue due to increased demand from recurring customers and new orders from new customers while the Group's gross profit margin was maintained at a stable level helped the Group improve its profitability during the year ended 31 December 2016.

KEY FINANCIAL RATIOS

The following table sets out the key financial ratios of our Group during the Track Record Period.

	Year ended 31 December		Four-month period ended
	2015	2016	30 April 2017
Return on total assets ⁽¹⁾	9.7%	11.9%	N/A ⁽⁷⁾
Return on equity ⁽²⁾	27.0%	28.7%	N/A ⁽⁷⁾
Interest coverage ⁽³⁾	20.0	41.3	N/A ⁽⁸⁾
	As at 31 December		As at
	2015	2016	30 April 2017
Current ratio ⁽⁴⁾	1.1	1.2	1.4
Quick ratio ⁽⁵⁾	0.9	1.0	1.2
Gearing ratio ⁽⁶⁾	0.23	0.20	0.16

Notes:

- (1) Return on total assets is calculated based on profit for the relevant year divided by total assets as at the end of the respective years;
- (2) Return on equity is calculated based on profit for the relevant year divided by total equity as at the end of the respective years;
- (3) Interest coverage ratio is calculated based on profit before interest and tax for the relevant year divided by interest expenses for the same year;
- (4) Current ratio is calculated based on current assets divided by current liabilities as at the end of respective years/four-month period;
- (5) Quick ratio is calculated based on current assets less inventories divided by current liabilities as at the end of respective years/four-month period;

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- (6) Gearing ratio is calculated based on interest bearing bank borrowings, divided by total equity as at the end of respective years/four-month period.
- (7) Such ratios for the four-month period ended 30 April 2017 are not meaningful and potentially misleading as the underlying income statement measures do not reflect a full year of results of operations.
- (8) Such ratios for the four-month period ended 30 April 2017 are not applicable as the Group was loss-making during the period.

Return on total assets

Our Group's return on total assets increased from approximately 9.7% for the year ended 31 December 2015 to approximately 11.9% for the year ended 31 December 2016, which was mainly due to the increase in profit for the year as a result of increase of revenue for the year ended 31 December 2016 and slightly offset by the increase in total assets.

Return on equity

Our Group's return on equity increased from approximately 27.0% for the year ended 31 December 2015 to approximately 28.7% for the year ended 31 December 2016, primarily due to increased profit for the year of 2016 and also, the increase in equity.

Interest coverage ratio

The finance cost mainly comprised of interest on bank overdrafts and bank borrowings during the Track Record Period. Interest coverage ratio increased from 20.0 times for the year ended 31 December 2015 to 41.3 times for the year ended 31 December 2016, primarily due to less interest expenses incurred for the year ended 31 December 2016.

Current ratio and quick ratio

Current ratio increased slightly from approximately 1.1 times as at 31 December 2015 to approximately 1.2 times as at 31 December 2016, whilst quick ratio increased from approximately 0.9 times as at 31 December 2015 to approximately 1.0 times as at 31 December 2016.

Current ratio increased slightly from approximately 1.2 times as at 31 December 2016 to approximately 1.4 times as at 30 April 2017, whilst quick ratio increased from approximately 1.0 times as at 31 December 2016 to approximately 1.2 times as at 30 April 2017.

The current ratio was above 1.0 time for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, representing our Group was in net current asset position.

Quick ratio increased slightly from 1.0 times as at 31 December 2016 to 1.2 times as at 30 April 2017.

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Gearing ratio

For the two year ended 31 December 2016, gearing ratio of our Group decreased from 0.23 times to 0.20 times primarily due to increased total equity of our Group from approximately HK\$24.6 million as at 31 December 2015 to approximately HK\$31.8 million as at 31 December 2016.

Gearing ratio of our Group decreased from 0.20 times as at 31 December 2016 to 0.16 times as at 30 April 2017 due to repayment of bank borrowings of approximately HK\$0.5 million.

Our Group targets to maintain a gearing ratio to be in line with expected changes in economic and financial conditions. Our Group's overall strategy on capital management remains unchanged throughout the Track Record Period.

CAPITAL EXPENDITURES

Our Group has incurred capital expenditure for the addition of property, plant and equipment, which mainly includes the purchase of equipment and machinery, amounting to approximately HK\$6.7 million, HK\$5.0 million and HK\$10,000 for the two years ended 31 December 2016 and the four-month period ended 30 April 2017, respectively. Our Group currently plans to use approximately HK\$12.4 million and HK\$4.6 million of the net proceeds to be received by our Group from the Share Offer during each of the years ending 31 December 2017 and 2018, respectively, to primarily purchase equipment and machinery after Listing. The Directors believe that such capital expenditure budget will be sufficient for expected expenditure for the year ending 31 December 2017.

It should be noted that the current plan with respect to future capital expenditure may be subject to change based on the implementation of business plan, including but not limited to, potential acquisitions, the progress of capital projects, market conditions and the outlook of future business conditions. As our Group will continue to expand, additional capital expenditures may be incurred and our Group may consider raising additional funds as and when appropriate. Our Group's ability in obtaining additional funding in the future is subject to a variety of uncertainties including but not limited to, further operation results, financial conditions and cash flows, economic, political and other conditions in the PRC, Hong Kong and other Asian regions.

COMMITMENTS

Capital commitments

No capital commitments was noted during the Track Record Period.

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Operating lease commitments

Our Group leases factory and office premises under operating lease arrangement with leases negotiated for initial period ranging from one to ten years. The total future minimum lease payments under these leases are due as follows:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Within one year	619	564	1,039
In the second to fifth years inclusive	1,087	620	3,290
Over fifth years	—	134	—
	<u>1,706</u>	<u>1,318</u>	<u>4,329</u>

CAPITAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital management

Our Group's objectives when managing capital are to safeguard our Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support our Group's stability and growth.

Our Group monitors its capital structure on the basis of gearing ratio i.e. interest bearing bank borrowings to equity. Equity represented total equity of our Group. The Directors actively and regularly review and manage our Group's capital structure, taking into consideration the future capital requirements of our Group, to ensure optimal shareholders' returns. Our Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, our Group may adjust the dividend payment to shareholders, issue new shares, return capital to shareholders, and raise new debts or sells assets to reduce debt.

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Summary of financial assets and liabilities by category

The following table sets out the carrying amounts of financial assets and liabilities:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Financial assets			
Loans and receivables	40,312	44,552	39,866
Financial liabilities			
Financial liabilities at amortised cost			
— Trade and bills payables	16,868	17,579	18,431
— Other payables	3,368	4,970	1,182
— Amount due to a shareholder	9,326	6,584	—
— Bank overdraft	1,613	1,958	1,940
— Bank borrowings	4,014	4,298	3,804
	<u>35,189</u>	<u>35,389</u>	<u>25,357</u>

Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and bills receivables, other receivables, restricted bank deposit, cash and bank balances, trade and other payables, bank overdraft, bank borrowings and amount due to a shareholder.

Due to their short term nature, the carrying values of the above financial instruments approximate their fair values.

As at 31 December 2015, 31 December 2016 and 30 April 2017, our Group did not have any financial instruments measured at fair value.

Financial risk management

Our Group's activities expose it to a variety of financial risks which comprise market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Our Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our Group's financial performance. Risk management is carried out by the key management under the policies approved by the board of Directors. Our Group does not have written risk management policies. However, the Directors and senior management meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

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Generally, our Group employs a conservative strategy regarding its financial risk management. As the Directors consider that our Group's exposure to financial risk is kept at a minimum level, our Group has not used any derivatives or other instruments for hedging purposes during the Track Record Period and up to the Latest Practicable Date. The most significant risks to which our Group is exposed to are described below:

Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Our Group's products are sold into Hong Kong, the PRC and other Asian regions. The functional currency of our Company is HK\$. Our Group's exposure to currency risk mainly arises from the fluctuation of US\$ and RMB against the functional currencies of the relevant entities now comprising our Group. Currently our Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Our Group continues to conduct its sales mainly in RMB, US\$ and makes payments either in US\$, HK\$ or RMB. The Directors closely monitor the volatility of the RMB and USD exchange rate. All in all, our Group's risk exposure to foreign exchange rate fluctuations remains not material.

The overall exposure in respect of the carrying amounts of our Group's foreign currency denominated monetary assets and monetary liabilities other than functional currency of the relevant group entities in net position as at 31 December 2015, 31 December 2016 and 30 April 2017 are as follows:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Net monetary assets/(liabilities)			
denominated			
in foreign currency			
— US\$	801	774	781
— RMB	<u>984</u>	<u>(146)</u>	<u>(236)</u>

No sensitivity analysis is presented as the management consider that the effect is insignificant.

Our Company is mainly operated in its local jurisdiction with most of the transactions settled in its functional currencies of the operations and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. Our Group's income and operating cash flows are substantially independent of changes in market interest rates. Our Group's interest rate risk mainly arises from bank borrowings and bank deposits.

Bank borrowings arranged at variable rate and fixed rate expose our Group to cash flow interest rate risk and fair value interest rate risk respectively. All of our Group's bank borrowings as at 31 December 2015, 31 December 2016 and 30 April 2017 bore interests at variable rates.

Our Group's bank balances expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The Directors consider our Group's exposure to interest rate risk in respect of bank balances is not significant as interest-bearing bank deposits are within short maturity periods in general.

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at each reporting period end was outstanding for the whole year. A 100 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, our Group's profit after taxation for the two years ended 31 December 2015 and 31 December 2016 would decrease/increase by approximately HK\$46,000 and HK\$52,000 respectively, and the Group's loss after taxation for the four-month period ended 30 April 2017 would increase/decrease by approximately HK\$48,000.

Our Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to our Group. Our Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

Our Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with creditworthy counterparties. Since our Group trades with recognised and creditworthy third parties, there is no requirement for collateral. Our Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at the end of each Track Record Period to ensure that adequate impairment provision is made for irrecoverable amounts.

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Credit risk on bank balances is mitigated as cash is deposited in reputable banks.

Our Group has concentration of credit risk as 12%, 29% and 18% of the total gross trade receivables was due from our Group's trade debtors which is over 10% of the total gross trade receivables as at 31 December 2015, 31 December 2016 and 30 April 2017, respectively, and 28%, 43% and 45% of the total gross trade receivables was due from the five largest customers as at 31 December 2015, 31 December 2016 and 30 April 2017, respectively. An analysis of the amounts due from these three customers at the end of each reporting period is as follows:

	% of total trade receivables		
	As at 31 December		As at
	2015	2016	30 April 2017
SAG Components Sdn. Bhd.	12	N/A*	N/A*
JYE FWE Electronics Co. Ltd.	N/A*	19	18
深圳市萬聯芯科技有限公司	N/A*	10	N/A*

* Does not account for 10% or more of our Group's trade receivables

The credit policies have been followed by our Group throughout the Track Record Period and are considered to have been effective in limiting our Group's exposure to credit risk to a desirable level.

Liquidity risk

Liquidity risk relates to the risk that our Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Our Group is exposed to liquidity risk in respect of settlement of trade and other payables and its financing obligations, and also in respect of its cash flow management. Our Group's objective is to maintain a prudent liquidity risk management which is to maintain sufficient cash and cash equivalents as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. Our Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturity as at 31 December 2015, 31 December 2016 and 30 April 2017 of our Group's financial liabilities, based on undiscounted cash flows (interest payments computed using contractual rates or, if floating, based on rates current as at 31 December 2015, 31 December 2016 and 30 April 2017) at the earliest date our Group can be required to pay.

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Specifically, for bank loans which contain repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which our Group can be required to pay, that is if the bank was to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2015				
Trade payables	—	16,868	16,868	16,868
Other payables	—	3,368	3,368	3,368
Amount due to a shareholder	—	9,326	9,326	9,326
Bank overdraft	—	1,613	1,613	1,613
Bank borrowings	5.57	<u>4,014</u>	<u>4,014</u>	<u>4,014</u>
		<u>35,189</u>	<u>35,189</u>	<u>35,189</u>
At 31 December 2016				
Trade payables	—	17,579	17,579	17,579
Other payables	—	4,970	4,970	4,970
Amount due to a shareholder	—	6,584	6,584	6,584
Bank overdraft	—	1,958	1,958	1,958
Bank borrowings	5.55	<u>4,298</u>	<u>4,298</u>	<u>4,298</u>
		<u>35,389</u>	<u>35,389</u>	<u>35,389</u>
At 30 April 2017				
Trade payables	—	18,431	18,431	18,431
Other payables	—	1,182	1,182	1,182
Bank overdraft	—	1,940	1,940	1,940
Bank borrowings	4.74	<u>3,804</u>	<u>3,804</u>	<u>3,804</u>
		<u>25,357</u>	<u>25,357</u>	<u>25,357</u>

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The following table summarises the maturity analysis of bank loans with repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payment computed using contractual rates. Taking into account our Group's financial position, the Directors consider that it is not probable that the bank will exercise its discretion to demand immediate repayment. The Directors believe that these bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Less than 1 year <i>HK\$'000</i>	In the second to fifth years <i>HK\$'000</i>	Over five years <i>HK\$'000</i>	Total undiscounted cash outflows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
31 December 2015	2,056	2,252	—	4,308	4,014
31 December 2016	1,643	2,891	63	4,597	4,298
30 April 2017	1,489	2,244	317	4,050	3,804

The liquidity policies have been followed by our Group throughout the Track Record Period and are considered to have been effective in managing liquidity risks.

DIVIDEND

No dividends have been declared by our Company or the subsidiaries now comprising our Group to their then equity owners during the Track Record Period nor has any dividend been proposed after 30 April 2017. Declaration of dividends is subject to the discretion of the Directors, depending on results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Directors may consider relevant. In addition, any declaration and payment as well as the amount of dividends will also be subject to the Memorandum and Articles of Association and the Companies Law. Our Company may declare dividends in any currency, but no dividend shall be declared in excess of the amount recommended by our Board. The Articles provide that dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. Our Company can also pay dividends out of the share premium with the approval of our Shareholders and subject to a statutory solvency test. Any future declarations and payments of dividends may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of the Directors. Currently, our Company does not have any predetermined dividend payout ratio.

Future dividend payments will also depend upon the availability of dividends our Company will receive from subsidiaries in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for

FINANCIAL INFORMATION

distribution as cash dividends. Distributions from PRC subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements, convertible bond instruments or other agreements that our Company or they may enter into in the future.

LISTING EXPENSES

Our Group expects that the total professional fees incurred for the Listing including the underwriting commission to be shared by our Company, which is non-recurring in nature, will amount to approximately HK\$25.5 million (based on the Offer Price of HK\$0.275 per Offer Share, being the midpoint of the indicative Offer Price range). Out of the total professional fees of HK\$25.5 million, our Group has recognised approximately HK\$2.2 million as expenses in profit or loss for the year ended 31 December 2016, and HK\$7.4 million as expenses in profit or loss for four-month period ended 30 April 2017. Subject to completion of the Share Offer, our Group expects to recognise further listing expenses of approximately HK\$6.7 million in profit or loss subsequent to the Track Record Period and approximately HK\$9.2 million will be capitalised upon completion of the Share Offer. The Directors wish to inform Shareholders and potential investors that our Group's financial performance and results of operations for the year ending 31 December 2017 will be significantly affected by the estimated expenses in relation to the Listing. Such listing expense is a current estimate for reference only and the final amount to be charged to profit and loss of our Group for the year ending 31 December 2017 and the amount to be deducted from our Group's capital is subject to change.

NO MATERIAL ADVERSE CHANGE

Save as the listing expense, the Directors confirm that, 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 since 30 April 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared), and there is no event since 30 April 2017 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which could give rise to a disclosure obligation pursuant to Rules 17.15 to 17.21 of the GEM Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the Share Offer might have affected the consolidated net tangible assets of our Group after the completion of the Share Offer as if the Share Offer had taken place on 30 April 2017.

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Because of its hypothetical nature, this unaudited pro forma statement of adjusted consolidated net tangible assets of our Group may not give a true picture of the financial position of our Group had the Share Offer been completed on 30 April 2017 or at any future dates.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group as at 30 April 2017 is based on the audited consolidated net tangible assets of our Group as at 30 April 2017 as shown in the Accountants' Report set out in Appendix I to this prospectus and the adjustments described below.

The following is an illustrative statement of unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared on the basis of the notes set out below for purpose of illustrating the effect of the Share Offer on the consolidated net tangible assets of our Group as if the Share Offer had taken place on 30 April 2017.

	Audited consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 per Share <i>HK\$</i> <i>(Note 3)</i>
Based on Offer Price of HK\$0.25 per Offer Share	<u>35,151</u>	<u>34,441</u>	<u>69,592</u>	<u>0.09</u>
Based on Offer Price of HK\$0.30 per Offer Share	<u>35,151</u>	<u>43,741</u>	<u>78,892</u>	<u>0.10</u>

Notes:

1. The audited consolidated net tangible assets of our Group attributable to the owner of our Company as at 30 April 2017 is based on the consolidated net assets of our Group attributable to the owner of our Company amounted to approximately HK\$35,151,000, extracted from the Accountants' Report set out in Appendix I to this prospectus.

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2. The estimated net proceeds from the Share Offer are based on 200,000,000 Offer Shares at the Offer Price of HK\$0.25 and HK\$0.30 per Offer Share, after deduction of the estimated underwriting fees and other related fees and expenses incurred or expected to be incurred by our Group (excluding approximately HK\$9,585,000 of listing expenses which have been charged to profit or loss up to 30 April 2017 by our Group). It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by our Company pursuant to our Company's general mandates, as referred to in the sections headed "Share capital — General mandate to issue Shares" or "Share capital — General mandate to repurchase Shares" in this prospectus.
3. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owner of our Company as at 30 April 2017 per Share has been arrived at after making the adjustments referred to in note 2 above and on the basis of 800,000,000 Shares are in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 30 April 2017. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Share which may be issued or repurchased by our Company pursuant to our Company's general mandates, as referred to in the sections headed "Share capital — General mandate to issue Shares" or "Share capital — General mandate to repurchase Shares" in this prospectus.
4. No adjustment have been made to the unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to the owner of our Company to reflect any trading results or other transactions of our Group entered into subsequent to 30 April 2017.

SUBSEQUENT EVENTS

For details of events after 30 April 2017, being the date to which the latest audited financial information was prepared, please refer to note 33 of the section headed "Accountants' Report" in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the section headed “Business — Business strategies” in this prospectus for our Group’s business objectives and strategies.

USE OF PROCEEDS

Net proceeds

The net proceeds from the Share Offer are estimated to be approximately HK\$29.5 million assuming the Offer Price of HK\$0.275 per Offer Share (being the mid-point of the indicative range of the Offer Price) and 200,000,000 Offer Shares being offered under the Share Offer and after deducting the underwriting commission and expense relating to the Share Offer.

We intend to use the net proceeds from the Share Offer for the following purposes:

- (i) as to approximately 61.7%, representing approximately HK\$18.2 million, will be used for increasing the monthly production capacity of our Group’s chip type aluminum electrolytic capacitors from 50,000,000 units to 80,000,000 units;
- (ii) as to approximately 19.0%, representing approximately HK\$5.6 million, will be used for payment of rental expenses in the first year for a second product plant, installation and reallocation of production lines in Dongguan, Guangdong Province, the PRC (we have not identified any target property as at the Latest Practicable Date);
- (iii) as to approximately 7.1%, representing approximately HK\$2.1 million, will be used on research and development, including the recruitment of additional research and development staff; and
- (iv) as to approximately 6.8%, representing approximately HK\$2.0 million, will be used on brand promotion and marketing expenses; and
- (v) the remaining amount of approximately 5.4%, representing approximately HK\$1.6 million, will be used for our working capital and other general corporate purposes.

If the final Offer Price is set at the high end or the low end point of the indicative Offer Price range, the net proceeds of the Share Offer will increase or decrease by approximately HK\$5 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis. To the extent that the net proceeds of the Share Offer are not immediately applied for the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed financial institutions in Hong Kong.

FUTURE PLANS AND USE OF PROCEEDS

Commission and expenses

The Underwriters will receive an underwriting commission of 7% of the aggregate Offer Price payable for the Offer Shares initially offered under the Share Offer. Based on an Offer Price of HK\$0.275 per Share, being the mid-point of the indicative range of the Offer Price, the aggregate fees and commission, together with the Stock Exchange listing application fee, Stock Exchange trading fee and SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer, are currently estimated to be approximately HK\$25.5 million in aggregate (based on the Offer Price of HK\$0.275 per Offer Share, being the midpoint of the indicative Offer Price range), which will be borne by our Company.

IMPLEMENTATION PLANS

In order to implement the business strategies of increasing the production capability of our Group's aluminum electrolytic capacitors, commencing production of new products, continuing research and development effort, establishing second production plant in the PRC and to promote our branded products pursuant to our Group's business objectives and strategies as described above, set forth below are the implementation plans of our Group for each of the six-month periods from the Latest Practicable Date until 30 June 2019. It should be noted that the implementation plans are formulated on the bases and assumptions referred to in the section headed "— Bases and assumptions" below. These bases and assumptions are subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed "Risk factors" in this prospectus.

From the Latest Practicable Date to 31 December 2017:

Business strategies	Use of proceeds (approximately)	Implementation plan
To increase the production capacity of our Group's chip-type aluminum electrolytic capacitors	HK\$12.4 million	To expand and develop the monthly production capacity of its chip type aluminum electrolytic capacitors from 50 million units to 70 million units by acquiring additional machinery, including but not limited to 16 stitching and winding machines, 11 assembly machines, six aging machines, five marking machines, four chip type taping and testing machines, three marking-chip type taping-testing machines, one slitting machine and one X-ray machine.

FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Use of proceeds (approximately)	Implementation plan
To establish the second production plant in Dongguan, Guangdong Province, the PRC	Nil	<p>To identify appropriate premises for rental for the second production plant in Dongguan, Guangdong Province, the PRC. To pay rental deposit and first year rental, and to carry out appropriate fit-out works in preparation for the installation of production lines.</p> <p>To arrange for relocation of existing production lines for radial lead type aluminum electrolytic capacitors.</p>
To promote our branded products	HK\$0.5 million	Remuneration for additional sales staff and to organise marketing events to promote the Group's branded products.

For the six months ending 30 June 2018:

Business strategies	Use of proceeds (approximately)	Implementation plan
To increase the production capacity of our Group's chip-type aluminum electrolytic capacitors	HK\$1.5 million	To expand and develop the monthly production capacity of its chip type aluminum electrolytic capacitors from 70 million units to 76 million units by acquiring additional machinery, including but not limited to three stitching and winding machines, three assembly machines and three chip type taping and testing machines.
To establish the second production plant in Dongguan, Guangdong Province, the PRC	HK\$2.5 million	<p>To pay rental deposit and first year rental, and to carry out appropriate fit-out works in preparation for the installation of production lines.</p> <p>To arrange for relocation of existing production lines for radial lead type aluminum electrolytic capacitors.</p>

FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Use of proceeds (approximately)	Implementation plan
To continue research and development effort	HK\$1.9 million	Remuneration of additional research and development staff.
To promote our branded products	HK\$0.6 million	Remuneration for additional sales staff and to organise marketing events to promote the Group's branded products.

For the six months ending 31 December 2018:

Business strategies	Use of proceeds (approximately)	Implementation plan
To increase the production capacity of our Group's chip-type aluminum electrolytic capacitors	HK\$3.1 million	To expand and develop the monthly production capacity of its chip type aluminum electrolytic capacitors from 76 million units to 80 million units by acquiring additional machinery, including but not limited to four stitching and winding machines, one aging machine, two marking machines, two chip type taping and testing machines, one slitting machine and one set of supporting equipment.
To establish the second production plant in Dongguan, Guangdong Province, the PRC	HK\$2.4 million	To pay rental and for fitting out expenses.
To continue research and development effort	HK\$0.2 million	Remuneration of additional research and development staff.
To promote our branded products	HK\$0.6 million	Remuneration for additional sales staff and to organise marketing events to promote the Group's branded products.

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 30 June 2019:

Business strategies	Use of proceeds (approximately)	Implementation plan
To increase the production capacity of our Group's chip type aluminum electrolytic capacitors	HK\$1.2 million	To acquire additional machinery, including but not limited to one stitching and winding machine, two assembly machines and two aging machines.
To establish the second production plant in Dongguan, Guangdong Province, the PRC	HK\$0.7 million	To pay rental and for fitting out expenses.
To promote our branded products	HK\$0.3 million	Remuneration for additional sales staff and to organise marketing events to promote the Group's branded products.

Bases and assumptions

The Directors have adopted the following principal assumptions in the preparation of the implementation plan up to 30 June 2019.

- (a) 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;
- (b) 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 the Directors;
- (c) there will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong, the PRC and any other places in which any member of our Group carries on or will carry on business and provides or will provide products;
- (d) our Group will not be materially affected by any risk factors set out in the section headed "Risk factors" in this prospectus;
- (e) there will be no material changes in the bases (such as inflation and interest rate) or rates of taxation in Hong Kong, the PRC or in any other places in which any member of our Group operates or will operate or is incorporated;

FUTURE PLANS AND USE OF PROCEEDS

- (f) the Share Offer will be completed in accordance with and as described in the section headed “Structure and conditions of the Share Offer” to this prospectus;
- (g) our Group is able to retain its customers and suppliers;
- (h) our Group will be able to retain key staff in the management and the main operational departments; and
- (i) our Group will be able to continue its operations in substantially the same manner as our Group has been operating during the Track Record Period and our Group will be able to carry out the development plans without disruptions adversely affecting its operations or business objectives in any way.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

Reasons for the Share Offer

To implement our Group’s business strategies, the total net proceeds to be received by our Group from the Share Offer of approximately HK\$29.5 million, approximately HK\$13.1 million, or 44.4%, of the net proceeds would need to be utilised by 31 December 2017, with approximately HK\$13.8 million, or 46.8%, of the net proceeds to be utilised by 31 December 2018, with the balance of approximately HK\$2.6 million to be utilised in 2019 further details of which are set out in this section.

Through the Listing, our Group would be able to raise capital in the equity market for the implementation of its business strategies, without causing liquidity problem, given our Group’s level of net current assets and net debt position.

The Directors also consider that the Listing can allow our Group to achieve a broader shareholder bases and enhance its brand awareness and publicity. The customers of our Group’s own brand products are predominantly resellers who in turn sell our Group’s products to direct users of our Group’s products, being mainly manufacturers of various electronic appliances. The Listing will enhance our Group’s brand awareness among manufacturers of electronic products who are not yet customers of our Group. Being a listed company will also increase the confidence of potential end users and potentially open up opportunities for our Group to become a qualified supplier of those potential end users.

The Listing will offer our Group access to capital market for corporate finance exercise which may be needed to support our Group’s future business development. The Directors also believe that our Group can obtain debt financing with more favourable terms from financial institutions after the Listing, due to the high level of transparency of a listed company in terms of financial information and operation.

Analysis on use of proceeds

The net proceeds from the Share Offer to be received by our Group, after deducting the related expenses, are estimated to be approximately HK\$29.5 million. The Directors presently intend that the net proceeds to be received by our Group will be applied to

FUTURE PLANS AND USE OF PROCEEDS

increase the production capability of our Group's aluminum electrolytic capacitors, commence production of new products, continue research and development effort, to establish second production plant in the PRC, and to promote our branded products.

According to the Crowe Horwath Report, the global market for aluminum electrolytic capacitors has been growing at a CAGR of 2.1% between 2011 and 2015, and is forecast to grow at a CAGR of 3.0% between 2016 and 2020. The PRC market which accounted for 37% of the global market of aluminum electrolytic capacitors in 2015 is forecast to grow at a CAGR of 12.0% between 2016 and 2020. The reason for the higher projected growth rate in the PRC is because PRC has become the world's most important production base and market of consumer electronics, information and communication products and other industrial products, resulting in a steady growth of demand for the aluminum electrolytic capacitors.

Notwithstanding the expected growth of market size and demand, the average selling price for aluminum electrolytic capacitor in the PRC has shown a decreasing trend in recent years, and this decreasing trend is expected to continue in the near future. For more details, please refer to the section headed "Industry overview" of this prospectus.

As our manufactured products, namely aluminum electrolytic capacitors, are generic products and are readily available from other suppliers, selling price is an important factor for our customers in making procurement decision. As price of aluminum electrolytic capacitor is expected to continue to fall, the Group faces strong pressure to reduce cost and increase production efficiency to maintain price competitiveness.

Although the number of competitors has been increasing in the PRC along with the excess capacity and intense competition in the industry, the demand for our Group's products remained strong throughout the Track Record Period, as evidenced by the increase of our Group's market share in 2016 along with a growing PRC market and despite the excess capacity and intense competition in the industry.

As the revenue generated by our Group's manufacturing business has increased from approximately HK\$38.5 million in the year ended 31 December 2015 to approximately HK\$57.2 million in the year ended 31 December 2016, and that the utilisation rate of our Group's production facility for chip type aluminum electrolytic capacitors has reached 89.1% in 2016, the Directors believe that it is necessary for our Group to expand the relevant production facility in order to capture the market growth as forecast by the Crowe Horwath Report, have a bigger bargaining power against the suppliers for better costs control, and to maintain and even increase its market share.

As explained in the section headed "Business — Business strategies", we need to keep our cost down to allow us to achieve our short term business strategy of being able to offer our products at a competitive price, and we need, among other things, to achieve the economy of scale required to keep our cost down.

FUTURE PLANS AND USE OF PROCEEDS

Our high utilisation rate for chip type aluminum electrolytic capacitors means that we cannot achieve a higher economy of scale unless we expand our production capacity. Our plan to expand our production capacity is therefore an integral step for us to achieve our short term business strategy of maintaining our competitiveness in terms of product pricing.

The Group's expansion plan also allows us the room to grow our market share and consolidate our position as one of the top 10 chip type aluminum electrolytic capacitor producers in the PRC. This will in turn enable us to increase brand awareness, increase resources for our research and development effort, and hence help maintain our ability to compete with other market players on reputation and product quality which are the cores of our long term business strategy.

The Directors are of the view that the increase of our Group's production capacity for chip type aluminum electrolytic capacitors from 50 million units per month to 80 million units per month (representing a 60% increase) throughout a two-year period is not unreasonable due to the following reasons:

- according to the implementation plans as set out above, the production capacity will only increase 40% in 2017, and will further increase 14.3% in 2018. Based on the Crowe Horwath Report, historically, the market size of chip type aluminum electrolytic capacitors in the PRC had been growing at a CAGR of 14.1% from 2012 to 2015, and the chip type aluminum electrolytic capacitors sold by our Group between 2015 and 2016 had increased from approximately 258 million units to approximately 423 million units, representing a growth of 64.0%;
- our Group's market share in the PRC and the global market in terms of chip type aluminum electrolytic capacitors 2016 were only approximately 0.9% and 0.4%, respectively. While it is difficult for large players in the industry to achieve significant growth, the Directors believe that it is not difficult for a small player like our Group to out-perform the market based on the quality of its products and the reputation established throughout the years;
- the Crowe Horwath Report projected that the unit price of aluminum electrolytic capacitors (both chip type and radial lead type) will decline at a rate of 0.3% per annum from 2016 to 2020, due to, among others, decreasing price of the major raw material, namely aluminum, and the increasing number of competitors. A larger production base will allow our Group to have a bigger bargaining power against the suppliers, and to achieve the economy of scale necessary to keep the prices of its products competitive;

FUTURE PLANS AND USE OF PROCEEDS

- the utilisation rate of our Group's production lines for chip type aluminum electrolytic capacitors had increased significantly from 60.4% for the year ended 31 December 2015 to 89.1% for the year ended 31 December 2016 which further increased to 95.9% for the four-month period ended 30 April 2017;
- the segment revenue of our manufacturing business in the four-month period ended 30 April 2017 has increased by 85.8% when compared with the corresponding period in 2016; and
- our order on hand for chip type aluminum electrolytic capacitors as at the Latest Practicable Date has already exceeded our current production capacity.

The Dongguan production plant currently does not have enough space for the additional production machinery required for the expansion of production. Our Company plans to identify a suitable premises in Dongguan, Guangdong Province, the PRC to relocate the existing production lines of the radial lead type aluminum electrolytic capacitors to the new production plant, so that the existing Dongguan production plant has the necessary space to install new machinery for the expansion of the production of chip-type aluminum electrolytic capacitors. With the completion of our implementation plan of increasing our production capacity by 31 December 2018, our Group's chip type aluminum electrolytic capacitors will be increased by 60%, from 50 million pieces per month to 80 million pieces per month, using the production lines at our existing premises in Dongguan Production Plant and also the second production plant in Dongguan, Guangdong Province, the PRC. Our Directors consider that the costs of relocating the existing production lines of the radial lead type aluminum electrolytic capacitors to the second production plant in Dongguan, Guangdong Province, the PRC is immaterial.

Our Group also intends to maintain our research and development effort by recruiting more research and development staff to improve our production efficiency, reduce yield loss, and reduce the maintenance frequency of our production equipment.

Our Directors believe that in the long run, our branded products will have a higher gross profit margin when we build up our reputation as a reliable manufacturer over time. It is therefore important for us to promote our branded products through marketing events and to establish direct sales team.

FUTURE PLANS AND USE OF PROCEEDS

In summary, the implementation of our Group's business objectives and strategies from the Latest Practicable Date to 30 June 2019 will be funded by the net proceeds from the Share Offer to be received by our Group as follows:

	For the six months ending					As a percentage of total net proceeds
	From the Latest Practicable Date to					
	31 December 2017 <i>HK\$'million</i>	30 June 2018 <i>HK\$'million</i>	31 December 2018 <i>HK\$'million</i>	30 June 2019 <i>HK\$'million</i>	Total <i>HK\$'million</i>	
To increase the production capacity of our Group's chip type aluminum electrolytic capacitors	12.4	1.5	3.1	1.2	18.2	61.7%
To establish the second production plant in Dongguan, Guangdong Province, the PRC	—	2.5	2.4	0.7	5.6	19.0%
To continue research and development effort	—	1.9	0.2	—	2.1	7.1%
To promote our branded products	0.5	0.6	0.6	0.3	2.0	6.8%
General working capital	0.2	0.5	0.5	0.4	1.6	5.4%

The Directors consider that the net proceeds from the Share Offer to be received by our Group and our Group's internal resources and the existing bank financing available to our Group will be sufficient to finance our Group's business plans up to 30 June 2019.

To the extent that the net proceeds from the Share Offer to be received by our Group are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds be placed in short-term interest bearing deposit accounts held with authorised financial institutions.

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Placing Underwriters

Pacific Foundation Securities Limited
Venco Capital Limited
Ample Orient Capital Limited
Frontpage Capital Limited
Nuada Limited

Public Offer Underwriters

Pacific Foundation Securities Limited
Venco Capital Limited
Ample Orient Capital Limited
Frontpage Capital Limited
Nuada Limited

Sole Bookrunner

Pacific Foundation Securities Limited

Joint Lead Managers

Pacific Foundation Securities Limited
Venco Capital Limited

Co-Managers

Ample Orient Capital Limited
Frontpage Capital Limited
Nuada Limited

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This prospectus is published solely in connection with the Share Offer. The Share Offer is fully underwritten by the Underwriters on a conditional basis.

PUBLIC OFFER UNDERWRITING ARRANGEMENTS

Public Offer

The Public Offer Underwriting Agreement was entered into on 30 October 2017. Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

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Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Stock Exchange and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered 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.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) have the right, in their absolute determination, to terminate the obligations of the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers and the Public Offer Underwriters under the Public Offer Underwriting Agreement upon the occurrence of any of the following events:

- (a) there has come to the notice of the Joint Lead Managers:
 - (i) that any statement contained in this prospectus or the Application Forms, considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material in relation to the Share Offer, was, when the same was issued, or has become, untrue, incorrect or misleading in any material respect or that any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms and/or any announcements issued by our Company in connection with the Share Offer (including any supplement or amendment thereto), was, when it was made, not honestly made in any material respects; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a misstatement in a material respect or a material omission therefrom as considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material to the Share Offer; or
 - (iii) any material breach of any of the obligations imposed upon any party under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (other than on any of the Underwriters); or
 - (iv) any breach, considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material in the context of the Share Offer, of any of the representations, warranties and undertakings given by our Company, our Executive Directors

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and Controlling Shareholders contained in the Public Offer Underwriting Agreement to be untrue, incorrect, inaccurate or misleading in any material respect; or

- (v) any change or development involving a prospective change in the conditions, business affairs, profits, losses or the financial or trading position or performance of any members of our Group which is considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their reasonable opinion to be material in the context of the Share Offer; or
 - (vi) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (vii) our Company withdraws this prospectus and the Application Forms (and/or any other documents used in connection with contemplated subscription of the Offer Shares) or the Share Offer; or
 - (viii) any person (other than any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus and the Application Forms or to the issue of this prospectus and the Application Forms; or
 - (ix) other than with the approval of the Joint Lead Managers, the issue or requirement to issue by our Company of any supplement or amendment to this prospectus and the Application Forms (or to any other documents used in connection with the contemplated subscription and sale of the Offer Shares) pursuant to the Companies (WUMP) Ordinance, the GEM Listing Rules, the SFO or any other applicable laws, or any requirement or request of the Stock Exchange and/or the SFC where the matter to be disclosed is, in the sole and reasonable opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), materially adverse to the marketing or implementation of the Share Offer; or
 - (x) any prohibition on our Company by a governmental authority for whatever reasons from offering, allotting, issuing or selling of the Offer Shares pursuant to the terms of the Share Offer; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development involving a prospective change, in local, national, regional or international, financial, political, military, industrial, economic, fiscal, regulatory, currency

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or market conditions in or affecting Hong Kong, PRC, the Cayman Islands, the BVI or any relevant jurisdiction (collectively, the “**Relevant Jurisdictions**” and individually, a “**Relevant Jurisdiction**”); or

- (ii) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (iii) any event or series of events in the nature of force majeure (whether or not covered by insurance or responsibility has been claimed) including, without limitation, acts of government, strikes, lock-outs, fire, explosions, flooding, earthquakes, epidemics, pandemics, outbreaks of infections, diseases, SARS and Influenza A (H5N1) and any related or mutated forms of infectious diseases, civil commotions, economic sanctions, public disorder, social or political crises, acts of war, acts of terrorism, acts of God, accidents or interruptions or delays in transportation in or affecting any Relevant Jurisdiction; or
- (iv) 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 calamity or crisis in or affecting any Relevant Jurisdiction; or
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the NASDAQ Global Select Market, the Tokyo Stock Exchange, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Singapore Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Tokyo, Hong Kong, China, the BVI or the Cayman Islands declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or
- (vi) any change or development involving a prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (viii) any litigation, legal action or claim being instituted against any member of our Group; or

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- (ix) the commencement by any governmental, law enforcement agency, regulatory or political body or organisation of any action against any Director or any member of our Group or an announcement by any governmental, law enforcement agency, regulatory or political body or organisation that it intends to take any such action; or
- (x) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his position that leads to the circumstances where the operations of our Group will be materially and is likely, in the sole and absolute discretion of the Joint Lead Managers (acting reasonably for themselves and on behalf of the Public Offer Underwriters), be adversely affected; or
- (xii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or substantive part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (xiii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) or any aspect of the Share Offer with the GEM Listing Rules, the Articles of Association, the Companies (WUMP) Ordinance, the Companies Law, the SFO or any other applicable laws by any of the warrantors under the Public Offer Underwriting Agreement; or
- (xiv) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity; or
- (xv) any change or development involving a prospective change, or a materialisation of, any of the risk factors set out in the section headed “Risk factors” in this prospectus,

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which in each case in the reasonable opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters):

- (1) is or will or could be expected to have a material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of our Company or our Group or any members of our Group taken as a whole or on any present or prospective shareholder in his, her or its capacity as such; or
- (2) has or will have or could be expected to have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or
- (3) makes it impracticable, inadvisable or inexpedient for the Share Offer to proceed as a whole or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
- (4) has or will have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

UNDERTAKINGS PURSUANT TO THE PUBLIC OFFER UNDERWRITING AGREEMENT

Undertaking by our Company

We have undertaken to each of the Joint Lead Managers, the Sole Bookrunner, the Sole Sponsor, the Co-Managers and the Public Offer Underwriters that, except pursuant to the Share Offer, the Capitalisation Issue and the options that may be granted under the Share Option Scheme, we will not, and will procure our subsidiaries will not, without the prior written consent of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed) and unless in compliance with the requirements of the GEM Listing Rules, at any time from the date of the Public Offer Underwriting Agreement and ending on the date which is six months after the Listing Date (the “**First Six-Month Period**”):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any Shares or other securities of our Company or any shares or other securities of other member of our Group or any interest

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therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any of the above transactions; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so, in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise; and
- (e) in the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the First Six-month Period (the “**Second Six-Month Period**”), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for the Shares or other securities of our Company.

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders, pursuant to the Public Offer Underwriting Agreement, has jointly and severally agreed with and undertaken to the Joint Lead Managers, the Sole Bookrunner, the Sole Sponsor, the Co-Managers and the Public Offer Underwriters that, except pursuant to the Share Offer and the Capitalisation Issue, he/it will not, and will procure that his/its relevant registered holder(s) and associates will not, without the prior written consent of the Joint Lead Managers (for themselves and on behalf of the Sole Bookrunner, the Sole Sponsor and the Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed) and unless in compliance with the GEM Listing Rules,

- (a) at any time during the First Six-Month Period:
 - (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the Share in respect of which he/it is shown in this prospectus to be the beneficial owner (directly or indirectly), share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or any interest therein) whether now owned or hereinafter acquired, directly or

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- indirectly by any of our Controlling Shareholders (including holding as a custodian) or with respect to which any of our Controlling Shareholders has beneficial interest; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such shares, capital or other securities or any interest therein; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
 - (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i) or (ii) or (iii) above, whether any such transaction described in paragraph (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise;
- (b) at any time during the following 12 months immediately after the expiry of the First Six-Month Period (the “**12-Month Period**”):
- (i) enter into any of the foregoing transactions in paragraphs (a)(i) or (a)(ii) or (a)(iii) above if, immediately following such transaction, it will cease to be a Controlling Shareholder of our Company or would together with the other Controlling Shareholders cease to be Controlling Shareholders of our Company; and
 - (ii) until the expiry of the 12-Month Period: in the event that any of our Controlling Shareholders enters or agrees or contracts to or publicly announce an intention to enter into the foregoing transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of our Company.
- (c) Each of our Controlling Shareholders has undertaken to our Company that, within the First Six-Month Period and the 12-Month Period, he/it will:
- (i) when he/it pledges or charges any Shares beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18 of the GEM Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
 - (ii) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.
- (d) Our Company undertakes to and covenants with the Joint Lead Managers, the Co-Managers and the Public Offer Underwriters that our Company shall forthwith inform the Joint Lead Managers and the Stock Exchange in writing

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immediately after it has been informed of the matters referred to in paragraph (c) above, and our Company shall disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

UNDERTAKINGS PURSUANT TO THE GEM LISTING RULES

Undertaking by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

Undertaking 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 and our Company that save as permitted under the GEM Listing Rules and pursuant to the Share Offer he/it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, 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; and
- (b) in the period of six months commencing on the date on which the period referred to in the paragraph (a) 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 in the paragraph (a) 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) of our Company.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company to comply with the following requirements:

- (a) in the event that he/it pledges or charges any direct or indirect interest in the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner 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

UNDERWRITING

waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, 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

- (b) having pledged or charged any interest in Shares under sub-paragraph (a) 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.

The additional 6-month lock-up undertaking given by the Controlling Shareholders over and above the lock-up undertaking required by Rule 13.16A(1) of the GEM Listing Rules as described above is voluntary in nature. Please refer to the risk factor set out in the section headed “Risk factors — Substantial future sales or the expectation of sales of Shares in the public market by our Controlling Shareholders could cause the price of our Shares to decline” in this prospectus.

PLACING

In connection with the Placing, on 30 October 2017, our Company entered into the Placing Underwriting Agreement with, *inter alia*, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above. Under the Placing Underwriting Agreement, the Placing Underwriters will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

Potential investors should note that if the Placing Underwriting Agreement is terminated, the Share Offer will not proceed.

COMMISSION AND EXPENSES

The Underwriters will receive an underwriting commission of 7% on the aggregate Offer Price of all the Offer Shares, out of which any sub-underwriting commission, praecipium and selling concession will be paid.

The aggregate of the underwriting commissions, documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and printing and other professional fees and expenses relating to the Share Offer is estimated to amount to approximately HK\$25.5 million in total, based on the Offer Price of HK\$0.275 per Offer Share, being midpoint of the indicative Offer Price range.

UNDERWRITING

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for the obligations under the Underwriting Agreements, as at the Latest Practicable Date, none of the Underwriters was interested, directly or indirectly, in any Shares or securities in any member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any Shares or securities in any member of our Group.

SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

The Share Offer comprises:

- (i) the Public Offer of 20,000,000 Public Offer Shares (subject to reallocation as mentioned below) in Hong Kong; and
- (ii) the Placing of an aggregate of 180,000,000 Placing Shares being offered by our Company for subscription (subject to reallocation as mentioned below).

Investors may apply for Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for Offer Shares under the Placing, but may not do both.

The Offer Shares will represent 25% of the enlarged issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by an 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 before Monday, 6 November 2017. Prospective investors should be aware that 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 or before Monday, 6 November 2017 (or such other date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the underwriters)), the Share Offer will not proceed and will lapse.

The Offer Price will not be more than HK\$0.30 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share. The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range to below the above stated in this prospectus at any time prior to the Price Determination Date. If this occurs, notice of 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.verticaltech.com.cn.

PRICE PAYABLE ON APPLICATION

You must pay the maximum Offer Price of HK\$0.30 per Offer Share plus a 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, subject to refund if the Offer Price as finally determined is less than HK\$0.30 per Offer Share. This means a total of HK\$3,030.23 is payable for every board lot of 10,000 Shares.

ANNOUNCEMENT OF THE BASIS OF ALLOCATIONS

The final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be announced on Friday, 10 November 2017 on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.verticaltech.com.cn.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (i) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue (including the Shares issuable upon exercise of options which may be granted under the Share Option Scheme) and the Share Offer on GEM and such approval not having been withdrawn; and
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the 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 30 days 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 its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by our Company on the websites of our Company and the Stock Exchange at www.verticaltech.com.cn and www.hkexnews.hk respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in section headed “How to apply for Public Offer Shares — 13. Refund of application monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Friday, 10 November 2017 and will only become valid certificates of title at 8:00 a.m. on Monday, 13 November 2017 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in section headed “Underwriting — Public Offer underwriting arrangements — Grounds for termination” has not been exercised at or before that time.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

All necessary arrangements have been made for the Shares to be admitted into CCASS. Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange 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. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 13 November 2017, it is expected that dealing in the Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 13 November 2017.

The Shares will be traded in board lots of 10,000 Shares each and the stock code of the Shares will be 8375.

THE PUBLIC OFFER

Number of the Public Offer Shares

The Public Offer is a fully underwritten public offer (subject to satisfaction or waiver of the other conditions provided in the Public Offer Underwriting Agreement and described in the paragraph headed “Conditions of the Share Offer” above) for the subscription in Hong Kong of, initially, 20,000,000 Public Offer Shares at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Share Offer). Subject to the reallocation of Offer Shares between the Placing and the Public Offer described below, the Public Offer Shares will represent 2.5% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Share Offer, without taking into account any Shares which fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

Allocation

The Public Offer is open for subscription to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The allocation of the Public Offer Shares to investors will be based solely on the level of valid applications received under the Public Offer at the sole discretion of the Sole Bookrunner.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

interest for or taken up and will not indicate an interest for or take up any Placing Shares in the Placing, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be.

Reallocation

The allocation of the Shares between the Public Offer and the Placing is subject to adjustment. If the number of Shares validly applied for in the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Public Offer, the total number of Shares available under the Public Offer will be increased to 60,000,000, 80,000,000 and 100,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Share Offer. In such cases, the number of Shares allocated in the Placing will be correspondingly reduced, in such manner as the Joint Lead Managers deem appropriate.

If the Public Offer is not fully subscribed, the Sole Bookrunner has the discretion to reallocate to the Placing all or any unsubscribed Public Offer Shares in such numbers as it deems appropriate. In addition, the Sole Bookrunner may in its sole and absolute discretion allocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer.

If the Placing is not fully subscribed, the Sole Bookrunner may reallocate to the Public Offer all or any unsubscribed Placing Shares in such numbers as the Sole Bookrunner deems appropriate.

PLACING

Number of the Placing Shares

The number of the Offer Shares to be initially offered for subscription and/or purchase under the Placing will be 180,000,000 Placing Shares, being New Shares initially offered by our Company for subscription (subject to reallocation as described above), representing 90% of the Offer Shares available under the Share Offer. The Placing is fully underwritten by the Placing Underwriters.

Allocation

The Placing will include selective marketing of Offer Shares to institutional and professional investors and/or other investors expected to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Pursuant to the Placing, the Placing Shares will be conditionally placed on our behalf by the Placing Underwriters or through selling agents appointed by them. The Placing is subject to the Public Offer becoming unconditional.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation of the Placing Shares to investors under the Placing will be determined by the Sole Bookrunner and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its Placing Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of an appropriate shareholder base to our benefit and the benefit of the Shareholders as a whole.

The Joint Lead Managers (for themselves and on behalf of the Underwriters), may require any investor who has been offered Offer Shares under the Placing and who has made an application under the Public Offer to provide sufficient information to the Sole Bookrunner so as to allow it to identify the relevant applications under the Public Offer and to ensure that such investor is excluded from any application of Placing Shares under the Placing.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealings in our Shares (or exercising rights attached to them). None of our Group, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers, the Underwriters, any of their respective directors, agents or advisors or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, our Shares.

HONG KONG REGISTER OF MEMBERS

Our principal register of members will be maintained by our Principal Share Registrar, Conyers Trust Company (Cayman) Limited in the Cayman Islands and our Hong Kong branch register of members will be maintained in Hong Kong by Tricor Investor Services Limited, our Hong Kong Branch Share Registrar.

STAMP DUTY

Dealings in our Shares registered in our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. Therefore a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via the **HK eIPO White Form Service** at **www.hkeipo.hk**; or
- (c) 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 Sole Bookrunner, the **HK eIPO White Form Service Provider** and their agents and nominees may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you (or the person(s) for whose benefit you are applying):

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States, and are not a United States Person (as defined in Regulation S); and
- (d) are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form Service**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

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 or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Bookrunner, the Joint Lead Managers or their respective agents and nominees may accept or reject 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 and they may not apply by means of **HK eIPO White Form Service** for the Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares and/or any of our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of our subsidiaries;
- are a core connected person of our Company or will become a core connected person of our Company immediately upon completion of the Share Offer;
- are a close associate of any of the above; and
- have been allocated or have applied for or indicated an interest in any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR THE PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Where to collect the Application Forms

You can collect a **WHITE** Application Form and prospectus during normal business hours from 9:00 a.m. on Tuesday, 31 October 2017 until 12:00 noon on Friday, 3 November 2017 from:

- (a) the offices of the Sole Bookrunner and Joint Lead Managers:

Sole Bookrunner and Joint Lead Manager	Pacific Foundation Securities Limited 11/F, New World Tower II 16–18 Queen's Road Central Hong Kong
Joint Lead Manager	Vinco Capital Limited Units 4909–4910, 49/F The Center, 99 Queen's Road Central Hong Kong

- (b) the offices of Co-Managers:

Co-Managers:	Ample Orient Capital Limited Room A, 17/F, Fortune House 61 Connaught Road Central Central, Hong Kong
	Frontpage Capital Limited 26th Floor, Siu On Centre 188 Lockhart Road Wan Chai, Hong Kong
	Nuada Limited Unit 1805–08, 18/F OfficePlus @Sheung Wan 93–103 Wing Lok Street Sheung Wan, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (c) or any of the following branches of Bank of China (Hong Kong) Limited, the receiving bank for the Public Offer:

District	Branch name	Address
Hong Kong Island	Gilman Street Branch	136 Des Voeux Road Central
	North Point (King's Centre) Branch	193–209 King's Road, North Point
Kowloon	Prince Edward Road West (Mong Kok) Branch	116–118, Prince Edward Road West, Mong Kok, Kowloon
	Waterloo Road Branch	Shop A2, Man Kee Mansion, 86 Waterloo Road, Kowloon
New Territories	Tai Po Branch	68–70 Po Heung Street, Tai Po Market

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 31 October 2017 until 12:00 noon on Friday, 3 November 2017 from:

- (i) the Depository Counter of HKSCC at 1/F., One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- (ii) your stockbroker.

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 "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — VERTICAL INTERNATIONAL PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

Tuesday, 31 October 2017	— 9:00 a.m. to 5:00 p.m.
Wednesday, 1 November 2017	— 9:00 a.m. to 5:00 p.m.
Thursday, 2 November 2017	— 9:00 a.m. to 5:00 p.m.
Friday, 3 November 2017	— 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 3 November 2017, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** Service, among other things, you:

- undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Bookrunner (or its 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;
- agree to comply with the Companies (WUMP) Ordinance and the Articles of Association;
- 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;
- 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;
- confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- agree that none of our Company, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or 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);
- 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 Placing nor participated in the Placing;
- agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Joint Lead Managers, the Sole Bookrunner, the Co-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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 Joint Lead Managers, the Sole Bookrunner, the Co-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 Form;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) 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;
- warrant that the information you have provided is true and accurate;
- agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- 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 e-Auto Refund payment instructions and/or 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 the share certificate(s) and/or refund cheque(s) in person;
- 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;
- understand that our Company, our Directors and the Sole Bookrunner and their respective agents and nominees 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;
- (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 or to the **HK eIPO White Form** Service by you or by any one as your agent or by any other person; and

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (if you are making the application as an agent for the benefit of another person) warrant that (i) 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** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) 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 monies 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 at <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 Center,
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 the Hong Kong Share Registrar.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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;
 - 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 Placing;
 - (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 Sole Bookrunner and their respective agents and nominees 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or 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 Branch Share Registrar, receiving bank, the Sole Bookrunner, the Joint Lead Managers, the Co-Managers, the Underwriters and/or its 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 a 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 a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this 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 (WUMP) 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 **electronic application instructions** to apply for the Public Offer Shares;

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- 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 our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) 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:

- (a) 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;
- (b) instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and 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, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- (c) 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 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, 31 October 2017	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 1 November 2017	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 2 November 2017	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 3 November 2017	—	8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) 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 Tuesday, 31 October 2017 until 12:00 noon on Friday, 3 November 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 3 November 2017, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” below.

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 (WUMP) 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 (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banker, the Sole Bookrunner, the Joint Lead Managers, the Co-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.

6. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed “2. Who can apply for the Public Offer Shares” in this section, may apply through the **HK eIPO White Form Service** for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form Service** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form Service** to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form Service**.

Time for submitting applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form Service** at **www.hkeipo.hk**. (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 31 October 2017 until 11:30 a.m. on Friday, 3 November 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 3 November 2017 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form Service** to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form Service** or by any other means, all of your applications are liable to be rejected.

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Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

7. 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. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** Service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are 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 Bookrunner, the Joint Lead Managers, the Sole Sponsor, the Co-Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** Service 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 Friday, 3 November 2017.

8. 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 or through **HK eIPO White Form** Service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an

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application is made by an unlisted company and:

- (a) the principal business of that company is dealing in securities; and
- (b) 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 our company;
- control more than half of the voting power of our company; or
- hold more than half of the issued share capital of our 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).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and 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 or through the **HK eIPO White Form** Service in respect of a minimum of 10,000 Public Offer Shares. Each application or electronic application instruction 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 or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and 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 the section headed “Structure and conditions of the Share Offer — Price payable on application” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a “black” rainstorm warning,

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in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 3 November 2017. 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 Friday, 3 November 2017 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 the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of the indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Friday, 10 November 2017 on our Company’s website at **www.verticaltech.com.cn** and the website of the Stock Exchange 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 date and in the manner specified below:

- (a) in the announcement to be posted on our Company’s website at **www.verticaltech.com.cn** and the Stock Exchange’s website at **www.hkexnews.hk** by no later than 8:00 a.m. on Friday, 10 November 2017;
- (b) from the designated results of allocations website at **www.tricor.com.hk/ipo/result** with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 10 November 2017 to 12:00 midnight on Thursday, 16 November 2017;
- (c) by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 10 November 2017 to Wednesday, 15 November 2017 on a Business Day; and
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Friday, 10 November 2017 to Tuesday, 14 November 2017 at all the designated receiving bank branches.

If our Company accepts your offer to purchase (in whole or in part), which we 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 the section headed “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.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form Service**, 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 a 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 (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) 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 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 the results of the ballot respectively.

(b) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Bookrunner, the **HK eIPO White Form Service Provider** 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.

(c) If the allotment of the Public Offer Shares is void:

The allotment of the Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or

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- (ii) within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- (i) you make multiple applications or suspected multiple applications;
- (ii) 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;
- (iii) your Application Form is not completed in accordance with the stated instructions;
- (iv) your electronic application instructions through the **HK eIPO White Form** are not completed in accordance with the instructions, terms and conditions on the designated website;
- (v) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- (vi) the Underwriting Agreements do not become unconditional or are terminated;
- (vii) our Company or the Sole Bookrunner believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- (viii) your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

13. 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\$0.30 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with section headed "Structure and 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, SFC transaction levy and 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 Friday, 10 November 2017.

14. 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 the 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:

- (a) 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
- (b) 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 the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and 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 Friday, 10 November 2017. 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 Monday, 13 November 2017 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting — Public Offer underwriting arrangements — Grounds for termination” in this prospectus 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.

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Personal collection

(a) 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) in person from our Company's Hong Kong Branch Share Registrar at Level 22, Hopewell centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 10 November 2017 or such other date as notified by us.

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 the Hong Kong Branch 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 dispatched promptly 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 Friday, 10 November 2017, by ordinary post and at your own risk.

(b) 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 for collection of refund cheque(s). 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 Friday, 10 November 2017, 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 CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 10 November 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

(i) 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.

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(ii) If you are applying as a CCASS investor participant

We will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in paragraph headed "11. 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 Friday, 10 November 2017 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 CCASS Internet System.

(c) If you apply via electronic application instructions to HKSCC

Allocation of the Public Offer Shares

For the purposes of allocating the 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 Friday, 10 November 2017 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 Shares in the manner specified in "— 11. Publication of results" above on Friday, 10 November 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 10 November 2017 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 you via the CCASS Phone System and the CCASS

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Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 10 November 2017. 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, SFC transaction levy and 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 Friday, 10 November 2017.

(d) If you apply through the HK eIPO White Form Service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 10 November 2017 or such other date as notified by our Company on the website of the Stock Exchange at www.hkexnews.hk or the website of the Company at www.verticaltech.com.cn as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Friday, 10 November 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply 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 date of commencement of dealings in the Shares or, under contingent situation, 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 the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-52, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte.**德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF VERTICAL INTERNATIONAL HOLDINGS LIMITED AND VINCO CAPITAL LIMITED****Introduction**

We report on the historical financial information of Vertical International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-52, which comprises the consolidated statements of financial position as at 31 December 2015 and 2016 and 30 April 2017, the statement of financial position of the Company as at 30 April 2017, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the two years ended 31 December 2016 and for the four-month period ended 30 April 2017 (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-52 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 October 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 1 to the Historical Financial Information, and for such internal control as the directors of the Company 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 1 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 accounting estimates made by the directors of the Company, 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 Group's financial position as at 31 December 2015 and 2016 and 30 April 2017 and of the Company's financial position as at 30 April 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 1 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 consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the four-month period ended 30 April 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 1 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 1 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 11 to the Historical Financial Information which states that no dividend has been paid by the Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 October 2017

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 consolidated financial statements of the Company and its subsidiaries for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK dollars" or "HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 31 December		For the four-month period ended 30 April	
		2015	2016	2016	2017
	NOTES	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Revenue	5	75,766	92,774	19,993	32,530
Cost of sales		<u>(60,017)</u>	<u>(71,625)</u>	<u>(16,455)</u>	<u>(25,708)</u>
Gross profit		15,749	21,149	3,538	6,822
Other income	6	261	200	22	11
Other gains and losses	7	(48)	46	(1)	(51)
Selling and distribution costs		(1,432)	(2,308)	(655)	(714)
Administrative expenses		(5,017)	(5,199)	(1,473)	(2,051)
Finance costs	8	(475)	(284)	(90)	(92)
Listing expenses		<u>—</u>	<u>(2,171)</u>	<u>—</u>	<u>(7,414)</u>
Profit (loss) before taxation	9	9,038	11,433	1,341	(3,489)
Income tax expense	10	<u>(2,388)</u>	<u>(2,307)</u>	<u>(381)</u>	<u>(211)</u>
Profit (loss) for the year/period		6,650	9,126	960	(3,700)
Other comprehensive (expense) income for the year/period					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations		<u>(568)</u>	<u>(2,022)</u>	<u>73</u>	<u>614</u>
Total comprehensive income (expense) for the year/period		<u><u>6,082</u></u>	<u><u>7,104</u></u>	<u><u>1,033</u></u>	<u><u>(3,086)</u></u>
Earnings (loss) per share — basic (Hong Kong cents)	13	<u><u>1.11</u></u>	<u><u>1.52</u></u>	<u><u>0.16</u></u>	<u><u>(0.62)</u></u>

STATEMENTS OF FINANCIAL POSITION

		The Group			The Company
		As at 31 December 2015	As at 31 December 2016	As at 30 April 2017	As at 30 April 2017
	NOTES	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Non-current assets					
Property, plant and equipment	14	20,367	22,126	21,491	—
Investment in a subsidiary	32	—	—	—	26,486
		<u>20,367</u>	<u>22,126</u>	<u>21,491</u>	<u>26,486</u>
Current assets					
Inventories	15	7,818	7,844	8,214	—
Trade and bills receivables	16	33,807	36,592	29,674	—
Deposits, prepayments and other receivables	17	243	2,266	2,753	—
Tax recoverable		—	—	30	—
Restricted bank deposit	18	2,700	—	—	—
Bank balances and cash	18	<u>3,791</u>	<u>7,927</u>	<u>10,101</u>	—
		<u>48,359</u>	<u>54,629</u>	<u>50,772</u>	—
Current liabilities					
Trade and bills payables	19	16,868	17,579	18,431	—
Other payables and accruals	20	10,005	11,506	11,839	—
Amount due to a shareholder	21	9,326	6,584	—	—
Amount due to a subsidiary	28(iii)	—	—	—	7,418
Tax payable		2,086	2,901	940	—
Bank borrowings	22	4,014	4,298	3,804	—
Bank overdraft	22	<u>1,613</u>	<u>1,958</u>	<u>1,940</u>	—
		<u>43,912</u>	<u>44,826</u>	<u>36,954</u>	<u>7,418</u>
Net current assets (liabilities)		<u>4,447</u>	<u>9,803</u>	<u>13,818</u>	<u>(7,418)</u>
Total assets less current liabilities		<u>24,814</u>	<u>31,929</u>	<u>35,309</u>	<u>19,068</u>
Non-current liabilities					
Deferred tax liabilities	23	<u>167</u>	<u>178</u>	<u>158</u>	—
		<u>24,647</u>	<u>31,751</u>	<u>35,151</u>	<u>19,068</u>

		The Group		The Company
		As at 31 December	As at 30 April	As at 30 April
		2015	2016	2017
<i>NOTES</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves				
Share capital	24	— ⁺	— ⁺	— ⁺
Reserves		<u>24,647</u>	<u>31,751</u>	<u>19,068</u>
		<u>24,647</u>	<u>31,751</u>	<u>19,068</u>

⁺ Less than HK\$1,000

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital HK\$'000 (note 24)	Share premium HK\$'000	Special reserve HK\$'000 (note ii)	Statutory reserve HK\$'000 (note i)	Exchange reserve HK\$'000	(Accumulated losses)/retained profits HK\$'000	Total HK\$'000
At 1 January 2015	10	—	—	6	436	(1,877)	(1,425)
Profit for the year	—	—	—	—	—	6,650	6,650
Exchange differences arising on translation of foreign operations	—	—	—	—	(568)	—	(568)
Total comprehensive income for the year	—	—	—	—	(568)	6,650	6,082
Issue of shares (Note 1(a))	19,990	—	—	—	—	—	19,990
Effect of reorganisation (Note 1(c))	(20,000)	—	20,000	—	—	—	—
Transfer to statutory reserve	—	—	—	570	—	(570)	—
At 31 December 2015	— ⁺	—	20,000	576	(132)	4,203	24,647
Profit for the year	—	—	—	—	—	9,126	9,126
Exchange differences arising on translation of foreign operations	—	—	—	—	(2,022)	—	(2,022)
Total comprehensive income for the year	—	—	—	—	(2,022)	9,126	7,104
Transfer to statutory reserve	—	—	—	1,188	—	(1,188)	—
At 31 December 2016	— ⁺	—	20,000	1,764	(2,154)	12,141	31,751
Loss for the period	—	—	—	—	—	(3,700)	(3,700)
Exchange difference arising on the translation of foreign operations	—	—	—	—	614	—	614
Total comprehensive expense for the period	—	—	—	—	614	(3,700)	(3,086)
Deemed contribution	—	—	6,486	—	—	—	6,486
Effect of reorganisation (Notes 1(d) & (e))	—	26,486	(26,486)	—	—	—	—
At 30 April 2017	— ⁺	26,486	—	1,764	(1,540)	8,441	35,151
For the four-month period ended 30 April 2016 (unaudited)							
At 1 January 2016	— ⁺	—	20,000	576	(132)	4,203	24,647
Profit for the period	—	—	—	—	—	960	960
Exchange differences arising on translation of foreign operations	—	—	—	—	73	—	73
Total comprehensive income for the period	—	—	—	—	73	960	1,033
At 30 April 2016	— ⁺	—	20,000	576	(59)	5,163	25,680

Note:

- (i) Amount represents statutory reserve of the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, the subsidiaries in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.
- (ii) Special reserve represents (i) deemed contribution arisen from the capitalisation of an amount due to a shareholder of HK\$6,486,000 during the period ended 30 April 2017; and (ii) merger reserve arising from the acquisition of Vertical Technology by Vertical (BVI) on 30 December 2015 (Note 1(c)) and the acquisition of Vertical (BVI) by the Company on 17 March 2017 (Note 1(e)).

⁺ Less than HK\$1,000

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Operating activities				
Profit (loss) before taxation	9,038	11,433	1,341	(3,489)
Adjustments for:				
Depreciation of property, plant and equipment	2,070	2,386	815	771
(Gain) loss on disposal of property, plant and equipment	(99)	9	—	—
Loss on written off of property, plant and equipment	—	—	—	7
Write-down of inventories	924	322	—	—
Impairment loss recognised on trade receivables	285	—	—	—
Interest expense	475	284	90	92
Interest income	(6)	(9)	(1)	(4)
Operating cash flows before movements				
in working capital	12,687	14,425	2,245	(2,623)
Increase in inventories	(1,254)	(823)	(4,851)	(295)
(Increase) decrease in trade and bills receivables	(21,160)	(4,369)	2,460	7,156
Decrease (increase) in deposits, prepayments and other receivables	378	(2,066)	(734)	(477)
Increase in trade and bills payables	9,097	1,436	6,972	727
Increase (decrease) in other payables and accruals	964	2,020	(4,432)	258
Cash generated from operations	712	10,623	1,660	4,746
PRC Enterprise Income Tax paid	(198)	(920)	(70)	(2,252)
Hong Kong Profits Tax refund (paid)	88	(410)	—	—
Net cash from operating activities	602	9,293	1,590	2,494
Investing activities				
Purchase of property, plant and equipment	(1,172)	(5,037)	(2,853)	(10)
(Placement) withdrawal of restricted bank deposit	(2,700)	2,700	2,700	—
Proceeds from disposal of property, plant and equipment	99	202	—	—
Interest received	6	9	1	4
Net cash used in investing activities	(3,767)	(2,126)	(152)	(6)

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Financing activities				
Proceeds from issue of shares by a subsidiary (note 1(a))	19,990	—	—	—
Advance from a shareholder	3,196	5,421	906	—
Repayment to a shareholder	(10,340)	(8,050)	(605)	—
Repayment of bank borrowings	(8,691)	(2,156)	(801)	(494)
Interest paid	(475)	(284)	(90)	(92)
New bank borrowings raised	—	2,440	2,440	—
Net cash from (used in) financing activities	<u>3,680</u>	<u>(2,629)</u>	<u>1,850</u>	<u>(586)</u>
Net increase in cash and cash equivalents	515	4,538	3,288	1,902
Cash and cash equivalents at beginning of the year/ period	1,804	2,178	2,178	5,969
Effect of foreign exchange rate changes	<u>(141)</u>	<u>(747)</u>	<u>37</u>	<u>290</u>
Cash and cash equivalents at end of the year/period	<u><u>2,178</u></u>	<u><u>5,969</u></u>	<u><u>5,503</u></u>	<u><u>8,161</u></u>
Analysis of the balances of cash and cash equivalents				
Bank balances and cash	3,791	7,927	5,503	10,101
Bank overdrafts	<u>(1,613)</u>	<u>(1,958)</u>	<u>—</u>	<u>(1,940)</u>
	<u><u>2,178</u></u>	<u><u>5,969</u></u>	<u><u>5,503</u></u>	<u><u>8,161</u></u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION, GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION**General**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 January 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office and the principal place of business is disclosed in the section headed "Corporate Information" in this prospectus.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred as a "Group") are principally engaged in the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components.

The immediate and ultimate holding company is Vertical Technology Investment Limited ("Vertical Investment"), a company incorporated in the British Virgin Islands ("BVI") and wholly-owned by Mr. Boon Ho Yin Henry ("Mr. Boon" or the "Controlling Shareholder").

The functional currency of the Company is Hong Kong dollars ("HKD").

Group reorganisation and basis of preparation and presentation of the Historical Financial Information

The Historical Financial Information has been prepared based on the accounting policies set out in note 3 which confirm with HKFRSs and the conventions applicable for group reorganisation.

In preparing for the initial listing of the shares of the Company on the GEM of the Stock Exchange, the companies comprising the Group underwent a group reorganisation as described below (the "Reorganisation"). Prior to the Reorganisation, Vertical Technology Company Limited ("Vertical Technology") and its subsidiaries, the operating subsidiaries of the Group, were controlled by Mr. Boon. As part of the Reorganisation, investment holding companies, Vertical Technology (B.V.I.) Limited ("Vertical (BVI)") and the Company, were incorporated and interspersed between Vertical Technology and the Controlling Shareholder. Since then, the Company became the holding company of Group on 17 March 2017. The Group comprising the Company, Vertical (BVI) and Vertical Technology, resulting from the Reorganisation has always been under the common control of the Controlling Shareholder during the Track Record Period and before and after the Reorganisation. Therefore, it is regarded as a continuing entity and the Historical Financial Information has been prepared as if the Company had always been the holding company of the Group.

The principle steps of the Reorganisation as follows:

- (a) On 9 December 2015, 19,990,000 shares of Vertical Technology were allotted and issued for cash and fully paid at HK\$1 each to Mr. Boon.
- (b) On 23 December 2015, Vertical (BVI) was incorporated in the BVI with limited liability. Upon the incorporation, the authorised share capital of Vertical (BVI) was US\$50,000 divided into 50,000 shares of US\$1.00 each and one share was allotted and issued as fully paid at par to Mr. Boon upon incorporation.
- (c) On 30 December 2015, Mr. Boon and Vertical (BVI) entered into a sale and purchase agreement pursuant to which Mr. Boon transferred 20,000,000 shares of Vertical Technology to Vertical (BVI) at HK\$20,000,000, which was capitalised as deemed contribution on the date of transfer. Vertical Technology became a wholly-owned subsidiary of Vertical (BVI) thereafter.

- (d) On 3 January 2017, the Company was incorporated with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which one subscriber share was allotted and issued as fully paid to the first subscriber, an independent third party, which was subsequently transferred to Vertical Investment on the same date at par.
- (e) On 17 March 2017, the Company acquired the entire issued share capital of Vertical (BVI) from Mr. Boon. In consideration thereof and at the instruction of Mr. Boon, the Company allotted and issued as fully paid 99 shares to Vertical Investment. The said transfer was properly and legally completed and settled on the same date. After such transfer, Vertical (BVI) became a direct wholly-owned subsidiary of the Company and Vertical Technology, and its subsidiaries, namely, Shaoguan Hongfeng, Dongguan Shouke and Vertical Engineering (as defined in Note 32), became indirect wholly-owned subsidiaries of the Company.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies comprising the Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period, or since their respective date of incorporation, where this is a shorter period.

The consolidated statements of financial position of the Group as at 31 December 2015 and 2016 and 30 April 2017 have been prepared to present the assets and liabilities of the companies comprising the Group as if the Company had always been the holding company of the Group and the current group structure had been in existence at those dates taking into account the respective dates of incorporation, where applicable.

2. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the HKFRSs which are effective for the Group's accounting periods beginning on 1 January 2017 throughout the Track Record Period.

At the date of this report, HKICPA has issued the following new and amendments to HKFRSs that are not yet effective. The Group has not early adopted these new and amendments to HKFRSs.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transaction ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 40	Transfers of Investment property ¹
Amendments to HKFRSs	Annual Improvement to HKFRSs 2014–2016 except for the amendments to HKFRS 12 ¹

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 which is relevant to the Group is 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.

Based on the Group's financial instruments and risk management policies as at 30 April 2017, the directors of the Company anticipate that except for the application of the expected credit loss model of HKFRS 9 may result in earlier recognition of credit losses on the Group's financial assets measured at amortised cost taking into account the estimated credit risk of the customers which the Group has business with and the actual impairment of receivables experienced, there will be no significant impact on the Group's consolidated financial statements upon the application of HKFRS 9 in the future.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue 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.

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. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a 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 in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on the current business model, the directors of the Company do not anticipate that the application of HKFRS 15 would result in significant impact on the amounts reported on the Group's consolidated financial statements in the future. However, there will be additional qualitative and quantitative disclosures upon application of HKFRS 15.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 April 2017, the Group has non-cancellable operating lease commitments of approximately HK\$4,329,000 as disclosed in note 27. The directors of the Company do not expect the adoption of HKFRS 16 as compared with HKAS 17 would result in significant impact on the Group's result but expected that the above operating lease arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

Except as described above, the directors of the Company anticipate that the application of other new and amendments to HKFRSs will have no material impact on the Group's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information have been prepared on the historical cost basis, and in accordance with the following accounting policies which conform with HKFRSs issued by HKICPA. In addition, the Historical Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 *Share-based Payment*, 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 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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:

Basis of consolidation

The Historical Financial Information incorporate the financial statements of the entities now comprising the Group. 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 four elements of control listed above.

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 to direct the relevant activities of the investee unilaterally, including:

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements 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.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of each 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information 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 differences 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 the initial recognition of 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, 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 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 is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each 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 each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

Employee benefits

Pension schemes

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Property, plant and equipment

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

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

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculating using the weighted average cost 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. 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 financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest 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. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, restricted bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss of financial assets below).

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

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 assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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 past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial assets 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. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited the allowance account.

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 financial asset 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

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.

Financial liabilities at amortised cost

Financial liabilities, including trade and bills payables, other payables, amount due to a shareholder and bank borrowings, 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.

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 is recognised in profit or loss.

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

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its assets 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 of disposal 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

The following are the critical accounting judgement, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the two years ended 31 December 2015 and 2016 and for the four-month period ended 30 April 2017, that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year/period.

Write-down of inventories

Management of the Company reviews the inventories list at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified based on management's estimation and experience. As at 31 December 2015 and 2016 and 30 April 2017, the carrying amount of inventories is HK\$7,818,000, HK\$7,844,000 and HK\$8,214,000, respectively, and write-down of inventories of HK\$924,000, HK\$322,000 and HK\$nil was recognised in the profit or loss for the two years ended 31 December 2015 and 2016 and for the four-month period ended 30 April 2017, respectively. Management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. If the conditions of inventories are deteriorated, or the market conditions worsen significantly, additional allowances may be required.

Impairment of trade and other receivables

In determining whether there is objective evidence of impairment loss, the directors of the Company take into consideration of the financial strength of the counterparties, the credit history of the customers and the current market condition. When there is objective evidence for a receivable that may be impaired, the amount of the impairment loss is determined 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. The directors of the Company reassess the adequacy of impairment on a regular basis.

Where the actual cash flows are less than expected, material impairment loss may arise. The carrying amounts of the trade and other receivables are disclosed in Notes 16 and 17 to the Historical Financial Information respectively.

5. REVENUE AND SEGMENT INFORMATION

Information reported to the senior management of the Group, being the chief operating decision maker ("CODM"), is organised into divisions for the purposes of resource allocation and performance assessment focusing on the types of services delivered or provided. Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* are as follows:

— **Sales of manufactured aluminum electrolytic capacitors.**

Manufacturing and selling of aluminum electrolytic capacitors represents the manufacturing and selling of chip type and radial lead type aluminum electrolytic capacitors in the PRC.

— **Trading of electronic components.**

Trading of electronic components represents trading of (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors and (ii) LED and LED lighting products in Hong Kong and the PRC.

For the year ended 31 December 2015

	Sales of manufactured Aluminum Electrolytic Capacitors <i>HK\$'000</i>	Trading of electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	<u>38,451</u>	<u>37,315</u>	<u>75,766</u>
RESULTS			
Segment profit	<u>10,463</u>	<u>5,001</u>	15,464
Unallocated expenses			(6,449)
Other income			261
Other gains and losses			237
Finance costs			<u>(475)</u>
Profit before taxation			<u>9,038</u>

For the year ended 31 December 2016

	Sales of manufactured Aluminum Electrolytic Capacitors <i>HK\$'000</i>	Trading of electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	<u>57,199</u>	<u>35,575</u>	<u>92,774</u>
RESULTS			
Segment profit	<u>16,889</u>	<u>4,260</u>	21,149
Unallocated expenses			(7,507)
Other income			200
Other gains and losses			46
Finance costs			(284)
Listing expenses			<u>(2,171)</u>
Profit before taxation			<u>11,433</u>

For the four-month period ended 30 April 2016 (unaudited)

	Sales of manufactured Aluminum Electrolytic Capacitors <i>HK\$'000</i>	Trading of electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	<u>11,245</u>	<u>8,748</u>	<u>19,993</u>
RESULTS			
Segment profit	<u>2,729</u>	<u>809</u>	3,538
Unallocated expenses			(2,128)
Other income			22
Other gains and losses			(1)
Finance costs			<u>(90)</u>
Profit before taxation			<u>1,341</u>

For the four-month period ended 30 April 2017

	Sales of manufactured Aluminum Electrolytic Capacitors <i>HK\$'000</i>	Trading of electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	<u>20,889</u>	<u>11,641</u>	<u>32,530</u>
RESULTS			
Segment profit	<u>5,147</u>	<u>1,675</u>	6,822
Unallocated expenses			(2,765)
Other income			11
Other gains and losses			(51)
Finance costs			(92)
Listing expenses			<u>(7,414)</u>
Loss before taxation			<u>(3,489)</u>

There were no inter-segment sales during the Track Record Period.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represents the profit earned by each segment without allocation of unallocated expenses (mainly including administrative expenses and selling and distribution costs), other income, certain other gains and losses, finance costs and listing expenses. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM of the Group.

Other segment information

For the year ended 31 December 2015

	Sales of manufactured Aluminum Electrolytic Capacitors HK\$'000	Trading of electronic components HK\$'000	Total HK\$'000
Amounts included in the measure of segment results:			
Impairment loss recognised on trade receivables	234	51	285
Depreciation of property, plant and equipment	1,692	—	1,692
Write-down of inventories	<u>924</u>	<u>—</u>	<u>924</u>
Amounts regularly provided to the CODM but not included in the measurement of segment results:			
Additions to property, plant and equipment	888	5,857	6,745
Depreciation of property, plant and equipment	<u>67</u>	<u>311</u>	<u>378</u>

For the year ended 31 December 2016

	Sales of manufactured Aluminum Electrolytic Capacitors HK\$'000	Trading of electronic components HK\$'000	Total HK\$'000
Amount included in the measure of segment results:			
Depreciation of property, plant and equipment	1,681	—	1,681
Write-down of inventories	<u>322</u>	<u>—</u>	<u>322</u>
Amounts regularly provided to the CODM but not included in the measurement of segment results:			
Additions to property, plant and equipment	3,939	1,098	5,037
Depreciation of property, plant and equipment	<u>83</u>	<u>622</u>	<u>705</u>

For the four-month period ended 30 April 2016 (unaudited)

	Sales of manufactured Aluminum Electrolytic Capacitors HK\$'000	Trading of electronic components HK\$'000	Total HK\$'000
Amount included in the measure of segment results:			
Depreciation of property, plant and equipment	587	—	587
Write-down of inventories	—	—	—
Amounts regularly provided to the CODM but not included in the measurement of segment results:			
Additions to property, plant and equipment	1,761	1,092	2,853
Depreciation of property, plant and equipment	25	203	228

For the four-month period ended 30 April 2017

	Sales of manufactured Aluminum Electrolytic Capacitors HK\$'000	Trading of electronic components HK\$'000	Total HK\$'000
Amount included in the measure of segment results:			
Depreciation of property, plant and equipment	552	—	552
Write-down of inventories	—	—	—
Amounts regularly provided to the CODM but not included in the measurement of segment results:			
Additions to property, plant and equipment	2	8	10
Depreciation of property, plant and equipment	30	189	219

Geographical information

The following tables provide an analysis of the Group's revenue from external customers by the location of customers:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Hong Kong	9,976	24,741	3,246	7,533
PRC	36,322	50,160	12,089	18,907
Malaysia	24,691	10,407	2,036	4,421
Other Asian regions (note)	4,777	7,466	2,622	1,669
	<u>75,766</u>	<u>92,774</u>	<u>19,993</u>	<u>32,530</u>

Note: Revenue generated from other Asian regions, other than Hong Kong, PRC and Malaysia mainly derived from sales to Japan, Singapore, South Korea, Macau and Indonesia based customers.

The following is an analysis of the carrying amounts of the Group's non-current assets (property, plant and equipment), analysed by the geographical area in which the assets are located:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Hong Kong	6,019	6,544	6,363
PRC	<u>14,348</u>	<u>15,582</u>	<u>15,128</u>
	<u>20,367</u>	<u>22,126</u>	<u>21,491</u>

Information about major customers

Revenue from major customer which accounted for 10% or more of the Group's revenue for each of the year comprising the Track Record Period is set out below:

	For the year ended		For the four-month period ended	
	31 December		30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Customer A from trading of electronic components	24,691	10,407	2,036	4,421
Customer B from trading of electronic components	N/A*	13,168	N/A*	5,072
Customer C from sales of manufactured Aluminum Electrolytic Capacitors	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>4,283</u>

* Revenue from Customer B and Customer C did not account for 10% or more of the Group's revenue during the respective reporting period.

6. OTHER INCOME

	For the year ended		For the four-month period ended	
	31 December		30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Scrap sales	215	157	—	5
Government subsidy	37	—	—	—
Bank interest income	6	9	1	4
Sundry income	<u>3</u>	<u>34</u>	<u>21</u>	<u>2</u>
	<u>261</u>	<u>200</u>	<u>22</u>	<u>11</u>

7. OTHER GAINS AND LOSSES

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Net foreign exchange gain (loss)	162	59	17	(44)
Impairment loss recognised on trade receivables	(285)	—	—	—
Gain (loss) on disposal of property, plant and equipment	99	(9)	—	—
Loss on written off of property, plant and equipment	—	—	—	(7)
Others	(24)	(4)	(18)	—
	<u>(48)</u>	<u>46</u>	<u>(1)</u>	<u>(51)</u>

8. FINANCE COSTS

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Interests on:				
— Bank borrowings	410	217	80	56
— Bank overdraft	65	67	10	36
	<u>475</u>	<u>284</u>	<u>90</u>	<u>92</u>

9. PROFIT (LOSS) BEFORE TAXATION

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Profit (loss) before taxation has been arrived at after charging:				
Cost of inventories recognised as expenses	60,017	71,625	16,455	25,708
Depreciation	2,070	2,386	815	771
Employee benefit expense (including directors' remuneration (<i>Note 12</i>))				
Wages and salaries	7,727	10,679	3,255	4,240
Pension scheme contributions	<u>1,005</u>	<u>1,347</u>	<u>151</u>	<u>124</u>
	8,732	12,026	3,406	4,364
Operating lease rental in respect of minimum lease payments of rented premises	855	605	265	343
Auditors' remuneration	111	21	—	—
Research and development expenses (included in cost of sales)	1,827	3,881	996	732
Write-down of inventories (included in cost of sales)	<u>924</u>	<u>322</u>	<u>—</u>	<u>—</u>

10. INCOME TAX EXPENSE

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Current tax:				
Hong Kong	176	161	—	44
PRC EIT	<u>2,153</u>	<u>2,121</u>	<u>319</u>	<u>519</u>
	<u>2,329</u>	<u>2,282</u>	<u>319</u>	<u>563</u>
Under (over) provision in prior year				
PRC EIT	—	14	14	(332)
Deferred tax charge (credit) (<i>Note 23</i>)	<u>59</u>	<u>11</u>	<u>48</u>	<u>(20)</u>
	<u>2,388</u>	<u>2,307</u>	<u>381</u>	<u>211</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the two years ended 31 December 2016 and for the four-month period ended 30 April 2017.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, PRC EIT is calculated at 25% of the assessable profits for subsidiaries established in the PRC. Pursuant to the relevant laws and regulations in the PRC, 東莞首科電子科技有限公司 is granted tax incentives as a High and New Technology Enterprise and is entitled to a preferential tax rate of 15% for 3 years from 1 January 2016 to 31 December 2018.

The income tax expense for the Track Record Period can be reconciled to the profit (loss) before taxation as follows:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Profit (loss) before taxation	<u>9,038</u>	<u>11,433</u>	<u>1,341</u>	<u>(3,489)</u>
Tax at the domestic income tax rate of 25%	2,259	2,858	335	(872)
Tax effect of expenses not deductible for tax purposes	393	999	280	1,923
Tax effect of different tax rate of subsidiary operating in other jurisdiction	(131)	(89)	(25)	(91)
Tax concession (<i>Note</i>)	(20)	—	—	—
Income tax at preferential tax rate	—	(1,419)	(212)	(399)
Under (over) provision in prior year	—	14	14	(332)
Utilisation of tax loss previously not recognised	<u>(113)</u>	<u>(56)</u>	<u>(11)</u>	<u>(18)</u>
Income tax expense	<u>2,388</u>	<u>2,307</u>	<u>381</u>	<u>211</u>

Note: The subsidiaries incorporated in Hong Kong entitled to a tax concession of HK\$20,000 for the year ended 31 December 2015.

11. DIVIDEND

No dividend has been paid or declared by the Company since its date of incorporation or by any companies comprising the Group during the Track Record Period.

12. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES

Mr. Boon and Ms. Chow Cheung Chu (“Ms. Chow”) have been appointed as the Executive Directors of the Company on 3 January 2017 and 7 April 2017, respectively, and Mr. Boon is also appointed as the chief executive officer of the Company on 7 April 2017.

On 24 October 2017, the Company appointed Mr. Liu Kwan, Mr. Chik Kin Man Paul and Mr. Wong Wai Leung as independent non-executive Directors of the Company.

Directors and Chief Executive

Details of the emoluments paid or payable by the entities comprising the Group to the directors and the chief executive of the Company in their capacity as directors or employees for their services in connection with the management of the affairs of the companies now comprising the Group during the Track Record Period are as follows:

For the year ended 31 December 2015

	Mr. Boon <i>HK\$'000</i>	Ms. Chow <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	44	—	44
Other emoluments			
— Salaries and other benefits	—	338	338
— Contributions to retirement benefits schemes	—	17	17
	<u>44</u>	<u>355</u>	<u>399</u>

For the year ended 31 December 2016

	Mr. Boon <i>HK\$'000</i>	Ms. Chow <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	42	—	42
Other emoluments			
— Salaries and other benefits	—	409	409
— Contributions to retirement benefits schemes	—	18	18
	<u>42</u>	<u>427</u>	<u>469</u>

For the four-month period ended 30 April 2016 (unaudited)

	Mr. Boon <i>HK\$'000</i>	Ms. Chow <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fees	14	—	14
Other emoluments			
— Salaries and other benefits	—	125	125
— Contributions to retirement benefits schemes	—	6	6
	<u>14</u>	<u>131</u>	<u>145</u>

For the four-month period ended 30 April 2017

	Mr. Boon HK\$'000	Ms. Chow HK\$'000	Total HK\$'000
Fees	14	—	14
Other emoluments			
— Salaries and other benefits	—	142	142
— Performance related bonus (<i>Note</i>)	—	35	35
— Contributions to retirement benefits schemes	—	6	6
	<u>14</u>	<u>183</u>	<u>197</u>

Note: The performance related bonus are determined with reference to the operating results and individual performance for the period.

Employees

The five highest paid individuals of the Group include one director of the Company for the Track Record Period, details of whose remunerations are set out above. Details of the remuneration for the Track Record Period of the remaining four highest paid individuals who are neither director nor chief executive of the Company are as follows:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Salaries and allowance	598	531	232	253
Performance related bonus (<i>Note</i>)	—	—	—	35
Contributions to retirement benefits schemes	<u>31</u>	<u>28</u>	<u>12</u>	<u>18</u>
	<u>629</u>	<u>559</u>	<u>244</u>	<u>306</u>

Note: The performance related bonus are determined with reference to the operating results and individual performance for the period.

The number of the highest paid employees who are not the directors nor chief executives of the Company whose remuneration fell within the following bands is as follows:

	Number of employees			
	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016 (unaudited)	2017
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the Track Record Period, no emoluments were paid by the Group to the director of the Company or the five highest paid individuals (including director and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the director waived or agreed to waive any emoluments during the Track Record Period.

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings per share is based on the following data:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Earnings:				
Earnings (loss) for the purpose of calculating basic earnings per share (profit (loss) for the year/ period)	<u>6,650</u>	<u>9,126</u>	<u>960</u>	<u>(3,700)</u>
Number of shares:				
Number of ordinary shares for the purpose of calculating basic earnings (loss) per share	<u>600,000,000</u>	<u>600,000,000</u>	<u>600,000,000</u>	<u>600,000,000</u>

The number of ordinary shares for the purpose of calculating basic earnings (loss) per share has been determined on the assumption that the Reorganisation as detailed in Note 1 and the Capitalisation Issue as referred to in the section headed "Share Capital" in the prospectus had been effected on 1 January 2015.

No diluted earnings (loss) per share for the Track Record Period was presented as there were no potential ordinary shares in issue during the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress ("CIP") <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST							
At 1 January 2015	—	341	455	21,245	1,310	—	23,351
Currency realignment	—	(15)	(5)	(293)	(28)	—	(341)
Addition	5,573	—	69	599	301	203	6,745
Disposal	—	—	—	(3,381)	(279)	—	(3,660)
At 31 December 2015	5,573	326	519	18,170	1,304	203	26,095
Currency realignment	—	(17)	(12)	(698)	(33)	(8)	(768)
Addition	—	218	339	3,206	870	404	5,037
Disposal	—	—	(255)	—	—	—	(255)
Transfer	—	—	—	567	—	(567)	—
At 31 December 2016	5,573	527	591	21,245	2,141	32	30,109
Currency realignment	—	2	2	142	5	—	151
Addition	—	8	2	—	—	—	10
Transfer	—	—	—	32	—	(32)	—
Written off	—	(247)	—	(16)	—	—	(263)
At 30 April 2017	<u>5,573</u>	<u>290</u>	<u>595</u>	<u>21,403</u>	<u>2,146</u>	<u>—</u>	<u>30,007</u>
DEPRECIATION							
At 1 January 2015	—	191	294	3,600	554	—	4,639
Currency realignment	—	(9)	(1)	(14)	(2)	—	(26)
Provided for the year	14	91	68	1,692	205	—	2,070
Elimination on disposal	—	—	—	(676)	(279)	—	(955)
At 31 December 2015	14	273	361	4,602	478	—	5,728
Currency realignment	—	(15)	(3)	(62)	(7)	—	(87)
Provided for the year	169	87	86	1,681	363	—	2,386
Elimination on disposal	—	—	(44)	—	—	—	(44)
At 31 December 2016	183	345	400	6,221	834	—	7,983
Currency realignment	—	2	1	14	1	—	18
Provided for the period	56	15	23	552	125	—	771
Elimination on written off	—	(247)	—	(9)	—	—	(256)
At 30 April 2017	<u>239</u>	<u>115</u>	<u>424</u>	<u>6,778</u>	<u>960</u>	<u>—</u>	<u>8,516</u>
CARRYING VALUES							
At 31 December 2015	<u>5,559</u>	<u>53</u>	<u>158</u>	<u>13,568</u>	<u>826</u>	<u>203</u>	<u>20,367</u>
At 31 December 2016	<u>5,390</u>	<u>182</u>	<u>191</u>	<u>15,024</u>	<u>1,307</u>	<u>32</u>	<u>22,126</u>
At 30 April 2017	<u>5,334</u>	<u>175</u>	<u>171</u>	<u>14,625</u>	<u>1,186</u>	<u>—</u>	<u>21,491</u>

The above items of property, plant and equipment are depreciated on a straight-line basis (other than CIP) after taking into account of their estimated residual value, at the following rates per annum:

Leasehold land and building	Over the estimated useful lives of 33 years or the term of lease whichever is shorter
Leasehold improvements	Over the estimated useful lives of 5 years or the term of lease whichever is shorter
Furniture and office equipment	19%–20%
Plant and machinery	9%–10%
Motor vehicles	20%

The leasehold interests in land in Hong Kong is accounted for as property, plant and equipment, as the allocation, between the land and building elements cannot be made reliably.

The leasehold land and building with the carrying value of approximately HK\$5,390,000 and HK\$5,334,000 as at 31 December 2016 and 30 April 2017, respectively, is pledged to a bank to secure banking facilities of HK\$5,840,000 and HK\$9,326,000 granted to the Group during the year ended 31 December 2016 and the period ended 30 April 2017, respectively.

15. INVENTORIES

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Raw materials and consumables	2,231	3,623	3,636
Work in progress	798	2,092	1,663
Finished goods	<u>4,789</u>	<u>2,129</u>	<u>2,915</u>
	<u>7,818</u>	<u>7,844</u>	<u>8,214</u>

16. TRADE AND BILLS RECEIVABLES

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Trade receivables	33,966	36,852	29,635
Allowance for doubtful debts	<u>(278)</u>	<u>(260)</u>	<u>(263)</u>
	33,688	36,592	29,372
Bills receivables	<u>119</u>	<u>—</u>	<u>302</u>
	<u>33,807</u>	<u>36,592</u>	<u>29,674</u>

The credit period allowed by the Group to its customers was up to 90 days from the date of issuing invoice. The following is an aged analysis of trade receivables based on delivery dates which is the revenue recognition point, net of allowance for doubtful debts at the end of each reporting period:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
0 to 30 days	10,406	16,151	10,910
31 to 60 days	6,960	9,156	11,077
61 to 90 days	5,171	4,644	3,648
91 to 180 days	5,598	5,728	3,258
181 days to 1 year	5,553	913	402
Over 1 year	—	—	77
	<u>33,688</u>	<u>36,592</u>	<u>29,372</u>

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed periodically.

The management of the Group closely monitors the credit quality of trade receivables and considers the debts that are neither past due nor impaired to be of good credit quality. Trade receivables that are neither past due nor impaired relates to a wide range of customers for whom there was no history of default.

Included in the Group's trade receivables balance are debtors with aggregate carrying amounts of HK\$12,837,000, HK\$6,740,000 and HK\$5,459,000 as at 31 December 2015 and 2016 and 30 April 2017 respectively which are past due at the end of the year 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.

Aging of trade receivables which are past due but not impaired prepared based on due dates

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
0 to 30 days	3,234	3,598	2,750
31 to 60 days	2,673	2,143	1,219
61 to 90 days	1,987	465	866
91 to 180 days	4,091	418	575
181 days to 1 year	<u>852</u>	<u>116</u>	<u>49</u>
	<u>12,837</u>	<u>6,740</u>	<u>5,459</u>

Movement in the allowance for doubtful debts

	For the year ended 31 December		For the four-month period ended 30 April
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Balance at beginning of the year	—	278	260
Impairment loss recognised on trade receivables	285	—	—
Exchange realignment	(7)	(18)	3
Balance at end of the year	<u>278</u>	<u>260</u>	<u>263</u>

Bills receivables are those bills not yet due at the end of the reporting period and the management considers the default rate is low as the Group did not encounter any default on bills receivables based on the past experience. The maturity period of all bills receivables as at 31 December 2015 and 30 April 2017 was within 90 days and 180 days, respectively.

The Group's trade receivables that are denominated in currencies other than the functional currencies of relevant group entities are set out below:

	As at 31 December		As at 30 April
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Denominated in United States Dollars ("US\$")	6,028	3,040	2,958
Denominated in Renminbi ("RMB")	<u>1,293</u>	<u>60</u>	<u>56</u>

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		As at 30 April
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Prepayments	139	838	808
Deferred listing expenses	—	731	1,293
Deposits	40	58	68
Other receivables	14	33	91
Value-added tax ("VAT") recoverable	<u>50</u>	<u>606</u>	<u>493</u>
Total	<u>243</u>	<u>2,266</u>	<u>2,753</u>

18. RESTRICTED BANK DEPOSIT/BANK BALANCES AND CASH

Restricted bank deposit represents deposits placed in a bank to secure general banking facilities granted to the Group and carries interest a prevailing market rate of 0.01% per annum for the year ended 31 December 2015. Such facilities were not utilised as at 31 December 2015 and this deposit has been released subsequently during the year ended 31 December 2016.

Bank balances and cash carry interests at variable rates ranging from 0.01% to 0.35%, 0.01% to 0.35% and 0.01% to 0.35% per annum for the two years ended 31 December 2015 and 2016 and the four-month period ended 30 April 2017, respectively.

The entities of the Group which were established in the PRC maintained RMB denominated bank balances, the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

19. TRADE AND BILLS PAYABLES

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Trade payables	16,868	17,579	16,302
Bills payables	—	—	2,129
	<u>16,868</u>	<u>17,579</u>	<u>18,431</u>

The credit period of trade payables granted by suppliers ranged from 0 to 90 days upon the issue of invoices.

The following is an aged analysis of trade payables based on the invoice dates.

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
0 to 30 days	7,357	10,410	9,011
31 to 60 days	7,506	4,162	5,944
61 to 90 days	961	1,986	493
91 to 180 days	180	446	280
181 days to 1 year	864	284	114
Over 1 year	—	291	460
	<u>16,868</u>	<u>17,579</u>	<u>16,302</u>

The following is an aged analysis of bills payables based on the bills issue date:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
31 to 60 days	—	—	2,129

Included in trade payables, amount of approximately HK\$5,280,000 and HK\$2,415,000 as at 31 December 2015 and 2016, respectively, were trade-nature payable to a company named 東莞市寶貝光電有限公司 ("Baby Lighting") where Mr. Boon is the 監事 (supervisor) of Baby Lighting. Mr. Boon has resigned as a supervisor of Baby Lighting on 31 December 2016. During the year ended 31 December 2015 and 2016, the Group purchase the goods from Baby Lighting amounting to approximately HK\$26,379,000 and HK\$9,091,000, respectively.

The Group's trade and bills payables that are denominated in currencies other than the functional currencies of relevant group entities are set out below:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Denominated in US\$	5,235	2,268	2,179
Denominated in RMB	<u>309</u>	<u>206</u>	<u>292</u>

20. OTHER PAYABLES AND ACCRUALS

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Accrued expenses	2,172	197	2,572
Accrued housing provident fund	246	529	—
Accrued pension scheme contributions	1,060	1,778	—
Accrued staff salaries and allowance	627	680	932
Accrued listing expenses	—	—	5,706
Other payables	3,368	4,970	1,182
VAT payables	2,496	3,179	1,387
Receipt in advance	<u>36</u>	<u>173</u>	<u>60</u>
Total	<u>10,005</u>	<u>11,506</u>	<u>11,839</u>

21. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder represents the amount due to Mr. Boon and is detailed as follows:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Mr. Boon	<u>(9,326)</u>	<u>(6,584)</u>	<u>—</u>

The amount due to a shareholder was non-trade nature, unsecured, interest-free and repayable on demand.

During the four-month period ended 30 April 2017, the amount due to a shareholder amounting to approximately HK\$6,486,000 has been capitalised and recognised as deemed contribution in special reserve.

22. BANK BORROWINGS/BANK OVERDRAFT

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
			HK\$'000
Bank borrowings, unsecured and guaranteed	4,014	2,127	1,742
Bank borrowings, secured and guaranteed	—	2,171	2,062
	4,014	4,298	3,804
Bank overdraft, unsecured and guaranteed	1,613	1,958	1,940
	5,627	6,256	5,744
Carrying amount repayable*:			
Within one year	3,500	3,464	3,315
In the second year	1,175	991	890
In the third to fifth years, inclusive	952	1,738	1,226
Over five years	—	63	313
	5,627	6,256	5,744
Less: Amounts included under current liabilities (including bank borrowings with a repayable on demand clause)	(5,627)	(6,256)	(5,744)
Amount included under non-current liabilities	—	—	—

* The amount due are based on scheduled repayment dates set out in loan agreement.

The bank borrowings as at 31 December 2015 and 2016 and 30 April 2017 carry interest at best lending rate plus/minus certain basis points. The average of effective interest rates (which are also equal to contracted interest rates) ranged from 2.50% to 7.07%, 2.41% to 5.93% and 2.50% to 5.75% for the two years ended 31 December 2015 and 2016 and for the four-month period ended 30 April 2017 respectively.

Certain of Group's bank borrowings as at 31 December 2016 and 30 April 2017, amounting to HK\$2,171,000 and HK\$2,062,000 respectively were secured by the Group's leasehold land and building as set out in Note 14.

Details of the guarantees provided in respect of the Group's bank borrowings and bank overdraft are set out in Note 28(i).

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	As at 1 January 2015 HK\$'000	Financing cash flows HK\$'000	Non-cash changes (Note 29) HK\$'000	Other Change Note (iii) HK\$'000	As at 31 December 2015 HK\$'000
Amount due to a shareholder (Note (i))	19,458	(7,144)	(2,705)	(283)	9,326
Bank borrowings (Note (ii))	<u>12,705</u>	<u>(9,101)</u>	<u>—</u>	<u>410</u>	<u>4,014</u>
	<u>32,163</u>	<u>(16,245)</u>	<u>(2,705)</u>	<u>127</u>	<u>13,340</u>
	As at 1 January 2016 HK\$'000	Financing cash flows Note (i) HK\$'000	Non-cash changes HK\$'000	Other Change Note (ii) HK\$'000	As at 31 December 2016 HK\$'000
Amount due to a shareholder (Note (i))	9,326	(2,629)	—	(113)	6,584
Bank borrowings (Note (ii))	<u>4,014</u>	<u>67</u>	<u>—</u>	<u>217</u>	<u>4,298</u>
	<u>13,340</u>	<u>(2,562)</u>	<u>—</u>	<u>(104)</u>	<u>10,882</u>
	As at 1 January 2017 HK\$'000	Financing cash flows Note (i) HK\$'000	Non-cash changes (Note 29) HK\$'000	Other Change Note (ii) HK\$'000	As at 30 April 2017 HK\$'000
Amount due to a shareholder (Note (i))	6,584	—	(6,486)	(98)	—
Bank borrowings (Note (ii))	<u>4,298</u>	<u>(550)</u>	<u>—</u>	<u>56</u>	<u>3,804</u>
	<u>10,882</u>	<u>(550)</u>	<u>(6,486)</u>	<u>(42)</u>	<u>3,804</u>

	As at 1 January 2016 <i>HK\$'000</i>	Financing cash flows <i>Note (i)</i> <i>HK\$'000</i>	Non-cash changes <i>HK\$'000</i>	Other Change <i>Note (ii)</i> <i>HK\$'000</i>	As at 30 April 2016 <i>HK\$'000</i>
(unaudited)					
Amount due to a shareholder (<i>Note (i)</i>)	9,326	301	—	6	9,633
Bank borrowings (<i>Note (ii)</i>)	<u>4,014</u>	<u>1,559</u>	<u>—</u>	<u>80</u>	<u>5,653</u>
	<u>13,340</u>	<u>1,860</u>	<u>—</u>	<u>86</u>	<u>15,286</u>

Notes:

- (i) The financing cash flows from amount due to a shareholder make up the net amount of advance from a shareholder and repayment to a shareholder in the consolidated statements of cash flows.
- (ii) The financing cash flows from bank borrowings make up the net amount of new bank borrowings raised, repayment of bank borrowings and interest paid on bank borrowings in the consolidated statements of cash flows.
- (iii) Other change including effect of foreign exchange rate changes on amount due to a shareholder and interest expenses on bank borrowings recognised in the consolidated statements of profit or loss and other comprehensive income.

23. DEFERRED TAX LIABILITIES

The following is the deferred tax liabilities recognised and movements there on during the Track Record Period:

	Tax loss <i>HK\$'000</i>	Accelerated accounting tax depreciation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	39	(147)	(108)
Charge to profit or loss	<u>(39)</u>	<u>(20)</u>	<u>(59)</u>
At 31 December 2015	—	(167)	(167)
Charge to profit or loss	<u>—</u>	<u>(11)</u>	<u>(11)</u>
At 31 December 2016	—	(178)	(178)
Credit to profit or loss	<u>—</u>	<u>20</u>	<u>20</u>
At 30 April 2017	<u>—</u>	<u>(158)</u>	<u>(158)</u>

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC companies from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of deductible temporary differences attributable to accumulated profits of the PRC subsidiary amounting to approximately HK\$5,156,000, HK\$15,845,000 and HK\$19,810,000 as at 31 December 2015 and 2016 and 30 April 2017, respectively, for the Track Record Period, as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Group has unused tax losses of approximately HK\$474,000, HK\$244,000 and HK\$173,000, respectively, available for offset against future profits as at 31 December 2015 and 2016 and 30 April 2017. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses as at 31 December 2015 and 2016 and 30 April 2017 are losses of approximately HK\$474,000, HK\$244,000 and HK\$173,000, respectively, that will expire in 2019.

24. SHARE CAPITAL

The share capital as at 1 January 2015 represented the share capital of Vertical Technology and the share capital as at 31 December 2015 and 2016 represented the share capital of Vertical (BVI).

The share capital at 30 April 2017 represented the issued share capital of the Company.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 January 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.

During the four-month period ended 30 April 2017, the Company allotted 99 new shares at par value of HK\$0.01 each to Vertical Investment to acquire the entire equity interests in the Company.

Details of movements of authorised and issued capital of the Company are as follow:

	<i>Number of Shares</i>	<i>Share capital HK\$</i>
Ordinary share of HK\$0.01 each		
Authorised:		
Upon incorporation and at 30 April 2017	<u>38,000,000</u>	<u>380,000</u>
Issued and fully paid:		
Upon incorporation	1	0.01
Allotment of Shares	<u>99</u>	<u>0.99</u>
At 30 April 2017	<u>100</u>	<u>1.00</u>

Below is a table showing the movements of the share capital and reserves of the Company since its incorporation and up to 30 April 2017:

	Share capital <i>HK\$000</i>	Share premium <i>HK\$000</i>	Accumulated loss <i>HK\$000</i>	Total <i>HK\$000</i>
At date of incorporation	—	—	—	—
Issue of shares	— ⁺	26,486	—	26,486
Loss for the period	—	—	(7,418)	(7,418)
At 30 April 2017	— ⁺	26,486	(7,418)	19,068

Note: Share premium is arisen from acquisition of the entire interest in Vertical (BVI), as set out in Note 1(e) and represents the excess of the net asset value of Vertical (BVI) at the date of acquisition over the par value of the 99 shares allotted by the Company.

⁺ Less than HK\$1,000

25. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which include bank borrowings and bank overdraft disclosed in Note 22 and equity attributable to owner of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost and the risks associates with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

26. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December		As at
	2015	2016	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets			
Loans and receivables	40,312	44,552	39,866
Financial liabilities			
Amortised cost	35,189	35,389	25,357

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, restricted bank deposit, bank balances and cash, trade and bills payables, other payables, amount due to a shareholder and bank borrowings and bank overdraft. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks*Currency risk*

The Group's exposure to currency risk mainly arises from the fluctuation of US\$ and RMB against the functional currencies of the relevant entities now comprising the Group. The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities other than the functional currencies of the relevant entities now comprising the Group are as follows. The management closely monitors foreign exchange exposure to mitigate the foreign currency risk.

	Liabilities			Assets		
	As at 31 December		As at 30 April	As at 31 December		As at 30 April
	2015	2016	2017	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
US\$	(5,235)	(2,268)	(2,179)	6,036	3,042	2,960
RMB	<u>(309)</u>	<u>(206)</u>	<u>(292)</u>	<u>1,293</u>	<u>60</u>	<u>56</u>

Sensitivity analysis

No sensitivity analysis is presented as the management consider that the effect is insignificant.

The Company is mainly operated in its local jurisdiction with most of the transactions settled in its functional currencies of the operations and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances and bank borrowings as disclosed in Notes 18 and 22 due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at each reporting period end was outstanding for the whole year. A 100 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit after taxation for the two years ended 31 December 2015 and 2016 would decrease/increase by approximately HK\$46,000 and HK\$52,000, respectively. And the Group's loss after taxation for the four-month period ended 30 April 2017 would increase/decrease by approximately HK\$48,000.

Credit risk

At the end of each reporting period, the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position best represents the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of the reporting period.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk as 12%, 29% and 18% of the total gross trade receivables was due from the Group's trade debtors which is over 10% of the total gross trade receivables as at 31 December 2015 and 2016 and 30 April 2017, respectively, and 28%, 43% and 45% of the total gross trade receivables was due from the five largest customers as at 31 December 2015 and 2016 and 30 April 2017, respectively. An analysis of the amounts due from the Group's trade debtors which is over 10% of the total gross trade receivables at end of each reporting period is as follows:

	% of total gross trade receivables		As at
	As at 31 December 2015	2016	30 April 2017
Customer A	12	N/A*	N/A*
Customer B	N/A*	19	18
Customer C	N/A*	10	N/A*

* Does not account for 10% or more of the Group's trade receivables as at the respective reporting date.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

Liquidity and interest risk tables

	Weighted average interest rate %	On demand or less than 3 months HK\$ '000	Total undiscounted cash flows HK\$ '000	Carrying amounts HK\$ '000
At 31 December 2015				
Trade payables	—	16,868	16,868	16,868
Other payables	—	3,368	3,368	3,368
Amount due to a shareholder	—	9,326	9,326	9,326
Bank borrowings and overdraft	5.57	5,627	5,627	5,627
		<u>35,189</u>	<u>35,189</u>	<u>35,189</u>
At 31 December 2016				
Trade payables	—	17,579	17,579	17,579
Other payables	—	4,970	4,970	4,970
Amounts due to a shareholder	—	6,584	6,584	6,584
Bank borrowings and overdraft	5.55	6,256	6,256	6,256
		<u>35,389</u>	<u>35,389</u>	<u>35,389</u>
At 30 April 2017				
Trade and bills payables	—	18,431	18,431	18,431
Other payables	—	1,182	1,182	1,182
Bank borrowings and overdraft	4.74	5,744	5,744	5,744
		<u>25,357</u>	<u>25,357</u>	<u>25,357</u>

Bank borrowings with a repayment on demand clause are included in the “on demand on less than 3 month” time band in the above maturity analysis. As at 31 December 2015 and 2016 and 30 April 2017, the aggregate undiscounted principal amounts of these bank borrowings amounted to approximately HK\$4,014,000, HK\$4,298,000 and HK\$3,804,000 respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

**Maturity Analysis — Bank borrowings with a repayment on demand clause
based on scheduled repayments**

	Less than 1 year HK\$ '000	In the second to fifth years HK\$ '000	Over five years HK\$ '000	Total undiscounted cash outflows HK\$ '000	Carrying amount HK\$ '000
31 December 2015	2,056	2,252	—	4,308	4,014
31 December 2016	1,643	2,891	63	4,597	4,298
30 April 2017	1,489	2,244	317	4,050	3,804

Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate their fair values.

27. OPERATING LEASES**The Group as lessee**

The Group made minimum lease payments in respect of its factory and office premises amounting to approximately HK\$855,000, HK\$605,000 and HK\$343,000 during the two years ended 31 December 2015 and 2016 and the four-month period ended 30 April 2017, respectively.

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 follows:

	As at 31 December		As at
	2015	2016	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	619	564	1,039
In the second to fifth years inclusive	1,087	620	3,290
Over five years	—	134	—
	<u>1,706</u>	<u>1,318</u>	<u>4,329</u>

Operating lease payments represent rentals payable by the Group for factory and office premises. None of the leases include any contingent rentals.

28. RELATED PARTY DISCLOSURES

- (i) As at 31 December 2015, Mr. Boon and the Government of Hong Kong Special Administrative Region has provided a joint guarantee to banks to secure the banks together with a restricted bank deposit placed with the bank for the banking facilities granted to the Group the extent of approximately HK\$1,100,000, the Group did not utilise this facilities.

As at 31 December 2016 and 30 April 2017, Mr. Boon and the Government of Hong Kong Special Administrative Region has provided a joint guarantee to banks to secure the banks together with the pledge of the leasehold land and building to secure the banking facilities granted to the Group the extent of approximately HK\$5,840,000 and HK\$9,326,000 respectively, out of which approximately HK\$2,171,000 and HK\$2,062,000 were utilised by the Group, respectively.

As at 31 December 2015 and 2016 and 30 April 2017, Mr. Boon and the Government of Hong Kong Special Administrative Region has provided a joint guarantee to banks to secure the bank facilities granted to the Group to the extent of approximately HK\$3,962,000, HK\$1,732,000 and HK\$1,032,000 respectively, out of which approximately HK\$2,292,000, HK\$1,131,000 and HK\$999,000 were utilised by the Group, respectively.

As at 31 December 2015 and 2016 and 30 April 2017, Mr. Boon has also provided personal guarantee to a bank to secure the bank facilities granted to the Group to the extent of approximately HK\$4,127,000, HK\$4,127,000 and HK\$2,780,000 respectively, out of which approximately HK\$1,722,000, HK\$995,000 and HK\$743,000 were utilised by the Group, respectively.

As represented by the directors of the Company, the personal guarantees will be released and replaced by a corporate guarantee provided by the Company upon listing of Company's shares on the Stock Exchange.

(ii) Compensation of key management personnel

The remuneration of directors and other members of senior management during the Track Record Period is as follows:

	For the year ended 31 December		For the four-month period ended 30 April	
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
Short-term benefits	657	687	180	243
Post-employment benefits	<u>58</u>	<u>57</u>	<u>9</u>	<u>15</u>
	<u>715</u>	<u>744</u>	<u>189</u>	<u>258</u>

(iii) Amount due to a subsidiary is unsecured, interest-free and repayable.

29. MAJOR NON-CASH TRANSACTION

- (i) During the year ended 31 December 2015, the Group acquired a property with consideration of approximately HK\$5,573,000. The amount has been settled through the deposits paid in prior years.
- (ii) During the year ended 31 December 2015, one of the subsidiary of the Group had disposed of certain plant and machinery with the carrying amount of approximately HK\$2,705,000 to an independent third party, at a consideration of approximately HK\$2,705,000, the proceeds for such disposal was collected by Mr. Boon and treated as partial settlement of amount due to Mr. Boon by the Group.
- (iii) During the four-month period ended 30 April 2017, amount due to shareholder amounting to approximately HK\$6,486,000 has been capitalised as deemed contribution in special reserve.

30. RETIREMENT BENEFIT PLAN

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at a rate of 5% specified in the rules, but subject to a cap. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their basic payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes. No forfeited contribution is available to reduce the contribution payable in future years.

The total expenses recognised in profit or loss of approximately HK\$1,005,000, HK\$1,347,000, HK\$151,000 (unaudited) and HK\$124,000 for the two years ended 31 December 2015 and 2016 and for the four-month periods ended 30 April 2016 and 30 April 2017, respectively represent contributions paid and payable to these plans by the Group at rates specified in the rules of the plan.

31. CONTINGENT LIABILITIES

No material contingent liabilities is noted during the Track Record Period.

32. INVESTMENT IN A SUBSIDIARY AND PARTICULARS OF SUBSIDIARIES

Investment in a subsidiary of HK\$26,486,000 of the Company as at 30 April 2017 represents the cost of investment in Vertical (BVI).

As at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December	30 April	the date of		
			2015	2016	2017	this report	
			%	%	%	%	
Directly held							
Vertical (BVI)	BVI 23 December 2015	US\$1	100	100	100	100	Investment holding
Indirectly held							
Vertical Technology (弘峰科技有限公司)	Hong Kong 7 June 2006	HK\$26,486,155 (31 December 2015 and 2016: HK\$20,000,000)	100	100	100	100	Trading of electronic components
韶關弘峰電子有限公司* ("Shaoguan Hongfeng")	PRC 28 November 2006	HK\$4,000,000	100	100	100	100	Trading of electronic components
東莞首科電子科技有限公司* ("Dongguan Shouke")	PRC 23 December 2013	HK\$10,000,000	100	100	100	100	Sales of manufactured aluminum electrolytic capacitors
Vertical Engineering Company Limited ("Vertical Engineering")	Hong Kong 16 January 2015	HK\$10,000	100	100	100	100	Inactive

* The companies are registered in the form of wholly foreign owned enterprises.

All subsidiaries now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

Notes:

No statutory financial statements have been prepared for the Company and Vertical (BVI) which was incorporated in the Cayman Islands and BVI, respectively, since their respective dates of incorporation as there are no statutory audit requirements in the respective jurisdiction.

The statutory financial statements of Vertical Technology for the year ended 31 December 2015 and 2016 were prepared in accordance with HKFRSs issued by HKICPA and were audited by us.

The statutory financial statement of Vertical Engineering for the period ended 31 December 2015 and year ended 31 December 2016 were prepared in accordance with HKFRSs issued by HKICPA and were audited by Cheng & Cheng Limited.

The PRC statutory financial statements of Dongguan Shouke for the year ended 31 December 2015 and 2016 prepared in accordance with relevant accounting rules and financial regulations applicable to PRC enterprises were audited by 東莞市中天永道會計師事務所(普通合夥) (“Dongguan City Zhongtian Yongdao Certified Public Accounts”) and 東莞市和惠會計師事務所(普通合夥), respectively.

The PRC statutory financial statements of Shaoguan Hongfeng for the year ended 31 December 2015 and 2016 prepared in accordance with relevant accounting rules and financial regulations applicable to PRC enterprises were audited by 韶關市諾正會計師事務所(普通合夥) (“Shaoguan Nuozheng C.P.A. Partnership”).

33. SUBSEQUENT EVENTS

Pursuant to the written resolutions of the sole shareholder of the Company passed on 24 October 2017, the authorised share capital of the Company was increased from HK\$380,000 to HK\$50,000,000 divided into 5,000,000,000 shares by the creation of additional 4,962,000,000 shares. On 24 October 2017, the directors of the Company were authorised to capitalise an amount of HK\$5,999,999 standing to the credit of the share premium account of the Company and to appropriate such amount as capital to pay up in full at par 599,999,900 shares for allotment and issue to the shareholder(s) whose name(s) appear on the register of members of the Company, pursuant to the resolution which shall rank *pari passu* in all respects with the then existing issued shares (other than the right to participate in the Capitalisation Issue), at close of business on the date the resolution was passed, and the directors of the Company were authorised to give effect to such capitalisation and distribution, and the Capitalisation Issue was approved.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 April 2017.

The information set forth in this appendix does not form part of the accountants' report on the historical financial information for each of the two years ended 31 December 2016 and for the four-month period ended 30 April 2017 of the Group (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the "Accountants' Report" set forth in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO THE OWNER OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owner of the Company prepared in accordance with Rules 7.31 of the GEM Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Share Offer on the consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017, as if the Share Offer had taken place on such date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 or at any future dates following the Share Offer. It is prepared based on the audited consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 as shown in the Accountants' Report as set out in Appendix I to this Prospectus and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 HK\$'000 (Note 1)	Estimated net proceeds from the Share Offer HK\$'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 per Share HK\$ (Note 3)
Based on Offer Price of HK\$0.25 per Offer Share	<u>35,151</u>	<u>34,441</u>	<u>69,592</u>	<u>0.09</u>
Based on Offer Price of HK\$0.30 per Offer Share	<u>35,151</u>	<u>43,741</u>	<u>78,892</u>	<u>0.10</u>

Notes:

1. The audited consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 is based on the consolidated net assets of the Group attributable to the owner of the Company amounted to approximately HK\$35,151,000, 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 200,000,000 Offer Shares at the Offer Price of HK\$0.25 and HK\$0.30 per Offer Share, after deduction of the estimated underwriting fees and other related fees and expenses incurred or expected to be incurred by the Group (excluding approximately HK\$9,585,000 of listing expenses which have been charged to profit or loss up to 30 April 2017 by the Group). It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates, as referred to in the sections headed "Share Capital — General mandate to issue Shares" or "Share Capital — General mandate to repurchase Shares" in this prospectus.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2017 per Share has been arrived at after making the adjustments referred to in note 2 above and on the basis of 800,000,000 Shares are in issue assuming that the Share Offer and the Capitalisation Issue had been completed on 30 April 2017. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Share which may be issued or repurchased by the Company pursuant to the Company's general mandates, as referred to in the sections headed "Share Capital — General mandate to issue Shares" or "Share Capital — General mandate to repurchase Shares" in this prospectus.
4. No adjustments have been made to the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owner of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 30 April 2017.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte.**德勤****To the Directors of Vertical International Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Vertical International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 30 April 2017 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 31 October 2017 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of 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 on the Group's financial position as at 30 April 2017 as if the proposed share offer had taken place at 30 April 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for the two years ended 31 December 2016 and for the four-month period ended 30 April 2017, on which an accountants' report set out in Appendix I to the Prospectus 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 (the "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 behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality 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 April 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 31 October 2017

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 January 2017 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). Our Company’s constitutional documents consist of its Memorandum of Association (the “Memorandum”) and its Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 24 October 2017 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of our 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 our Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue 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. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, so that the necessary quorum (other than at

an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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

Our Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed 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 transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to our Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant shares certificate(s) and such other evidence as the board may reasonably require 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of our Company.

(v) Power of our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where our Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls 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). A call may be made payable either in one lump sum or by installments. 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof 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 monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, 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, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors*(i) Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once

every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office 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 will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to our Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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 our 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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions 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 and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital share of our Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange 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 our Company are 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 our Company nor the board is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of our Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be 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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our 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 ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, 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

Pursuant to the Articles, payments to any 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 entitled) must be approved by our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as if our Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our 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 therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner

whatsoever, 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 our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has 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 contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our 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 contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to

Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and our Company's name

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of our 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, in the case of such members as 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 in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting 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 fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in

advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

Our Company must hold an annual general meeting of our Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear Business Days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear Business Days. The notice is 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 and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to, among others, the auditors for the time being of our Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of our Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by our Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.
- (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, but the absence of a quorum shall not preclude the appointment of a chairman.

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 our Company entitled to attend and vote at a meeting of our 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 our Company or at a class meeting. A proxy need not be a member of our Company and is 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 is 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. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws,

including the rules of the Stock Exchange, our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

Our 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.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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 whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu

of such allotment, or (b) that shareholders 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.

Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our 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.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman Islands law, as summarised in the paragraph headed “3. Cayman Islands Company Law — (f) Protection of minorities and shareholders’ suits” below.

(j) Procedures on liquidation

A resolution that our 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 our Company is wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is 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

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the 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 arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by our company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of our company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of our company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our company.

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, our company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), 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, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of our company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of our company, that such assistance can properly be given. 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 our company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of our 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. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of our company. At no time may a company redeem or purchase its shares unless they are fully paid. 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 our company other than shares held as treasury shares. 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, our company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of our company, the directors of our company resolve to hold such shares in the name of our company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, our company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, our company is not be treated as a member for any

purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of our company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of our company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of our company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of our company's assets (including any distribution of assets to members on a winding up) may be made to our company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of our company to challenge (a) an act which is ultra vires our company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of our company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of our company in issue, appoint an inspector to examine into the affairs of our company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 our company should be wound up or, as an alternative to a winding up order, (a) an order regulating

the conduct of our company's affairs in the future, (b) an order requiring our company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of our company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of our company by other shareholders or by our company itself and, in the case of a purchase by our company itself, a reduction of our company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of our company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by our company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by our company; and (iii) the assets and liabilities of our company.

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 our company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 24 January 2017.

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 our 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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or

permitted to be kept. Our company shall cause to be kept at the place where our company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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 members, 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 of the Cayman Islands.

(o) Register of Directors and Officers

Our Company is required to maintain at its registered office a register of 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 sixty (60) days of any change in such directors or officers.

(p) Register of Beneficial Ownership

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The register of beneficial ownership is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Company is listed on the Stock Exchange, it is not required to maintain a register of beneficial ownership.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of our company have passed a special resolution requiring our company to be wound up by the Court, or where our company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of our company as contributories on the ground that it is just and equitable that our company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of our company's affairs in

the future, making an order authorising civil proceedings to be brought in the name and on behalf of our company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of our company by other members or by our company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when our company so resolves by special resolution or when our company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must 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 our company shall be in the custody of the Court.

As soon as the affairs of our 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 how the property of our company has been disposed of, and thereupon call a general meeting of our company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by our company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(t) 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, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection — Documents 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 COMPANY AND OUR SUBSIDIARIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 3 January 2017. Our Company has established a principal place of business in Hong Kong at Unit 9, 27/F, W50, 50 Wong Chuk Hang Road, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 6 February 2017. Our Company has appointed Mr. Boon as its authorised representative for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution, which comprises the Memorandum and the Articles. A summary of various parts of our Company's constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

As at the date of incorporation of our Company, its authorised share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. Following its incorporation, one Share was allotted and issued to the first subscriber, an Independent Third Party, which was subsequently transferred to Vertical Investment at par on 3 January 2017.

On 17 March 2017, our Company allotted and issued 99 Shares to Vertical Investment credited as fully paid as consideration for the acquisition of one share in Vertical (BVI), representing its entire issued share capital, from Mr. Boon.

Pursuant to the written resolutions of our sole Shareholder passed on 24 October 2017, the authorised share capital of our Company was increased from HK\$380,000 to HK\$50,000,000 divided into 5,000,000,000 Shares by the creation of additional 4,962,000,000 Shares.

Immediately following completion of the Share Offer and the Capitalisation Issue, the authorised share capital of our Company will be HK\$50,000,000 divided into 5,000,000,000 Shares and the issued share capital of our Company will be HK\$8,000,000 divided into 800,000,000 Shares fully paid or credited as fully paid. Other than pursuant to the general mandate to issue shares as set out in the paragraph headed "3. Written resolutions of our sole Shareholder passed on 24 October 2017" and the paragraph headed "D. Share Option Scheme" in this section, our Directors do not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed above, there has been no other alteration in the share capital of our Company since the date of its incorporation.

3. Written resolutions of our sole Shareholder passed on 24 October 2017

On 24 October 2017, resolutions in writing were passed by our sole Shareholder pursuant to which, among other matters:

- (a) our Company approved and adopted the Memorandum with immediate effect and the Articles were conditionally adopted with effect from the Listing Date, the terms of which are summarised in Appendix III to this prospectus;
- (b) conditional on (i) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM, and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:
 - (i) the Share Offer was approved and our Directors were authorised to approve the allotment and issue of the Offer Shares pursuant to the Share Offer;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the section headed “— D. Share Option Scheme” below, were approved and adopted and our Directors were authorised to grant options to subscribe for the Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise an amount of HK\$5,999,999 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 599,999,900 Shares for allotment and issue to our Shareholder(s) whose name(s) appear on the register of members of our Company, pursuant to this resolution which shall rank *pari passu* in all respects with the then existing issued Shares (other than the right to participate in the Capitalisation Issue), at close of business on the date this resolution was passed, and our Directors were authorised to give effect to such capitalisation and distribution, and the Capitalisation Issue was approved;
 - (iv) a general unconditional mandate was given to our Directors to allot, issue and deal with (otherwise than by way of rights issue, scrip dividend schemes or pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or similar arrangements providing for allotment of Shares in lieu of the whole or part of any dividend on Shares in accordance with

the Memorandum and the Articles or pursuant to a specific authority granted by our Shareholders in general meeting or under the Share Offer or the Capitalisation Issue) unissued Shares with an aggregate number of Shares not exceeding 20% of the total number of our Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (not including Shares which may be allotted and issued pursuant to exercise of any options which may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate number of Shares not exceeding 10% of the total number of our Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (vi) conditional on the passing of the resolutions referred to in sub-paragraphs (iv) and (v) above, the general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate number of Shares in issue which may be allotted, issued or dealt with by our Directors pursuant to such general mandate of an amount representing the total number of our Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (v) above; and
- (vii) the Underwriting Agreements, subject to such amendments thereto as may be approved by any one Director, were approved and that any one Director was authorised to sign the same for and on behalf of our Company, and when required, affix the seal of our Company thereon; and any one Director was authorised to approve, execute, ratify and arrange the issue of any documents in relation to or incidental to the Underwriting Agreements.

4. Corporate reorganisation

In preparation of the Listing, the companies comprising our Group underwent the Reorganisation to rationalise our Group's corporate structure. Please refer to the section headed "History, development and reorganisation" in this prospectus for further details.

5. Changes in share capital of the subsidiaries of our Company

Our Company's subsidiaries are listed in the accountant's report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, development and reorganisation" in this prospectus, there has been no other alteration in the share capital of any of the subsidiaries of our Company within the two years immediately prior to the date of this prospectus.

6. Particulars of our subsidiaries

Particulars of our subsidiaries are set forth in the accountant's report, the text of which is set out in Appendix I to this prospectus.

7. Repurchase by our Company of its own securities

This paragraph includes the 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 whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

Note: Pursuant to the written resolution our sole Shareholder passed on 24 October 2017, a general unconditional mandate was given to our Directors authorising any repurchase by our Company as described in the section headed "— A. Further information about our Company and our subsidiaries — 3. Written resolutions of our sole Shareholder passed on 24 October 2017" above.

(ii) Source of funds

Our Company may make repurchases out of our profit or share premium or out of the proceeds of a fresh issue of the Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company or out of the share premium account of our Company. Subject to the solvency test prescribed by the Companies Law, a repurchase may also be made out of capital.

(iii) Core connected persons

The GEM Listing Rules prohibit a company from knowingly repurchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or his or her or its close associates and a core connected person shall not knowingly sell his or her or its securities to such company.

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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.

(b) Funding of purchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

Pursuant to the Repurchase Mandate, repurchases will be made out of funds of our Company legally permitted to be utilised in this connection, including profits and share premium of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital.

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.

(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 as a whole. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value of our Company and/or its earnings per Share.

(d) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (not including any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), could accordingly result in up to 80,000,000 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.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates, has any present intention, to sell any Shares to our Company if the Repurchase Mandate is exercised.

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.

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 all applicable laws and regulations of the Cayman Islands.

If, as a result of repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the interests of our Shareholder(s), could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made after the Listing. Save as aforesaid, our Directors are not aware of any other consequence under the Takeovers Code as a result of a repurchase of Shares made immediately after the Listing.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No core connected person of our Company has notified our Company that he has a present intention to sell any Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

No repurchase of Shares has been made in the six months prior to the Latest Practicable Date, and in fact, since the incorporation of our Company.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business of our Group) have been entered into by our Company within the two years preceding the date of this prospectus and are or may be material:


- (a) the agreement dated 17 March 2017 entered into between our Company as purchaser and Mr. Boon as vendor relating to the transfer of the entire issued share capital of Vertical (BVI) to our Company in consideration of the allotment and issue of 99 Shares of our Company to Vertical Investment, credited as fully paid;
- (b) the deed of assignment and capitalisation dated 18 April 2017 and entered into between Mr. Boon, Vertical Technology and Vertical (BVI), pursuant to which (i) Mr. Boon assigned a shareholder's loan, which was due from Vertical Technology, to Vertical (BVI) and (ii) Vertical Technology allotted and issued one new share to Vertical (BVI), credited as fully paid which was satisfied by capitalising the shareholder's loan due by Vertical Technology to Vertical (BVI);
- (c) the Deed of Non-Competition;
- (d) the Deed of Indemnity;

- (e) the Public Offer Underwriting Agreement; and
- (f) the Placing Underwriting Agreement.




2. Intellectual property of our Group

(a) Trade marks

As at the Latest Practicable Date, our Group was the registered owner of the following trade mark registered in Hong Kong:

Trade mark(s)	Registration number	Name of registered proprietor	Class	Place of registration	Effective period
	300947692	Vertical Technology	9	Hong Kong	14 April 2008 to 4 September 2027

As at the Latest Practicable Date, our Group was the registered owner of the following trade marks registered in the PRC:

Trade mark(s)	Registration number	Name of registered proprietor	Class	Place of registration	Effective period
	6868140	Vertical Technology	9	PRC	7 November 2010 to 6 November 2020
	9306807	Vertical Technology	11	PRC	14 April 2012 to 13 April 2022
	9306780	Vertical Technology	9	PRC	7 September 2012 to 6 September 2022

As at the Latest Practicable Date, our Group had filed applications for the registration of the following trademarks in the PRC:

Trade mark(s)	Application number	Name of applicant	Class	Place of application	Date of application
VTOS-CON	21670061	Vertical Technology	9	PRC	25 October 2016
VT	26178406	the Company	9	PRC	31 August 2017

(b) Patents

As at the Latest Practicable Date, our Group had registered the following 11 utility model patents (實用新型專利) with the state intellectual property office in the PRC:

Patent	Registered owner	Type	Patent number	Date of application	Expiry date
二極管管腳裁切裝置	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520781632.6	10 October 2015	9 October 2025
貼片機運動控制系統	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520781463.6	10 October 2015	9 October 2025
貼片機傳動系統	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520781889.1	10 October 2015	9 October 2025
一種電容器組立機的卸料檢測裝置	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520782544.8	10 October 2015	9 October 2025
一種電容器自動老化機	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520782070.7	10 October 2015	9 October 2025
貼片元件自動編帶機圖像識別糾錯系統	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520782522.1	10 October 2015	9 October 2025
一種自動分選機	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520782382.8	10 October 2015	9 October 2025
一種料帶收料糾編裝置	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520781462.1	10 October 2015	9 October 2025
電容器打印工序用振動上料盤	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520781332.8	10 October 2015	9 October 2025
組立機下料處滴油裝置	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201520782205.X	10 October 2015	9 October 2025
一種貼片式電容的分揀加工設備	Dongguan Shouke	Utility model patent (實用新型專利)	ZL 201720323635.4	30 March 2017	29 March 2027

As at the Latest Practicable Date, our Group had filed an application for the registration of the following five utility model patents and one invention patent with the state intellectual property office in the PRC:

Patent	Name of applicant	Type	Application number	Date of application
一種電容器自動分極排序振動盤	Dongguan Shouke	Utility model patent (實用新型專利)	201720323415.1	30 March 2017
一種電容貼片機真空夾料裝置	Dongguan Shouke	Utility model patent (實用新型專利)	201720323414.7	30 March 2017
一種鋁電解電容快速封口裝置	Dongguan Shouke	Utility model patent (實用新型專利)	201720323656.6	30 March 2017
一種釘卷生產用於的防夾手安全罩	Dongguan Shouke	Utility model patent (實用新型專利)	201721100818.6	30 August 2017
一種電解液排氣檢測的注液裝置	Dongguan Shouke	Utility model patent (實用新型專利)	201721100822.2	30 August 2017
一種貼片電容器的自動貼片一體機	Dongguan Shouke	Invention patent (發明專利)	201710287718.7	27 April 2017

(c) Domain names

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names:

Registrant	Domain name	Registration date	Expiry date
Dongguan Shouke	www.verticaltech.com.cn	9 July 2007	9 July 2018
Dongguan Shouke	www.verticaltech.net.cn	9 July 2007	9 July 2018

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Interests and short positions of substantial shareholders in the share capital of our Company

So far as our Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the following person (not being a Director or chief executive of our Company) who will have interests or short positions in the Shares or underlying Shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which will be recorded in the register of our Company required to be kept under section 336 of the SFO, or will 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 member of our Group:

Name	Nature of interest	Number of Shares held after the Share Offer and Capitalisation Issue ⁽¹⁾	Percentage of shareholding
Vertical Investment ⁽²⁾	Beneficial owner	600,000,000 (L)	75%
Ms. Sun Koon Kwan ⁽³⁾	Interest of spouse	600,000,000 (L)	75%

Notes:

- (1) The letter “L” denotes the long position in our Shares.
- (2) Vertical Investment is beneficially owned as to 100% by Mr. Boon. He is deemed to be interested in all the Shares held by Vertical Investment under the SFO.
- (3) Ms. Sun is the spouse of Mr. Boon. Ms. Sun is deemed to be interested in the same number of Shares in which Mr. Boon is interested by virtue of the SFO.

Save as disclosed herein but taking no account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, our Directors are not aware 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 interests or short positions in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of our Company required to be kept under section 336 of the SFO, or who will immediately following completion of the Share Offer and the Capitalisation Issue 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 member of our Group.

2. Interests and short positions of directors and chief executive of our Company in the share capital, underlying shares or debentures of our Company and its associated corporations

Immediately following completion of the Share Offer and Capitalisation Issue (taking no account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the interests and short positions of each of our Directors and chief executive of our Company in the share capital, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which, once the 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 the Shares are listed, will be required, to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are set out as follows:

Interests in our Company

Name of Director	Nature of interest	Number of Shares held after the Share Offer and Capitalisation Issue ⁽¹⁾	Percentage of shareholding
Mr. Boon ⁽²⁾	Interest in a controlled corporation	600,000,000 (L)	75%

Notes:

- (1) The letter “L” denotes the long position in our Shares.
- (2) Upon completion of the Share Offer and Capitalisation Issue, Vertical Investment will directly hold 600,000,000 Shares. Vertical Investment is beneficially owned as to 100% by Mr. Boon. He is deemed to be interested in all the Shares held by Vertical Investment under the SFO.

Interests in associated corporation of our Company

Name of Director	Name of associated corporation	Nature of interest	Number of Share(s) ⁽¹⁾	Percentage of shareholding
Mr. Boon	Vertical Investment	Beneficial owner	1 (L)	100%

Note: The letter “L” denotes the long position in the share of the associated corporation.

Save as disclosed above, immediately following completion of the Share Offer and the Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), none of our Directors or chief executive of our Company has any interest or short position in the shares, underlying shares or debentures of our Company or any of its associated corporations 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 (including interests and short positions which he will be taken or deemed to have under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to our Company and the Stock Exchange once our Shares are listed.

3. Directors’ service contracts and remuneration

(a) Directors’ service contracts

Each of our Executive Directors has entered into a service contract with our Company. The service contracts are initially for a fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months’ notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment 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.

(b) Directors’ remuneration

The remuneration of our Executive Directors are determined based on the relevant Director’s experience, responsibility, workload, and the time devoted to our Company.

For each of the two years ended 31 December 2015 and 2016, the aggregate amount paid to our Directors as remuneration (including fees, salaries, contribution to retirement benefit schemes and other allowances and benefits in kind and discretionary bonus) were approximately HK\$399,000 and HK\$469,000 respectively.

For the year ending 31 December 2017, the estimated total compensation payable to our Directors amounts to approximately HK\$546,000 (excluding any discretionary bonus).

There was no arrangement under which a Director has waived or agreed to waive any emoluments for the Track Record Period.

The basic annual remuneration (subject to annual review and excluding any discretionary bonus) payable by our Group to each of our Directors is as follows:

Name of Director	Annual remuneration (HK\$)
Executive Directors	
Mr. Boon	558,000
Ms. Chow	558,000
Independent non-executive Directors	
Mr. Liu	60,000
Mr. Chik	60,000
Mr. Wong	120,000

4. Related party transaction

Our Group did not have any related party transactions during the Track Record Period.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or the experts named in the paragraph headed “E. Other information — 7. Qualifications of experts” below has any direct or indirect interest in the promotion of, or in any assets which have been within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (b) none of our Directors or the experts named in the paragraph headed “E. Other information — 7. Qualifications of experts” below 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;
- (c) none of our Directors or their respective close associates or existing shareholders of our Company (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;
- (d) none of our Directors or their respective close associates or the existing shareholders of our Company (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest suppliers of our Group; and
- (e) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

D. SHARE OPTION SCHEME

Summary of terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Company to grant options to the employee, adviser, consultant, service provider, agent, client, partner or joint-venture partner of our Company or any of our subsidiaries (including any director of our Company or any of our subsidiaries) who is in full-time or part-time employment with or otherwise engaged by our Company or any of our subsidiaries at the time when an option is granted to such person under the Share Option Scheme or any person who, in the absolute discretion of the Board, has contributed or may contribute to our Group (the “Eligible Participants”) as incentive or reward for their contribution to our Group to subscribe for the Shares thereby linking their interest with that of our Group. The basis of eligibility shall be determined by the Board from time to time.

(b) Grant and acceptance of options

Subject to the terms of the Share Option Scheme and all applicable statutory requirements, our Directors may, in their absolute discretion make offer to the Eligible Participants. An offer shall be made to an Eligible Participant in writing in such form as our Directors may from time to time determine and shall remain open for acceptance by the Eligible Participant concerned for a period of 21 days from the date upon which it is made provided that no such offer shall be open for acceptance after the 10th anniversary of the adoption date of the Share Option Scheme or the termination of the same.

An offer shall be deemed to have been accepted by an Eligible Participant concerned in respect of all Shares which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the offer duly signed by the Eligible Participant with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a non-refundable payment or remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from, and inclusive of, the date of offer), or within such other period of time as may be determined by the Directors pursuant to the GEM Listing Rules.

Any offer may be accepted or deemed to have been accepted by an Eligible Participant in respect of less than the total number of Shares which are offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof.

(c) Subscription price of Shares

The subscription price for Shares issued pursuant to exercise of options granted under the Share Option Scheme shall be determined at the absolute discretion of our Directors but in any event will not be less than the highest of (a) the closing price of the Shares on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange on the offer date, which must be a Business Day; (b) the average of the closing price of the Shares as shown in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the offer date; or (c) the nominal value of a Share on the offer date.

(d) Maximum number of Shares

- (i) Subject to (iii) below, the maximum number of Shares which may be allotted and issued upon exercise of all options which may be granted at any time under the Share Option Scheme together with options which may be granted under any other share option schemes for the time being of our Company shall not in aggregate exceed 10% of the issued share capital of our Company at the Listing Date. On the basis of a total of 800,000,000 Shares in issue as at the Listing Date, the relevant limit will

be 80,000,000 Shares which represent 10% of the Shares in issue upon completion of the Share Offer and Capitalisation Issue. Our Company may seek approval by its Shareholders in general meeting to refresh the 10% limit provided that the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other schemes of our Company in these circumstances must not exceed 10% of the issued share capital of our Company at the date of approval of refreshing of the limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Group (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes and exercised options) will not be counted for the purpose of calculating the limit as refreshed.

- (ii) Our Company may authorise our Directors to grant options beyond the 10% limit if the grant of such options is specifically approved by its Shareholders in general meeting. Our Company will send a circular to our Shareholders containing a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participant with an explanation as to how the terms of the options serve such purpose, and such information as may be required under the GEM Listing Rules from time to time.

The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other share option schemes of our Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in the limit being exceeded.

- (iii) Unless approved by our Shareholders in the manner set out below, the total number of Shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1%, of the total number of Shares in issue. Where any further grant of options to an Eligible Participant would result in the 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 the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Our Company must send a circular to its Shareholders and the circular must disclose the identity of the Eligible Participant, the number and

terms (including the subscription price) of the options to be granted (and options previously granted to such Eligible Participant), and such information as may be required under the GEM Listing Rules from time to time. The number and terms (including the subscription price) of options to be granted to such Eligible Participant must be fixed before Shareholders' approval and the date of meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

- (iv) The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, our Directors shall make available sufficient of the then authorised but unissued share capital of our Company to allot the Shares on the exercise of any option.

(e) Exercise of options

An option may be exercised at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the date of grant.

Subject to terms of the Share Option Scheme, an option shall be exercisable in whole or in part in the circumstances 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 so exercised. Each such notice must be accompanied by a non-refundable remittance for the full amount of the subscription price for Shares in respect of which the notice is given. Within 21 days after receipt of the notice and remittance and, where appropriate, receipt of the auditors' or the independent financial adviser's certificate, our Company shall accordingly allot the relevant number of Shares to the grantee (or his personal representative(s)) credited as fully paid.

Though there is no specified minimum period under the Share Option Scheme for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms and conditions of the Share Option Scheme, our Directors may make such grant of options, subject to such terms and conditions in relation to the minimum period of such options to be held and/or the performance targets to be achieved as our Directors may determine in their absolute discretion.

(f) Restrictions on the time of grant of options

Grant of options may not be made when inside information has come to the knowledge of our Company until such inside information has been announced in accordance with the relevant requirements of the GEM Listing Rules. In particular, no options may be granted during the period commencing 1 month immediately preceding the earlier of: (i) the date of the Board meeting for the approval of our Company's results for any year, half-year or quarter-year period

or any other interim period (whether or not required under the GEM Listing Rules) and (ii) the deadline for our Company to publish results for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), ending on the date of such results announcement.

(g) Rights are personal to grantees

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber, assign or create any interest whatsoever (whether legal or beneficial) in favour of any third party over or in relation to any option or enter into any agreement to do so.

(h) Rights on ceasing employment

The option period in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall automatically lapse on the date on which the grantee ceases to be an Eligible Participant by reason of a termination of his employment or engagement on any one or more of the grounds that he has been guilty of persistent or serious misconduct, or has become bankrupt or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or any member of our Group into disrepute).

(i) Rights on death

In the event of the grantee ceasing to be an Eligible Participant by reason of his death before exercising the option in full and where the grantee is any employee of our Group none of the events which would be a ground for termination of his employment or engagement under paragraph (h) above arises, his personal representative(s) may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of death, or such longer period as our Directors may determine at their absolute discretion.

(j) Cancellation of options

The Board may, with the consent of the relevant grantee, at any time at its absolute discretion cancel any option granted but not exercised. Where our Company cancels options and offers new options to the same option holder, the offer of such new options may only be made under the Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by our Shareholders as mentioned in paragraph (d) above.

(k) Effect of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue or other offer of securities to holders of Shares (including any securities convertible into share capital or warrants or options to subscribe for any share capital of our Company, but excluding options under the Share Option Scheme and options under any other similar employee share option scheme of our Company), consolidation, sub-division or reduction of the share capital of our Company or otherwise howsoever, then, in any such case (other than in the case of capitalisation of profits or reserves) our Company shall instruct the auditors or an independent financial adviser appointed by our Company to certify in writing:

- (A) the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:
 - (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised); and/or
 - (ii) the subscription price; and/or
 - (iii) the maximum number of Shares referred to in paragraph d(i); and/or
 - (iv) the method of the exercise of the option(s).

and an adjustment as so certified by the auditors or the independent financial adviser shall be made, provided that:

- (i) any such adjustment must give a grantee the same proportion of the issued share capital as that to which that person was previously entitled;
- (ii) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event;
- (iii) no such adjustment shall be made if the effect of which would be to enable any Share to be issued at less than its nominal value;
- (iv) the issue of securities of our Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and

(v) to the advantage in any respect of the grantee without specific prior approval of our Shareholders.

(B) in respect of any such adjustment, other than any made on a capitalisation issue, the independent financial adviser or the auditors appointed by our Company must confirm to our Directors in writing that the adjustment so made satisfies the requirements of the relevant provisions of the GEM Listing Rules and any guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

(l) Rights on a general offer

If a general or partial offer is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all its reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, the grantee shall, notwithstanding any other term on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company at any time thereafter and up to the close of such offer (or any revised offer).

(m) Rights on winding up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same day as it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee or his personal representative(s) shall be entitled to exercise all or in part of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the grantee credited as fully paid.

(n) Rights on a compromise or arrangement

Other than a general or partial offer or a scheme of arrangement contemplated in paragraph (o) below, in the event of a compromise or arrangement between our Company and its members or creditors being proposed for the purpose of or in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give

notice thereof to all grantees on the same date as it dispatches notice of the meeting to its members or creditors summoning a meeting to consider such a scheme or arrangement and thereupon each grantee or his personal representative(s) may by notice in writing to our Company accompanied by a remittance of the full amount of the subscription price in respect of which the notice is given (such notice to be received by our Company not later than two Business Days prior to the proposed meeting) exercise any of his options (to the extent which has become exercisable and not already exercised) whether in full or in part.

(o) Rights on a scheme of arrangement

If a general or partial offer by way of scheme of arrangement is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all its reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such scheme of arrangement is formally proposed to our Shareholders, the grantee shall, notwithstanding any other term on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company at any time thereafter and the record date for entitlements under the scheme of arrangement.

(p) Ranking of Shares

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the existing fully paid Shares in issue on the date of their allotment and issue on or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the exercise date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the exercise date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered onto the register of members of our Company as the holder thereof.

(q) Duration and administration of the Share Option Scheme

The Share Option Scheme shall be valid and effective commencing from the adoption date of the Share Option Scheme until the termination date as provided therein (which being the close of business of our Company on the date which falls 10 years from the date of the adoption of the Share Option Scheme), after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise

of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. The Share Option Scheme shall be subject to the administration of our Board whose decision on all matters arising in relation to the Share Option Scheme or its interpretation or effect shall (save as otherwise provided herein and in the absence of manifest error) be final and binding on all persons who may be affected thereby.

(r) Alterations to the terms of the Share Option Scheme

- (i) The provisions relating to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to extend the class of persons eligible for the grant of options or to the advantage of grantees or Eligible Participants except with the prior approval of our Shareholders in general meeting;
- (ii) any alteration 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 our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme;
- (iii) any change to the authority of our Directors or administrator of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting; and
- (iv) the amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of the GEM Listing Rules and any guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

(s) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon:

- (i) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, any Shares to be issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme;
- (ii) commencement of dealings of Shares on the Stock Exchange; and
- (iii) the passing of the necessary resolution to approve and adopt the Share Option Scheme by our Shareholder(s) in general meeting or by way of written resolution and to authorise our Directors to grant options at their absolute discretion thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options granted under the Share Option Scheme.

(t) Grant of options to connected persons or any of their associates

Each grant of options to a Director, chief executive or substantial shareholder (as defined in the GEM Listing Rules) of our Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of the option (if any)). Where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted pursuant to the Scheme and other share option schemes of our Company (including options exercised, cancelled and outstanding) to such Eligible Participant in the 12-month period up to and including the date of such grant being proposed by the Board (the “Relevant Date”):

- (i) representing in aggregate over 0.1% of the total number of Shares in issue as the Relevant Date; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange’s daily quotation sheet on the Relevant Date and if the Relevant Date is not a Business Day, the Business Day immediately proceeding the Relevant Date, in excess of HK\$5 million, such further grant of options must be approved by our Shareholders. Our Company must send a circular to its Shareholders. The grantee, his associates and all core connected persons of our Company must abstain from voting at such general meeting, except that such grantee, his associate, or core connected person of our Company may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. The circular must contain:
 - (i) details of the number and terms (including the subscription price) of the options to be granted to each Eligible Participant, which must be fixed before the Shareholders’ meeting and the date of the meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;
 - (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options) to the independent Shareholders as to voting; and
 - (iii) the information as may be required under the GEM Listing Rules from time to time.

Shareholders' approval is also required for any change in the terms of options granted to an Eligible Participant who is a substantial shareholder (as defined in the GEM Listing Rules) of our Company or an independent non-executive Director, or any of their respective associates.

(u) Lapse of option

The Option Period (as defined in the Share Option Scheme) in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall automatically lapse on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (h), (i) or (n), where applicable;
- (iii) subject to the court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining Shares in the offer, the expiry of the period referred to in paragraph (l);
- (iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (o);
- (v) the date on which the grantee ceases to be an Eligible Participant for any reason other than his death or the termination of his employment or engagement on one or more grounds specified in (vi) below;
- (vi) the date on which the grantee of an option ceases to be an Eligible Participant by reason of the termination of his employment or engagement on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence;
- (vii) the date of the commencement of the winding-up of our Company referred to in paragraph (m);
- (viii) the date on which the grantee commits a breach of paragraph (g); or
- (ix) the date on which the option is cancelled by the Board as set out in paragraph (j).

(v) Termination

Our Company may by an ordinary resolution in general meeting or the Directors may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or

otherwise as may be required in accordance with the provisions of the Share Option Scheme and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) Miscellaneous

Any dispute arising in connection with the Share Option Scheme (whether as to the number of Shares of an option or any matters relating to the effect of alterations to share capital) shall be referred to the decision of the auditors of our Company or an independent financial adviser who shall act as experts and not as arbitrators and whose decision shall, save in the case of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

(x) Present status of the Share Option Scheme

Application has been made to the Listing Division of the Stock Exchange for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme which shall represent 10% of the Shares in issue upon completion of the Share Offer and Capitalisation Issue.

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(y) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of the options. Our Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

Our Board confirms that it will not approve the exercise of any option if as a result which our Company will not be able to comply with the public float requirements under the GEM Listing Rules.

E. OTHER INFORMATION**1. Estate duty, tax and other indemnity***Indemnity on estate duty and taxation*

Our Controlling Shareholders have pursuant to the Deed of Indemnity, given indemnities on a joint and several basis in favour of our Company (for ourselves and as trustee as our subsidiaries) in connection with, among others,

- (a) any taxation falling on any of member of our Group (i) resulting from any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the date on which the Share Offer becomes unconditional (the “**Effective Date**”); (ii) resulting from any event occurring or deemed to occur on or before the Effective Date; (iii) in respect of or in consequence of any act or omission of any member of our Group regarding the inter-companies transactions on or before the Effective Date; (iv) resulting from the receipt by any member of our Group of any amounts paid by our Controlling Shareholders under the Deed of Indemnity; or (v) by reason of any transfer of any property to any member of our Group on or before the Effective Date;
- (b) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent or similar thereof under the laws of any jurisdictions outside Hong Kong) to a member of our Group on or before the Listing;
- (c) all actions, claims, losses, damages, costs (including all legal costs), expenses, demands, proceedings, judgments, charges, fees, penalties, fines or other liabilities which any of the member of our Group may make, suffer or incur in connection with (i) the investigation, assessment or the contesting of any taxation claim; (ii) the settlement of any taxation claim; (iii) any litigation, arbitration, legal proceedings and/or non-compliance of any member of our Group with any applicable laws, rules and regulations on or before the Effective Date, in which any of the member of our Group claims under the Deed of Indemnity and in which award, decision or judgment is given for any of the member of our Group; (iv) the enforcement of any such settlement, judgment or award; and (v) the revocation and refusal of the registration and licensing requirements for the operation of any member of our Group;
- (d) all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by any member of our Group arising from any possible or alleged violation or non-compliance in relation to the applicable laws and regulations on or before the Effective Date; and

- (e) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, interests, penalties and fines of whatever nature suffered or incurred by any of member of our Group as a result of or in connection with any litigation, arbitration, claims (including counter-claims), complaints, demands, and/or legal proceedings instituted by or against any member of our Group on or before the Effective Date.

Our Controlling Shareholders will however, not be liable under the Deed of Indemnity for taxation where:

- (a) to the extent (if any) to which provision, reserve or allowance has been made for such taxation liabilities and claims in the audited consolidated accounts of our Company for the Track Record Period as set out in Appendix I to this prospectus;
- (b) for which any of the members of our Group is liable as a result of any event occurring or income, profits earned accrued or received or alleged to have been earned, accrued or received or transactions entered or alleged into in the ordinary course of business or in the ordinary course of business of acquiring and disposing of capital assets after the effective date;
- (c) to the extent such taxation liabilities and claims falling on any of the members of our Group in respect of their current accounting periods or any accounting period commencing on or after the effective date would not have arisen but for some act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement or acquiescence of our Controlling Shareholders other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the effective date, or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the effective date or pursuant to any statement of intention made in this prospectus; or
- (d) for which any of the members of our Group is primarily liable as a result of transactions entered into in the ordinary course of business after the 30 April 2017;

- (e) to the extent that such taxation or liability is discharged by another person who is not our Company or any member of our Group and that our Company is not required to reimburse such person in respect of the discharge of the taxation liabilities;
- (f) to the extent of any provision, reserve or allowance made for such taxation liabilities in the accounts which is finally established to be an over-provision or an excessive reserve or allowance, in which case our Controlling Shareholders' liability (if any) in respect of such taxation liabilities shall be reduced by an amount not exceeding such provision, reserve or allowance, provided that the amount of any such provision, reserve or allowance applied pursuant to this paragraph to reduce our Controlling Shareholders' liability in respect of such taxation liabilities shall not be available in respect of any such liability arising thereafter and for the avoidance of doubt, such over-provision or excess provision, reserve or allowance shall only be applied to reduce the liability of our Controlling Shareholders under the Deed of Indemnity and none of the members of our Group shall in any circumstances be liable to pay our Controlling Shareholders any such excess; or
- (g) to the extent that any taxation liabilities and claims arises or is incurred as a result of the imposition of such taxation liabilities as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority (whether in Hong Kong, the Cayman Islands, the PRC and the BVI, or any other part of the world) coming into force after the effective date or to the extent that such taxation liabilities and claims arise or is increased by an increase in rates of such taxation liabilities after the effective date with retrospective effect.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company under the laws of the Cayman Islands.

2. Litigation

As at the Latest Practicable Date, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened by or against our Company.

3. Sole Sponsor

The Sole Sponsor is independent from our Company pursuant to Rule 6A.07 of the GEM Listing Rules. The fee to be paid to the Sole Sponsor in relation to its role as sponsor in the Listing is HK\$4.6 million. The Sole Sponsor has made an application on our behalf to the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalisation Issue, the Offer Shares and any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme.

4. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Vinco Capital Limited as its compliance adviser to provide consultancy services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with the GEM Listing Rules in respect of its financial results for the second full financial year ending 31 December 2019.

5. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

6. Preliminary expenses

The estimated preliminary expenses of our Company are approximately HK\$30,000 and are payable by our Company.

7. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
Vinco Capital Limited	Licensed corporation to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Hills & Co.	PRC attorneys-at-law
Queenie W.S. Ng	Hong Kong barrister-at-law

Name	Qualification
Crowe Horwath (HK) Consulting & Valuation Limited	Industry consultant
Baker Tilly Hong Kong Risk Assurance Limited	Internal control review accountant

8. Consents of experts

Each of the experts named above has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of its report and/or opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Group or any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of our Group.

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 penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

10. Agency fees or commissions

The Underwriters will receive an underwriting commission, and the Sole Sponsor will receive a documentation fee, as referred to in the section headed “Underwriting — Commission and expenses” in this prospectus.

11. Registration procedures

The register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company’s branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) 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 capital of our Company or any of its subsidiaries;
 - (iv) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
 - (v) 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 our subsidiaries.
- (b) Save for the listing expenses as set out in the section headed “Financial Information — Listing expenses” in this prospectus, 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.
- (c) None of the persons whose names are listed in the paragraph headed “E. Other information — 7. Qualification of experts” above:
 - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group;
- (d) no company within our Group is presently listed on any stock exchange or traded on any trading system;

- (e) our Company has no outstanding convertible debt securities;
- (f) there are no arrangements in existence under which future dividends are to be or agreed to be waived; and
- (g) 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 24 months preceding the date of this prospectus.

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) the Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix IV to this prospectus; and
- (c) copies of the material contracts referred to in the section headed “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 offices of Fairbairn Catley Low & Kong at 23rd Floor, Shui On Centre, 6–8 Harbour Road, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. Monday to Friday, other than Hong Kong public holidays, up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles;
- (b) the Accountants’ Report of our Group for each of the two years ended 31 December 2016 and four-month period ended 30 April 2017 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of our Group for each of the two years ended 31 December 2016 and the four-month period ended 30 April 2017;
- (d) the unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (e) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix III to this prospectus;
- (f) the Crowe Horwath Report;
- (g) the rules of the Share Option Scheme;
- (h) the Companies Law;
- (i) the material contracts referred to in the section headed “Statutory and General Information — B. Further information about our business — 1. Summary of material contracts” in Appendix IV to this prospectus;

- (j) the service agreements and appointment letters referred to in the section headed “Statutory and General Information — C. Further information about our Directors and substantial shareholders — 3. Directors’ service contracts and remuneration” in Appendix IV to this prospectus;
- (k) the written consents referred to in the section headed “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix IV to this prospectus;
- (l) the report prepared by Baker Tilly Hong Kong Risk Assurance Limited on internal control measures;
- (m) the legal opinion issued by Hills & Co., legal advisers to our Company as to PRC laws; and
- (n) the legal opinion issued by Queenie W.S. Ng, Hong Kong barrister-at-law.