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

ANNUAL REPORT 2017

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Boon Ho Yin Henry
(Chairman and Chief Executive Officer)
Ms. Chow Cheung Chu

Independent Non-executive Directors

Mr. Liu Kwan
Mr. Chik Kin Man Paul
Mr. Wong Wai Leung

BOARD COMMITTEES

Audit Committee

Mr. Wong Wai Leung *(Chairman)*
Mr. Liu Kwan
Mr. Chik Kin Man Paul

Remuneration Committee

Mr. Chik Kin Man Paul *(Chairman)*
Mr. Liu Kwan
Mr. Boon Ho Yin Henry

Nomination Committee

Mr. Boon Ho Yin Henry *(Chairman)*
Mr. Liu Kwan
Mr. Chik Kin Man Paul

COMPLIANCE OFFICER

Mr. Boon Ho Yin Henry

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 9, 27/F
W50
50 Wong Chuk Hang Road
Hong Kong

COMPANY SECRETARY

Ms. Cheung Yuet Fan

AUTHORISED REPRESENTATIVES

Mr. Boon Ho Yin Henry
Ms. Cheung Yuet Fan

AUDITOR

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

COMPLIANCE ADVISER

Vinco Capital Limited
Units 4909–4910, 49/F
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Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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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

PRINCIPAL BANK

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Central
Hong Kong

COMPANY WEBSITE

www.verticaltech.com.cn

STOCK CODE

8375

CHAIRMAN'S STATEMENT

2017 was a year of milestones for the Group, in particular we achieved record revenue and was successfully listed on GEM of the Stock Exchange. We feel that these milestones, along with other achievements over the years, were reached by continued dedication and commitment to our business strategy with sustained profitability and stable revenue growth while advancing our technologies to maintain our competitiveness in the industry.

The group generated a record revenue of HK$109.7 million, which is the highest since inception of the Company in 2006 and represents a growth of 18.2% when compared to 2016. Such increases were mainly due to an increased demand for the Group's chip and radial lead type aluminum electrolytic capacitors, with the segment revenue of aluminum electrolytic capacitors increased to HK$78.4 million for the 2017 or a 37.0% growth from the corresponding figure in 2016. Further to the successful listing on GEM, the group was able to raise new funds of HK$34.8 million through the initial public offering and share placement. With this new infusion of capital, the group will be able to enhance production capacity of the chip type aluminum capacitors to 80 million units per month. In addition, the funding would allow us to invest in research and development, brand promotion and marketing activities to further enhance our market position and competitiveness.

As discussed, the group has enjoyed a continuous growth due to the success in executing our business strategy with a sustained profitability while further advancing our technologies and maximizing our production capacity. Looking forward to 2018, the operation environment of manufacturing of capacitor industry remains full of challenges in facing the ongoing increment of wages and inflation rate in China. Although these factors will continue to put pressure on our costs and gross margins, the Group will continue to seek for expansion and enhance the customer base in the market, will continuously consider any measures in all aspects of the business operation to enhance the profitability and competitiveness of the Group, and will continue to develop the business and make better use of any available resources of the Group. With dedication and commitment of our team, we strongly believe that the Group can maintain its competitive advantage in the industry, provide a stable income and growth to the Group's long term performance and enhance the returns to the shareholders of the Company. The Group has full confidence in its future development.

Finally I would like to take this opportunity to sincerely thank our shareholders, board members, management team, business partners and all of our own people for a successful 2017 and with our continued dedication to hard work, we look forward to a challenging 2018 and beyond.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has continued to successfully execute its business strategy with sustained profitability and increasing revenue growth performance while at the same time advancing its technology capabilities and maximising its production capacity.

The Group's advanced technology portfolio in the capacitors market, coupled with the management team's technical know-how and proven track record in operations, technology development and customer service, has positioned the Group well for long term growth. The past year was a milestone year for the Group in many aspects, in particular the Group has successfully listed on GEM last year through public offering and placing. This offering enabled the Group to have an additional funding of HK$34.8 million for the implementation of its expansion plans as stated in the prospectus of the Company. The proceeds are planned to be used to enhance the production capacity of the Group's chip type aluminum electrolytic capacitors; to expand its product plant and production lines; to recruit additional research and development staff; and also to be used on brand promotion and marketing activities.

Among other things, the Group generated a record revenue of HK$109.7 million, the highest in the Group's past years history. Such increase was mainly due to the increased demand for the Group's chip type and radial lead type aluminum electrolytic capacitor products, in which the segment revenue for the sales of manufactured aluminium electrolytic capacitors recorded an increase of approximately HK$21.2 million or 37.0% from approximately HK$57.2 million for the year ended 31 December 2016 to approximately HK$78.4 million for the year ended 31 December 2017.

Continued research and technological development in capacitors manufacturing process enabled the Group to have a total of 13 utility model patents registered in China and 3 utility model patents and 1 invention patent are being applied for registration in China. The Group also expanded its production lines so that the Group's monthly production capacity increased from 50 million units to 70 million units.

The Group also continued to drive its capacitor manufacturing process technologies for specialty products and enhanced its own patented manufacturing method in order to maximise its product output, resulting in higher production and cost efficiency. With the successful establishment of an expanded manufacturing base and a well-balanced technology portfolio, the Group is well positioned to serve both domestic and worldwide customers.

The Group intends to maintain and continue to build their knowledge base of designs and engineering solutions to expand the range of value-added services and strengthen the quality of products they deliver. To achieve this goal, the Group continued its research and development effort on manufacturing process improvement by expanding its research and development team in the PRC to enhance technology and development capabilities so that it can develop and introduce new designs and products that would meet its customer's need. The Group also continued to invest in the development of its patented manufacturing methods with the aim to achieving a lower production cost and to overcome the barrier of production scale.

In the future, the Group will endeavour to meet the requirements for specific customised products, so as to gradually develop the front-end demand in the market and customised products across various areas, promote the own-branded capacitors in various sectors in the market, and to expand the market share of its capacitor products. The Group will continue to further set up additional production line and prepare for further expansion of its production facilities with a view to achieving a further growth for the Group through increasing its production capacity and offering new products to capture a wider customer base in the market.

Notwithstanding the encouraging result the Group has achieved in 2017, the Group continued to adopt a prudent approach in implementing its expansion plans and will closely monitor the market with a view to reacting to market changes with appropriate countermeasures in the interests of the Company and its shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK$109.7 million for the year ended 31 December 2017 from approximately HK$92.8 million for the corresponding period in 2016, representing an increase of approximately 18.2%. Such increase in the Group's revenue was mainly attributable to the increase in sales orders from new customers and the increased demand for the Group's product from recurring customers. The turnover derived from sales of self-manufacturing products demonstrated a growth of approximately 37.0% during the year as compared to the same period in last year.

Cost of sales

The Group's cost of sales primarily consists of cost of goods sold and other direct costs. The cost of sales increased to approximately HK$85.4 million for the year ended 31 December 2017 from approximately HK$71.6 million for the year ended 31 December 2016, representing an increase of approximately 19.3%. The Group's cost of sales increased along with the growth in revenue for the year ended 31 December 2017.

Gross profit and gross profit margin

The Group's gross profit increased to approximately HK$24.2 million for the year ended 31 December 2017 from approximately HK$21.1 million for the year ended 31 December 2016, representing an increase of approximately 14.6%. The Group's gross profit margin remained steady at approximately 22.1% for the year ended 31 December 2017 and approximately 22.8% for the year ended 31 December 2016.

Selling and distribution expenses

The Group's selling and distribution expenses increased to approximately HK$2.6 million for the year ended 31 December 2017 from approximately HK$2.3 million for the year ended 31 December 2016, representing an increase of approximately 10.5%, mainly due to an increase in the warehouse charges and transportation expenses as a result of the Group's increase in the scale of an business.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, operating lease rentals mainly for office, entertainment and travelling expenses, depreciation of property, plant and equipment, legal and professional fees and other miscellaneous general and administrative expenses. Administrative expenses increased to approximately HK$7.9 million for the year ended 31 December 2017 from approximately HK$5.2 million for the year ended 31 December 2016, representing an increase of approximately 52.7%. Such increase was mainly due to the increase in insurance, professional fee, rental expenses, salaries and employee benefit expenses of managerial and staff cost.

Income tax expenses

Income tax expense decreased by approximately HK$1.1 million, or 49.2%, from approximately HK$2.3 million for the year ended 31 December 2016 to approximately HK$1.2 million for the year ended 31 December 2017. The decrease was primarily attributable to the decrease in the applicable tax rate as one of the major subsidiary is granted tax incentives as a High and New Technology Enterprises and is entitled to a preferential tax rate of 15%.

Total comprehensive income for the year

Total comprehensive income for the year changed from a total comprehensive income for the year ended 31 December 2016 of approximately HK$7.1 million to a total comprehensive income of approximately HK$2.7 million for the year ended 31 December 2017. Such a decrease was mainly because of the recognition of non-recurring listing expenses in the year.

Basic (loss) earnings per share

The Company's basic earnings per share decreased to loss per share of approximately 0.10 HK cents for the year ended 31 December 2017 from earnings per share of approximately 1.52 HK cents for the year ended 31 December 2016, representing a decrease of approximately 1.62 HK cents. Such a decrease was mainly due to the listing expenses recognised during the year as discussed above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the Group has total assets of approximately HK$127.0 million (2016: HK$76.8 million), which is financed by total liabilities, shareholders' equity (comprising share capital and reserve) of approximately HK$35.4 million (2016: HK$45.0 million), approximately HK$91.6 million (2016: HK$31.8 million) respectively. The current ratio as at 31 December 2017 of the Group was approximately 2.7 times (2016: approximately 1.2 times).

During the year ended 31 December 2017, the Group raised net proceeds from public offering and placing ("**Share Offer**") of approximately HK$34.8 million. The net cash used in operating activities of approximately HK$0.9 million included listing expenses paid of approximately HK$9.3 million.

As at 31 December 2017, the Group had bank balances and cash of approximately HK$45.0 million (2016: HK$7.9 million).

The total interest-bearing bank borrowing of the Group as at 31 December 2017 was approximately HK$3.8 million (2016: HK$6.3 million). The gearing ratio (calculated based on interest bearing bank borrowings, divided by total equity) of the Group as of 31 December 2017 was 0.04 times (2016: 0.2 times).

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2017 are set out in the consolidated statement of changes in equity.

DIVIDEND

No dividend was paid, proposed or declared for the ordinary shareholders of the Company for the year ended 31 December 2017 (for the year ended 31 December 2016: Nil).

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately HK$2.8 million (31 December 2016: Nil). Such commitments primarily related to purchases of equipment and machineries for the expansion of the Group's production capacity.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 17 March 2017, the Group completed the reorganisation steps, details of which are set out in the prospectus. Subsequent to the completion of the reorganisation steps and up to 31 December 2017, the Group did not have any acquisition or disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 December 2016 and 2017.

CHARGES ON GROUP'S ASSETS

As at 31 December 2017, the leasehold land and building with the carrying value of approximately HK$5.2 million (2016: HK$5.4 million) is pledged to a bank to secure banking facilities granted to the Group.

EMPLOYEE INFORMATION

As at 31 December 2017, the Group had 154 full-time employees (31 December 2016: 140 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2017 was HK$15.6 million (2016: HK$12.0 million). To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

FOREIGN EXCHANGE EXPOSURE

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.

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.

	Liabilities		**Assets**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**—**	(2,268)	**1,561**	3,042
RMB	**(223)**	(206)	**30**	60

The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure to mitigate the foreign currency risk.

USE OF PROCEEDS FROM THE SHARE OFFER

The net proceeds from Share Offer amounted to approximately HK$34.8 million. As at 31 December 2017, approximately HK$12.5 million from the net proceeds raised from the Share Offer has been applied towards the purchase of equipment for the expansion of the production line of the Group's chip-type aluminium electrolytic capacitors. Approximately HK$97,000 has been applied towards the Group's brand promotion and marketing expenses. The unused proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong.

The net proceeds from the Share Offer from the Listing Date to 31 December 2017 were used as follows:

Use of proceeds	**Planned use of net proceeds (adjusted on a pro rata basis based on the actual net proceeds)** HK$ million	**Actual use of net proceeds up to 31 December 2017** HK$ million
To increase the production capacity of the Group's chip type aluminum electrolytic capacitors	21.5	12.5
To establish the second production plant in Dongguan, Guangdong Province, the PRC	6.6	—
To continue research and development effort	2.5	—
To promote the Group's branded products	2.3	0.1
General working capital	1.9	—
	34.8	12.6

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Boon Ho Yin Henry (温浩然), 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 Technology (B.V.I.) Limited, Vertical Technology Company Limited (弘峰科技有限公司) ("Vertical Technology"), and Vertical Engineering Company Limited (弘峰工程有限公司).

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.

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Kwan (劉筠), aged 46, 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) in 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. 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 practicing 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. Wong Wai Leung (黃偉樑), aged 40, 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.

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 has been appointed as an executive director of Qinqin Foodstuffs Group (Cayman) Company Limited (親親食品集團(開曼)股份有限公司) (Stock code: 1583) since 22 March 2016, and has been appointed as an independent non-executive director of MediNet Group Limited (醫匯集團有限公司) (Stock code: 8161) since 19 May 2016, the shares of both companies are listed on the Stock Exchange.

Disclosure required under Rule 17.50(2) of the GEM Listing Rules

As of the date of this annual report, each of our Directors confirms that save for the information shown on the Section "Corporate Information" of this annual report and save as disclosed above: (i) he/she has not held directorships in the past three years in other listed companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) save as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" in the Report of the Directors of this annual report, he/she does not have any interests in the shares within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"); (iii) there was no information that should be disclosed pursuant to Rules 17.50(2)(h) to 17.50(2)(v) of the GEM Listing Rules; and (iv) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors that needs to be brought to the attention of the shareholders of the Company.

SENIOR MANAGEMENT

Mr. Li Xinjun (李新軍), aged 36, is the deputy general manager of the sales and marketing department of Dongguan Shouke Electronics Technology Limited ("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.

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.

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.

COMPANY SECRETARY

Ms. Cheung Yuet Fan (張月芬) is the company secretary of our Company. She is a director of Corporate Services of Tricor Services Limited ("Tricor"), a global professional services provider specializing in integrated business, corporate and investor services. The Company has engaged Tricor as external service provider and appointed Ms. Cheung as the company secretary of the Company since 16 October 2017.

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. Prior to joining Tricor, 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. 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).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Board of the Company is committed to achieving good corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of the shareholders of the Company (the "Shareholders"), enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles and practices as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules and has adopted the CG Code as the code to govern the Company's corporate governance practices.

Since 13 November 2017 (the "Listing Date") up to the date of this annual report, the Company has complied with the applicable code provisions as set out in the CG Code except for the deviation from code provision A.2.1 which is explained in the relevant paragraphs of this corporate governance report. The Company will continue to enhance its corporate governance practices appropriate to the operation and growth of the business of the Group.

The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS

The Company has adopted the Required Standard of Dealings as the code for securities transactions by the Directors on the guidelines as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Further, the Company had made specific enquiry with all Directors and each of them has confirmed his/her compliance with the Required Standard of Dealings from the Listing Date to the date of this report.

The Company has also adopted written guidelines as the code for securities transactions by relevant employees of the Group who are likely to possess inside information in relation to the Company or its securities based on the Required Standard of Dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. No incidence of non-compliance of this code by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

The Board currently comprises five members, consisting of two executive Directors and three independent non-executive Directors.

Executive Directors:

Mr. Boon Ho Yin Henry *(Chairman, Chief Executive Officer, Chairman of the Nomination Committee and member of the Remuneration Committee)*
Ms. Chow Cheung Chu

Independent non-executive Directors:

Mr. Liu Kwan *(Member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*
Mr. Chik Kin Man Paul *(Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee)*
Mr. Wong Wai Leung *(Chairman of the Audit Committee)*

The biographical information of the Directors are set out on pages 10 to 12 of this annual report.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

Mr. Boon Ho Yin Henry is the Chairman and the Chief Executive Officer of the Company and is responsible for the Group's major decision-making, overall strategic planning, determining corporate policies and daily operation and management of the Group. In view of Mr. Boon Ho Yin Henry is one of the founders of the Group and he has been operating and managing the Group since its establishment, the Board believes that it is in the best interest of the Group to have Mr. Boon Ho Yin Henry take up both roles for effective management and business development of the Group. Therefore, the Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

Independent Non-executive Directors

From the Listing Date up to 31 December 2017, the Company had met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors, representing at least one-third of the Board, with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and renewable automatically for successive terms of one year immediately after the expiry of the then current term, unless terminated by not less than three months' notice in writing served by either party.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company with an initial term of three years commencing from the Listing Date, unless terminated by not less than three months' notice in writing served by either party.

Each of the Directors is subject to re-election at the annual general meeting of the Company ("AGM") after his appointment pursuant to the articles of association of the Company ("Articles"). The term of offices of every Director is also subject to retirement by rotation at the AGM at least once every three years pursuant to the Articles.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board makes decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Directors have timely access to the information of the Company as well as the services and advice from the company secretary and senior management of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to its management team.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a Director and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements. The induction materials, including directors' manual and legal and regulatory update have been provided to the Directors upon appointment.

Directors should participate in appropriate continuous professional development and training courses to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate.

The Directors have participated in the following trainings during the year ended 31 December 2017:

Types of training	
Executive Directors	
Mr. Boon Ho Yin Henry	A, C
Ms. Chow Cheung Chu	A, B
Independent non-executive Directors	
Mr. Liu Kwan	A, B, C
Mr. Chik Kin Man Paul	A, C
Mr. Wong Wai Leung	A, B

A Attending in-house briefing organized and trainings coordinated by the Company

B Attending seminars and trainings

C Reading materials relating to directors' duties and responsibilities

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

The Board has established three committees, namely, the audit committee, remuneration committee and nomination committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to the Shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 3 of this annual report.

Audit Committee

The Company established the audit committee (the "Audit Committee") on 24 October 2017 with written terms of reference in compliance with the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wong Wai Leung, Mr. Liu Kwan and Mr. Chik Kin Man Paul (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). Mr. Wong Wai Leung has been appointed as the chairman of the Audit Committee.

From the Listing Date up to 31 December 2017, the Audit Committee held one meeting, with all members present in person, to review and approve the Group's quarterly financial results and report for the nine months ended 30 September 2017 before submission to the Board for approval.

The Audit Committee shall meet the external auditors twice a year without the presence of the executive Directors.

The Audit Committee has also held a meeting on 19 March 2018 and in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed risk management and internal control systems and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the independent auditor's report thereon before submission to the Board for approval.

The Audit Committee has also reviewed the compliance with the deed of non-competition given by the controlling Shareholders as defined and stated in the prospectus of the Company dated 31 October 2017. The Company has obtained an annual written confirmation from the Company's controlling Shareholders in respect of their compliance with the terms of the deed of non-competition.

Remuneration Committee

The Company established the remuneration committee (the "Remuneration Committee") on 24 October 2017 with written terms of reference in compliance with the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, reviewing and making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration and to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee comprises one executive Director, Mr. Boon Ho Yin Henry and two independent non-executive Directors, Mr. Chik Kin Man Paul and Mr. Liu Kwan. Mr. Chik Kin Man Paul has been appointed as the chairman of the Remuneration Committee.

The Remuneration Committee shall report to the Board after each meeting of the Remuneration Committee.

From the Listing Date up to 31 December 2017, the Remuneration Committee held one meeting, with all members present through telephonic conferencing, to review the Company's remuneration policy and structure and remuneration packages of all Directors and senior management.

Nomination Committee

The Company established the nomination committee (the "Nomination Committee") on 24 October 2017 with written terms of reference in compliance with the CG Code. The principal duties of the Nomination Committee include reviewing the Board structure, size and composition, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

The Nomination Committee comprises one executive Director, Mr. Boon Ho Yin Henry, and two independent non-executive Directors, Mr. Liu Kwan and Mr. Chik Kin Man Paul. Mr. Boon Ho Yin Henry has been appointed as the chairman of the Nomination Committee.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

The Nomination Committee shall report to the Board after each meeting of the Nomination Committee.

From the Listing Date up to 31 December 2017, the Nomination Committee held one meeting, with all members present through telephonic conferencing, to review the structure, size and composition of the Board and the Board diversity policy. The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained and that the review on the progress on achieving the objectives as set out in the Board diversity policy had been conducted and that all findings were satisfactory.

The Nomination Committee has also held a meeting on 19 March 2018 to review the Board diversity policy and the independence of the independent non-executive Directors, and to consider and recommend to the Board on the re-election of Directors at the forthcoming AGM.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Required Standard of Dealings by Directors of securities transactions, as well as the Company's compliance with the CG Code and disclosure in this corporate governance report.

REMUNERATION BANDS OF MEMBERS OF SENIOR MANAGEMENT

Remuneration bands	Number of Individuals
HK$Nil to HK$1,000,000	2

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board committee meetings and the general meetings of the Company held during the period from the Listing Date to 31 December 2017 is set out in the table below:

	Attendance/Number of Meetings				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Boon Ho Yin Henry	1/1	N/A	1/1	1/1	0/0
Ms. Chow Cheung Chu	1/1	N/A	N/A	N/A	0/0
Independent Non-Executive Directors					
Mr. Liu Kwan	1/1	1/1	1/1	1/1	0/0
Mr. Chik Kin Man Paul	1/1	1/1	1/1	1/1	0/0
Mr. Wong Wai Leung	1/1	1/1	N/A	N/A	0/0

One regular board meeting was held during the period from the Listing Date to 31 December 2017.

On 19 March 2018, the Chairman of the Board held a meeting with the independent non-executive Directors without the presence of the other executive Director.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to identify, evaluate and manage risk exposures that may impact the continued efficiency and effectiveness of our operation or provide reasonable and not absolute assurance against material misstatement or loss, rather than to eliminate the risk of failure to achieve business objectives.

The management is responsible for establishing, implementing and monitoring the risk management and internal control systems. The Board has the overall responsibilities for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and overseeing the management in the design, implementation and monitoring of the risk management and internal control systems. Such duties have been carried out and performed with the assistance of the management and the Audit Committee.

The Company has engaged an independent internal control advisor for providing the internal audit function and performing independent review of the adequacy and effectiveness of the internal control systems annually, including reviewing guidelines and policies which are implemented through our operational process, as well as examining key issues in relation to the financial, operational, compliance and risk management practices with an aim to, among other matters, improve our Group's corporate governance. The independent internal control advisor is also responsible for providing its findings and any recommendations for improvement to the Audit Committee.

The Board is dedicated to safeguard the interests of Shareholders and the continuity of the Group by maintaining an optimal capital structure in its capital risk management. To mitigate the Group's credit risks in relation to the collectability of trade receivables, the Board has adopted credit risk management policies and procedures for conducting ongoing credit evaluation and close monitoring of material overdue payments. Regular meetings have also been conducted by the Board and senior management to formulate conservative strategies for mitigating the Group's financial risks including overseeing the interest rate exposure and compliance with liquidity requirements.

With a view to identifying, handling and disseminating inside information, procedures have been implemented by the Group to ensure that unauthorized access and use of information are strictly prohibited.

From the Listing Date to 31 December 2017, the Board, as supported by the Audit Committee, our compliance officer and the independent internal control advisor providing the internal audit function, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the mentioned period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The report of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 48 to 53.

AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu is appointed as the external auditor of the Company.

For the year ended 31 December 2017, apart from the provisions of annual audit services, Deloitte Touche Tohmatsu was also the reporting accountant of the Company in relation to the listing of the Company. During the year ended 31 December 2017, the total fees paid/payable in respect of audit services and non-audit services provided by Deloitte Touche Tohmatsu are set out below:

Services rendered to the Company	**Fees paid and payable** HK$
Audit services:	
2017 annual audit	1,100,000
Non-audit services:	
Acting as reporting accountant in relation to the listing of the Company	3,270,000
	4,370,000

COMPANY SECRETARY

Ms. Cheung Yuet Fan of Tricor Services Limited, external service provider, has been engaged by the Company as the company secretary. Her primary contact person at the Company is Mr. Boon Ho Yin Henry, Chairman of the Company. Ms. Cheung has confirmed that for the year ended 31 December 2017, she has taken no less than 15 hours of relevant professional training.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors. All resolutions put forward at Shareholders' meetings of the Company will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the website of the Company and of the Stock Exchange after each Shareholders' meeting of the Company.

Convening an Extraordinary General Meeting by Shareholders and Putting Forward Proposals at General Meetings

- Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting ("EGM") to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

- Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Unit 9, 27/F, W50, 50 Wong Chuk Hang Road, Hong Kong, for the attention of the Chairman of the Board.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included, the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.

- The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholders will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Chairman of the Board will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM.

- If within 21 days of the deposit of the Requisition the Board has not advised the Eligible Shareholder(s) of any outcome to the contrary and fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Memorandum and Articles of Association of the Company, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries as mentioned above to the following:

Address: Unit 9, 27/F, W50, 50 Wong Chuk Hang Road, Hong Kong
(For the attention of the Board of Directors)
Email: info@verticaltech.com.cn
Fax: (852) 3690 2521

CONSTITUTIONAL DOCUMENTS

The Company has not made any changes to its Articles since the Listing Date. An up to date version of the Articles is also available on the Company's website and the Stock Exchange's website.

REPORT OF THE DIRECTORS

The Directors are pleased to present the report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

CORPORATE REORGANISATION

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 shares of the Company (the "**Shares**") have been listed on the GEM of the Stock Exchange since 13 November 2017 (the "**Listing Date**").

In preparing for the initial listing of the Shares on 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 Ho Yin Henry ("**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 Mr. Boon. Since then, the Company became the holding company of the 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 Mr. Boon since their respective date of incorporation and before and after the Reorganisation.

The principle steps of the Reorganisation are 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 a consideration of 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, 韶關弘峰電子有限公司 (Shaoguan Hongfeng Electronics Limited), 東莞首科電子科技有限公司 (Dongguan Shouke Electronics Technology Limited) and Vertical Engineering Company Limited, became indirect wholly-owned subsidiaries of the Company.

The consolidated financial information of the companies comprising the Group has been prepared as if the Company had always been the holding company of the Group.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components. The principal activities of the Company's subsidiaries are set forth in Note 34 to the consolidated financial statements.

REVENUE AND SEGMENT INFORMATION

The revenue and segment information of the Group for the year are set forth in Note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year and the financial position of the Group and the financial position of the Company as at 31 December 2017 are set forth in the consolidated financial statements on pages 54 to 55 and 103 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2017, a discussion on the Group's business development and an analysis of the Group's performance using financial key performance indicators are provided in the "Management Discussion and Analysis" on pages 5 to 9. In addition, discussions on the principal risks and uncertainties facing the Group, the Group's environmental policies and performance, the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, particulars of important events affecting the Group since the financial year ended 31 December 2017 and key relationships with its stakeholders are contained in this "Report of the Directors".

PRINCIPAL RISK AND UNCERTAINTIES

The Group's financial condition and results of operations would be affected by a number of factors. The principal risks and uncertainties relating to the Group are set out below:

— We face intense competition in the aluminum electrolytic capacitors industry;

— Our Group's revenue relies on the PRC market and sales of major product;

— We do not have any long term contracts with our customers;

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

ENVIRONMENTAL POLICY

Environmental policy is set out in the section of "Environmental, Social and Governance Report" in this report on pages 36 to 47.

COMPLIANCE WITH LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, our Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of our Group during the year ended 31 December 2017.

KEY RELATIONSHIPS

The Group understands the importance of maintaining a good relationship with its customers, suppliers and stakeholders in meeting its short-term and long-term goals.

The Group has established good reputation for making high quality and reliability products. The Group communicates with its customers from time to time in order to collect feedback from them as a valuable tool to measure and improve the quality of products as well as customer's satisfaction.

The Group maintains a list of approved suppliers which are selected with reference to, among other things, material/service quality, reliability and price. The Group generally enters into a framework agreement for quality assurance with the suppliers which govern the quality of the raw material and/or electronic components that the Group purchases from the suppliers and performs annual evaluation on the Group's suppliers with respect to raw materials/service quality, reliability and timely delivery.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, our largest customer accounted for approximately 15.2% of our total revenue, while the percentage of our total revenue attributable to our five largest customers in aggregate was approximately 50.1%.

For the year ended 31 December 2017, our largest supplier accounted for approximately 18.0% of our total purchases, while the percentage of our total purchases attributable to our five largest suppliers in aggregate was approximately 45.9%.

As far as the Company is aware, as at the date of this annual report, none of the Directors, their close associates nor any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the Group's customers and suppliers as disclosed above.

EMOLUMENT POLICY

The Remuneration Committee will review and determine the remuneration and compensation packages of the Directors with reference to their duties and responsibilities, workload, and time devoted to our Group and the performance of our Group. The Directors may also receive options to be granted under the share option scheme.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 25 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

RESERVES

Details of movements in reserves of the Group for the year ended 31 December 2017 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the reserve of the Company available for distribution to Shareholders under the Companies Law of the Cayman Islands amounted to approximately HK$55 million.

SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 December 2017 are set out in Note 34 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 24 October 2017 (the "**Scheme**") as approved by a resolution of the then sole Shareholder passed on 24 October 2017.

Details of the Scheme are as follows:

1.	Purpose of the Scheme	To enable the Company to grant options to the eligible participants, as incentive or reward for their contribution to the Group to subscribe for the Shares thereby linking their interest with that of the Group. The basis of eligibility shall be determined by the Board from time to time.
2.	Eligible participants to the Scheme	Any employee, adviser, consultant, service provider, agent, client, partner or joint-venture partner of the Company or any subsidiary (including any director of the Company or any subsidiary) who is in full-time or part-time employment with or otherwise engaged by the Company or any subsidiary at the time when an option is granted to such person under the Scheme or any person who, in the absolute discretion of the Board, has contributed or may contribute to the Group.
3.	Total number of shares available for issue under the Scheme and percentage to the issued shares as at the date of this annual report	80,000,000 shares (equivalent to 10% of the total number of Shares in issue as at the Listing Date).
4.	Maximum entitlement of each participant under the Scheme	Not exceeding 1% of the total number of Shares in issue for the time being in any 12-month period. Any further grant of share option in excess of such limit must be separately approved by the Shareholders in general meeting.
5.	The period within which the shares must be taken up under an option	A period which shall not be more than ten (10) years after the offer date and subject to the provisions for early termination as contained in the Scheme.
6.	The minimum period for which an option must be held before it can be exercised	Unless otherwise determined by the Board, there is no performance target required to be achieved and no minimum period required under the Scheme for the holding of an option before it can be exercised.

7.	The amount payable on application or acceptance of the option and the period within which payments or calls must be made	The payment or remittance of HK$1.00 within 21 days from, and inclusive of, the offer date or within such other period of time as may be determined by the Board pursuant to the GEM Listing Rules.
8.	The basis of determining the exercise price	Being determined by the Board and shall be at least the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (c) the nominal value of a Share on the offer date.
9.	The remaining life of the Scheme	The Scheme is valid and effective for a period of ten (10) years commencing on 24 October 2017 (being the date of adoption of the Scheme).

No share option has been granted under the Scheme since its adoption and up to the date of this annual report.

DIRECTORS

The Directors (the "Board") from the Listing Date and up to the date of this report are as follows:

Executive Directors

Mr. Boon Ho Yin Henry *(Chairman and Chief Executive Officer)*
Ms. Chow Cheung Chu

Independent Non-executive Directors

Mr. Liu Kwan
Mr. Chik Kin Man Paul
Mr. Wong Wai Leung

In accordance with article 83(3) of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Shareholders after his/her appointment and shall be subject to re-election at such general meeting. Any Director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting and shall be eligible for re-election.

In accordance with the articles 84(1) and (2) of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), 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. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. Any Director appointed by the Board pursuant to article 83(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

In accordance with the above provisions of the Articles, all the Directors, namely, Mr. Boon, Ms. Chow Cheung Chu, Mr. Liu Kwan, Mr. Chik Kin Man Paul and Mr. Wong Wai Leung, shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial 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 the independent non-executive Directors has entered into a letter of appointment with the Company for an initial 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.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 13 of this annual report.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 13 to the consolidated financial statements of this annual report.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save for the related party transactions disclosed in notes 22 and 31 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period from the Listing Date to 31 December 2017.

MANAGEMENT CONTRACTS

From the Listing Date to 31 December 2017, the Company did not enter into or have any management and administration contracts in respect of the whole or any substantial part of the business of the Company.

INTERESTS OF THE COMPLIANCE ADVISER

As at the date of this annual report, neither Vinco Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or close associates has any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of the GEM Listing Rules.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Other than as disclosed in the paragraph headed "Disclosure of Interests" below, at no time during the period from the Listing Date to 31 December 2017 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2017, the interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO) or which as entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are set out as follows:

(a) Long position in the Shares of the Company

Name of Director	Nature of interest	Number of Shares held *(Note 1)*	Percentage of shareholding in the Company
Mr. Boon Ho Yin Henry ("**Mr. Boon**") *(Note 2)*	Interest in a controlled corporation	600,000,000 (L)	75%

(b) Long position in the shares of the associated corporation of the Company

Name of Director	Nature of interest	Name of associated corporation	Number of shares interested *(Note 1)*	Percentage of shareholding in the associated corporation
Mr. Boon	Beneficial owner	Vertical Technology Investment Limited ("**Vertical Investment**")	1 (L)	100%

Notes:

(1) The letter "L" denotes long position in the share interests.

(2) Vertical Investment held direct interests of 600,000,000 Shares. Vertical Investment is wholly and beneficially owned by Mr. Boon. Therefore, Mr. Boon is deemed to be interested in all the Shares held by Vertical Investment under the SFO.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests in the Shares and Underlying Shares of the Company

As at 31 December 2017, the following persons (not being a Director or chief executive of the Company) had or were deemed or taken to have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under Section 336 of the SFO who, are directly or indirectly interested in 5% or more of the Shares:

Long positions in the Shares of the Company

Name of Shareholder	Nature of interest	Number of Shares held *(Note 1)*	Percentage of shareholding in the Company
Vertical Investment *(Note 2)*	Beneficial owner	600,000,000 (L)	75%
Ms. Sun Koon Kwan ("**Ms. Sun**") *(Note 3)*	Interest of spouse	600,000,000 (L)	75%

Notes:

(1) The letter "L" denotes long position in the share interests.

(2) Vertical Investment is wholly and beneficially owned 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 above, as at 31 December 2017, none of the Directors is aware of any other person who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under Section 336 of the SFO, who are directly or indirectly interested in 5% or more of the Shares.

DIRECTORS' INTEREST IN COMPETING BUSINESS

From the Listing Date to 31 December 2017, none of the Directors or the controlling Shareholders or their respective close associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

CONNECTED TRANSACTIONS

From the Listing Date to 31 December 2017, the Group had not entered into any connected transactions or continuing connected transactions that are not exempted under Rule 20.71 of the GEM Listing Rules.

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

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

From the Listing Date to 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

Each of the controlling Shareholders, namely Vertical Investment and Mr. Boon (together the "Controlling Shareholders"), entered into a deed of non-competition in favour of the Company on 24 October 2017 (the "Deed of Non-competition"), details of which have been set out in the prospectus of the Company dated 31 October 2017.

The Company has received an annual confirmation from the Controlling Shareholders in respect of their compliance with the non-competition undertakings under the Deed of Non-competition throughout the period from the Listing Date to 31 December 2017. The independent non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed of Non-competition by the Controlling Shareholders and confirmed that the Controlling Shareholders have not been in breach of the Deed of Non-competition from the Listing Date to 31 December 2017.

DONATIONS

Charitable or other donations made by the Group during the year amounted to HK$1,000.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as required under the GEM Listing Rules since the Listing Date and up to the date of this annual report.

CLOSURE OF REGISTER OF MEMBERS

For attending and voting at the annual general meeting

The register of members of the Company will be closed from Wednesday, 2 May 2018 to Monday, 7 May 2018 (both days inclusive, 4 business days in total) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 30 April 2018.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the prospectus with the Group's actual business progress from Listing Date to 31 December 2017 ("Review Period") is set out below:

Business strategies	Actual business progress during the Review Period
— To increase the production capacity of our Group's chip-type aluminum electrolytic capacitors	— Review of the required specifications of the machineries to be installed is being carried out. Orders have been placed.
— To establish the second production plant in Dongguan, Guangdong Province, the PRC	— The Group is at the stage of exploring and identifying the location for establishing the second production plant in a prudent manner.
— To promote our branded products	— The Group has recruited additional sales staff and is preparing booklets for marketing events.

PERMITTED INDEMNITY PROVISIONS

Under the articles of association of the Company, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, cost, charges, losses, damages and expenses incurred or sustained by him/her as a Director provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty attached to him/her. The Company has arranged an appropriate insurance cover in respect of legal action against the Directors.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

Details of the Company's environmental and social responsibility practices are set out in the Environmental, Social and Governance Report on pages 36 to 47 in this annual report.

AUDITOR

Deloitte Touche Tohmatsu has been appointed as the auditor of the Company and has audited the Company's consolidated financial statements for the year ended 31 December 2017.

The Company has not changed its external auditor since the Listing Date up to the date of this annual report. A resolution will be proposed at the forthcoming AGM for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company.

EVENTS AFTER THE REPORTING DATE

As from 31 December 2017 to the date of this annual report, no significant event has occurred.

On Behalf of the Board

Boon Ho Yin Henry
Chairman

Hong Kong 19 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Scope and Boundary

This Environmental, Social and Governance Report (the "Report") covers the Group's management approach, strategies, priorities, and objectives during the period from 1 January 2017 to 31 December 2017 (the "reporting year"). This is the first Environmental, Social and Governance Report published by the Group according to the Environmental, Social and Governance Reporting Guide, Appendix 20 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The Group strives to foster sustainable development and undertake corporate responsibility. Therefore, while the Group actively develops and seeks opportunities, it also takes into consideration factors including environment, society and ethics so as to ensure the Group can achieve a balance between business development, social demand and environmental impacts. The Group also values building good relationship with our stakeholders (including but not limited to customers, investors, shareholders, suppliers, employees and other organisations), aiming to understand and respond to their expectations. The Group will maintain close communications with stakeholders to satisfy expectations and demands from various stakeholders.

In the course of preparing the Report, the Group conducted thorough review and assessment towards its existing environmental and social policies with aims to achieve better performance in aspects of environment, social, corporate governance and operation in the future and make more contributions to the communities where it operates.

In order to achieve sustainable development, the Group has adopted the following strategies:

1. achieving environmental sustainability;
2. respecting human rights and community culture;
3. maintaining communications with stakeholders;
4. supporting employees and providing a friendly working environment;
5. conducting strict quality monitoring;
6. sustaining local community development; and
7. strengthening our commitment to customers.

The Report was approved by the Board on 19 March 2018.

Feedback and Opinions

For the details on the financial performance and corporate governance of the Group, please refer to our website (http://www.verticaltech.com.cn) and our annual report. The Group also values your feedback and opinion on our performance of sustainable development. Please email your feedback and other sustainable development information to info@verticaltech.com.cn.

Management Approach

The Group aims to enhance communication with stakeholders and pay close attention to the Group's impact on the operating environment and society. The Group maintains close contact with internal employees, suppliers and customers to understand their concerns and seek solutions together. Apart from focusing on the business development goals, the Group also values environmental protection and social engagement. Under the global environment which the awareness of environmental protection is raised, the Group has also continuously improved the Group's strategies on the environment, society and governance to continuously create an efficient and diversified business environment for development.

In order to formulate the Group's business strategies for environment, society and governance, the Group will identify events that may cause a negative impact on the Group's image or that pose risks to the Group in the short, medium and long term. In addition, the Group will pay close attention to any incidents that bring harm to stakeholders such as the employees, customers, governments, suppliers, and their communities, and analyse the impact brought by the problem on the Group and the responsibilities involved. Through the formulation of policies and management procedures, the management leads the Group to jointly find solutions to reduce risks.

ABOUT THE GROUP

Our Group's core business is the manufacturing of chip type and radial lead type aluminium electrolytic capacitors. This core business is complemented by the trading of a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors, and LED and LED lighting products. The Group mainly manufactures aluminium electrolytic capacitors at its Dongguan plant, boasting a comprehensive quality control system which aligns with ISO 9001:2015 Quality Standard (covering all stages of its aluminium electrolytic capacitors production), QC080000:2012 concerning the management of hazardous substances in the production process, and RoHS and REACH standards, which concern the restriction and control of certain hazardous substances and chemicals related to aluminium electrolytic capacitors.

Regarding the production of aluminium electrolytic capacitors, the Group's internal research and development team has registered in the PRC and holds 13 utility model patents. The team has also submitted 3 applications for the registration of new utility model patents and 1 for invention patent. The Group's products are mainly sold to the PRC, Malaysia, Hong Kong and other Asian regions. The Group's production method of aluminium electrolytic capacitors has obtained certain achievements in scientific research. In November 2016, it was awarded the certificate of "high and new technology enterprises", one of the State's focuses in the high and new technology field.

On Stakeholders

The Group seeks every opportunity and endeavour to understand and engage our stakeholders so that we can continue to improve the product offerings and services of the Group. The Group strongly believes that our stakeholders play a crucial role in the continual success of our business operations.

Stakeholders	Possible incidental issues	Communication and response
Hong Kong Stock Exchange	Compliance with the Listing Rules, publishing of announcements in a timely and accurate manner	Meetings, training, seminars, programmes, updating of website and announcements
Governments	Compliance with laws and regulations, social welfare and prevention of tax evasion	Interactions and visits, government inspections, tax returns and other information
Suppliers	Payment schedule, supply stability	On-site research
Investors	Corporate governance system, business strategies and performance, investment return	Organisation and participation of seminars, visits and interviews, general meetings, provision of financial reports or business updates for investors, press and analysts
Media	Corporate governance, environmental protection and human rights	Posting of communications on the company website
Customers	Product/service quality, fair and reasonable pricing, value of service, protection for the labour force and work safety	Site visits and after-sale services
Employees	Rights, employee salaries, training and development, working hours, working environment	Conducting team activities, training, interviews with employees, issue of staff manual, internal memorandum and suggestion box
Community	Environmental, employment and community development, social welfare	Organising community activities, employees volunteering activities and community welfare, sponsorship and donations

Environmental Protection

The Group is always committed to promoting environmental protection. The Group has established an environmental management system during the research and development, production and sales of aluminium electrolytic capacitors, processes and the Group has obtained the standard certification of ISO 14001:2015 to ensure that the negative impact on the environment is minimised during the main production process. Also, the Group complied with relevant provisions of the laws and regulations in environmental protection during the reporting year. As part of the environmental management system of ISO 14001:2015, the Group has formulated the "Environment, Occupational Health and Safety Management Manual" to avoid, reduce and control the generation and emission of pollutants during the production process. In addition to formulating environmental protection policies, the Group also actively encourages employees to understand the importance of environmental protection and arouses their awareness on environmental protection at work. Therefore, supervisory staff will regularly conduct training sessions and internal assessment written tests of ISO 14001:2015 to ensure the employees to meet the standards of the environmental management system in their work routine.

Exhaust Gas Emission

The Group was involved in small amount of exhaust gas emission during the production process, such as exhaust gas generated in the reflow process and printing. The Group hired inspection and testing technology companies to evaluate the exhaust gas and noise generated by the production process. The results showed that the exhaust gas in the reflow process had met Class II standard of "Emission Limits of Air Pollutants" (DB44/27-2001) in Guangdong Province during the second time period; the exhaust gas generated by printing reaches the limit of emission in the second time period of "Emission Standard of Volatile Organic Compounds for Printing Industry" (DB44/815-2010) in Guangdong Province; the noise at the plant boundary also met the standard of the Type 3 region of the "Emission Standard for Industrial Enterprises Noise at Boundary" (GB12348-2008).

For the year ended 31 December 2017

	Tin compounds	Toluene	Xylene	Total VOCs
Total volume (calculated in kg)	0.1483	25.6339	11.6844	744.3072

Greenhouse Gas Emission

During the reporting year, the greenhouse gas emissions of the Group were mainly generated from the internal consumption of electricity outsourced by the Group which were consumed during the production process in the plant and the operation of the office. The following are the greenhouse gas emissions data generated by using outsourced electricity in the production process recorded for the reporting year:

	For the year ended 31 December 2017
Power consumption (kWh)	2,152,461.23
Power consumption density (kWh/sq m)	553.98
Carbon emission (scope 2 only) (metric tonnes of carbon dioxide equivalence)[i]	1,870.37
Carbon emission density (metric tonnes of carbon dioxide equivalence/sq m)	0.48

[i] We only include carbon emission in scope 2 (indirect emissions generated from the electricity purchased). According to the emission factor of the 2016 China Regional Grid benchmark issued by the National Development and Reform Commission, the emission coefficient of the southern power grid to which Guangdong Province belongs is 0.87 kg/kWh. According to the descriptions of the Hong Kong electric bill, the carbon dioxide produced by fuel combustion per degree of electricity on average in 2016 was 0.79 kg. According to the CLP Sustainability Reports, the carbon dioxide produced by fuel combustion per degree of electricity on average in 2016 was 0.54 kg.

Hazardous Waste

The Group has obtained QC080000:2012 certification for the formulation and implementation of management procedures and related processes for the hazardous substance process and met the requirements of IECQ HSPM. In addition, the Group had no material non-compliance with the provisions of the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste to deal with hazardous waste and does not dump hazardous waste directly into the surroundings; hazardous wastes are collected, stored, transferred and disposed of separately from other wastes; and hazardous wastes are stored in special containers which are clearly labelled during the reporting year. The industrial hazardous solid wastes produced in the production process mainly comprise used packaging drums, packaging cans, and wasted electrolytes, which are the hazardous solid wastes listed on the national hazardous waste list. The Group has hired qualified recyclers to recycle the waste. For the year ended 31 December 2017, as the Group did not collect hazardous waste, no relevant data could be provided.

Non-hazardous Waste

The guide pins, aluminium shells and leads that are scrapped during the production process are the main non-hazardous waste. The Group aims to reduce waste from the source and reminds its staff to handle raw materials as carefully as possible to reduce the chance of scrapping. Besides, the cardboard boxes used by suppliers to supply raw materials are also one of the non-hazardous wastes discarded by the Group. The Group has formulated the "Management Procedures of Solid Waste" to classify general solid wastes into two categories: recyclable and non-recyclable; some examples of recyclable solid wastes are paper, plastic, metal and glass, etc.

For the year ended 31 December 2017

Non-hazardous waste item	Scrap	Leads	Cardboard boxes
Total volume (calculated in tonnes)	12.0085	14.0637	3.12
Non-hazardous waste density (tonnes/sq m)	0.00316	0.00370	0.00082

Measures to Reduce Waste

The Group had no material non-compliance with the provisions of the Environmental Protection Law of the PRC and the National Hazardous Waste Inventory amended by the Ministry of Environmental Protection of the People's Republic of China and other related provisions of the laws and regulations concerning environmental protection during the reporting year. The industrial solid wastes produced in the production process are not discharged, disposed of or transferred arbitrarily. All hazardous solid wastes produced during the production process will be treated in a more environmentally friendly manner by employing professional organizations that hold permits to handle industrial solid wastes. The organizations will recycle hazardous solid wastes of the Group every year. Before the organisations recycle such wastes, the Group will separately seal each type of hazardous wastes for recycling afterwards.

In addition, the Group has established the "Management Regulations on Paper Conservation" to remind employees of reducing the production of non-hazardous waste at work. Regarding paper consumption in the office, the Group hopes that the employees will avoid consuming paper and should use e-mail more often to exchange electronic files, etc. If it is necessary to consume paper in photocopying, the employees should reduce the font size and opt for double-sided copying to save paper; single-sided used paper without important data printed should be reused.

Resource Usage Policy

The use of the Group's resources is mainly derived from outsourced electricity and water. The Group understands that natural resources are precious, of which it clearly formulated the "Management Regulations on Water Conservation", "Management Regulations on Conservation of Electricity Consumption" and "Management Regulations on Paper Conservation" to enhance the energy efficiency of the plant and the office and achieve sustainable resource conservation and reduction of pollutant emission.

Water Resources Management

The Group had no material non-compliance with the Prevention and Control of Water Pollution and has formulated the "Procedures for Prevention and Control of Pollutants" to effectively control the waste water and exhaust gas resulted from the production and service process during the reporting year. The waste water discharged by the Group mainly comes from domestic waste water. The waste water from the domestic sewage pipeline will be discharged into the municipal waste water pipeline after passing the benchmark of treatment in the septic tank. The Group will gather the hazardous waste for recycling by qualified organisations. The following shows the water consumption volume of each unit for the reporting year:

For the year ended 31 December 2017

Water consumption volume (cm^3)	6,847.31
Water consumption density (cm^3/sq m)	1.7783

For the sake of saving water and reducing the pollution of waste water to the surroundings, the Group has the following management measures to educate employees on acquiring the habit of water conservation:

- Purchasing detergents which are non-phosphorus, low-toxic, and less polluting;
- The waste water from the domestic sewage pipeline will be discharged into the municipal waste water pipeline after passing the benchmark of treatment in the septic tank;
- Performing regular inspections, repairs, and maintenance of water equipment to avoid unnecessary leakage and water seepage problems in water equipment;
- The principle of "On when in use, off when not in use" is required for water usage in toilets and bathrooms;
- Posting promotional posters and cards in prominent areas of the workplace to remind employees of saving water;
- Automatic sensor faucets are installed on all water equipment to avoid wastage caused by the lapse of not stopping the faucet; and
- The fire hydrants and pools used for fire safety are supplied with water all year round according to the fire services regulations. Meanwhile, the water level is regularly kept not too high and the water pressure is not excessive, so as to avoid water wastage arising from water overflow, which is caused by the damage of fire hoses due to excessive water pressure.

Energy Efficiency Project

The use of electricity is mainly derived from the daily operations of the Group's office, plant and staff quarters to maintain the air-conditioning system, the lighting system, and the office electronic devices. In order to effectively deploy resources, the Group implemented the following efficiency measures for energy conservation in accordance with the "Management Regulations on Conservation of Electricity Consumption":

- Considering power consumption as one of the evaluation criteria for purchasing electronic devices, and selecting electronic devices that consume as little power as possible;
- The electronic devices currently in use will be sent for maintenance according to the actual needs to ensure that the device is operating properly and to prevent wastage of electricity due to faulty operation;
- In terms of the control of lighting facilities, it is not allowed to turn on the light at the staircase during daylight hours with full sunlight, and the last employee who leaves the office or the plant must ensure that all lights are turned off;
- Cleaning the air filter of the air conditioner regularly to prevent dust from accumulating and reducing the cooling performance of the air conditioner;
- When running the air conditioner, ensure that all doors and windows are closed to prevent loss of cool air and increase the power consumption of air conditioners;
- The average room temperature should be kept within the specified range to reduce the power consumption of air-conditioning devices.

Use of Packaging Materials

The following shows the total volume of packaging materials used for final products for the reporting year:

For the year ended 31 December 2017

Category of packaging	Paper	Plastic
Total volume (calculated in tonnes)	127.92	106.19

CARING THE SOCIETY

Overview of Employees

The Group values the personal growth of each employee. It also establishes a variety of communication channels to enhance employee's sense of belonging to the Company. Such practice has attracted specialists from different fields to join, which promotes mutual exchange and helps creating good values in society.

As at 31 December 2017, the Group had 154 employees in total. Set out below is the statistics of our employees by region, gender amd age:

	Number	Percentage
By Region		
Hong Kong	7	5%
Mainland China	147	95%
By Gender		
Male	96	62%
Female	58	38%
By Age		
18–25 years old	36	23%
26–35 years old	70	46%
36–45 years old	43	28%
46–55 years old	5	3%

Recruitment Policy

The Group has always strictly complied with laws and regulations related to employment and labour that have a significant impact on the Group, including the Employment Ordinance, the Labor Law of the People's Republic of China and the Labor Contract Law of the People's Republic of China. Based on this, the Group has compiled the Employee Handbook and Recruitment Management System and recruited people of different nationalities, genders, ages and religions in a fair and impartial manner. The Group will not tolerate any form of discrimination, including gender, sexual orientation, disability, age, ethnic group or race, family status or other personal characteristics as protected by law. The Group is keen on providing a non-discriminatory environment and employees are assessed based on their competence, skills, qualification and performance. In addition, during the recruitment process, candidates will not be labelled based on their gender, religion, race, color, location and age, etc.; and the recruitment process is conducted in the principle of openness, fairness, and legality.

Employee Benefits

The Group has formulated a set of benefits to reward employees for the value and contribution they have made to support the development of the Group. In addition to providing employees with general social insurance and paid vacation days in accordance with the relevant provisions of the Employment Ordinance and the Labor Law of the People's Republic of China, the Group has also established "Management System on Seniority Award" to reward employees a certain amount of sum monthly as the seniority award based on their length of service. The Group has conducted annual review every year to assess work performance of the employees. Employees who meet certain standards can have promotion opportunities. The Staff Manual stipulates that the Group operates standard working hour system, under which our employees work 8 hours per day and 5 days per week and have at least one day's rest. Overtime due to production and operation is subject to the employees' approval and in accordance with the approval procedures. Such employees will be entitled to overtime pay under the Labour Law. Besides, the Group provides accommodation for its employees to save their transportation costs and travel time, and the canteen provides nutritious meals to the employees at a preferential rate, so as to reduce the burden on employees' living and build a sense of belonging among employees.

Health and Safety

The Group had no material non-compliance with the laws and regulations concerning occupational hygiene standards and safety in production in the PRC during the reporting year, including but not limited to the Prevention and Control of Occupational Diseases and the Production Safety Law of the PRC. The Group constantly monitors the workplace, identifies the hazards thereof, and provide applicable training to its employees. The Group has been awarded the Work Safety Standardization Certificate by the State Administration of Work Safety to ensure that production safety level meets the standard and prevent production safety accidents from happening to protect the employees' lives. During the reporting year, no employees in the Group were killed and injuries due to work-related activities.

In addition, the Group has reached the standard of OHSAS 18001: 2007 "Occupational Health and Safety Assessment Series — Requirements" and has prepared the "Environment, Occupational Health and Safety Manual" to let employees understand that each individual has to comply with the work safety rules; let the management set targets for each department to establish a safe working environment and protect employees from occupational hazards. The Group also formulated the "Accident Prevention and Emergency Rescue Management System" and would like all employees to understand that safety is the most important. The Group's management system adheres to the principles of "people-oriented, harm reduction, constant vigilance and prevention first, unified leadership with hierarchic responsibility, defined responsibilities and timely response". Apart from that, the Group has formulated the "Human Resources and Training Management Procedures" to clearly specify the applicable training sessions that employees should receive to acquire the knowledge and skills required for the job to enhance the quality of production.

The Group aims to provide a safe working environment, so it regularly inspects fire safety facilities and detects occupational hazards in the workplace, and conducts training sessions on safety regularly for the related employees to enhance their safety awareness and operational skills. In addition, the security guard will regularly check the fire safety facilities to ensure their effectiveness when there is a fire. In the plant, the security commissioner will carry out a daily inspection of the operating personnel, including checking if the on-site employees hold valid identification documents and if they wear personal protective equipment, to ensure that the qualified operating personnel work under safe conditions.

Apart from improving safety measures at the workplace, the Group also provides employees with a lot of safety training sessions and drills to enhance their awareness and responsiveness to deal with accidents. For instance, drills of fire and chemical spillage incidents are carried out regularly to enhance employees' ability to escape the fire and rescue themselves. The Group invited the instructors from the Guangdong Fire Fighting Association to explain to the chief officer of each department the fire safety knowledge and how to operate the fire equipment, so as to enhance the fire safety awareness and skills of the employees of the Group. Besides, some employees of the Group obtained the Production Safety Management Personnel Training Certificate issued by the Administration of Work Safety of Dongguan City, which shows that some employees possess professional knowledge of production safety regulations.

Apart from the above-mentioned safety training sessions, the Group will arrange occupational health checks for employees whose role is of high occupational risks to protect them from occupational hazards.

Development and Training

As talent cultivation is critical to the future development of the Group, the Group spares no effort in talent development and training. In order to enhance the work ability and efficiency of the employees, the Group offers relevant training to employees according to their rank and department concerned, so as to consolidate their understanding towards the position. The training content include on-the-job training for each department, technical operation, safety knowledge, etc., which can help employees adapt to the operation of the Group more quickly.

As at the reporting year, the number of trained employees of the Group is as follows:

	Percentage
By Employee Category	
Mid-level employees[ii]	23%
Entry-level employees	77%
By Gender	
Male	63%
Female	37%

Labour Standards

The human resources and administration department of the Group implements strict requirements on the recruitment process. When receiving résumés from candidates, the human resources and administration department will carefully verify whether the personal data reported on the application form is true. When conducting interviews with the applicants, the Group will verify their identification documents and ask in details to ensure no child labour or forced labour is employed. If the management discovers any violation of the rule to employ child labour or forced labour, the Group will immediately terminate the relevant contract and investigate the employees responsible for such employment and impose appropriate penalties.

During the reporting year, the Group did not record any incident of child labour or forced labour.

[ii] Employees in Dong Guan are classified into three tiers: 1. Manager 2. Mid-level employees 3. Entry-level employee. There is one Manager in this Year, who has not received any training during the reporting year.

Supply Chain Management

The main scope of procurement of the Group includes principal raw materials, processed materials, purchased products, office supplies, equipment and accessories, etc., the suppliers of which mainly come from the PRC. The Group focuses on working closely with suppliers to reduce the environmental impact arising from product procurement to production while ensuring the quality of service to customers.

The Group has established a comprehensive set of supplier management procedures. The approved suppliers are selected based on factors such as product or service quality, timeliness of delivery and reliability, and an approved list of suppliers will be compiled. The Group will select suitable suppliers from the list when carrying out procurement. Besides, suppliers are required to provide quality check reports before the delivery of the raw/processed materials and the Group conducts sample-checks on raw/processed materials to ensure quality and compliance with specifications. In accordance with the requirements of ISO 14001:2015, the Group also conducts environmental investigations with suppliers and complete the Survey on Environment from Suppliers to understand the pollutants discharged by various suppliers during the production process, and then investigates whether suppliers have complied with the relevant regulations.

To reduce risks posed by the supply chain, the Group assesses its suppliers quarterly. The assessment covers the status of their delivery, the quality of raw/processed materials, price and services; unqualified suppliers will be removed from the List to ensure the quality of the suppliers.

Product Responsibility

The Group had no material non-compliance with the laws and regulations governing product responsibilities in the PRC and Hong Kong during the reporting year, including but not limited to the "PRC Law on Protection of the Rights and Interests of Consumers", "The Tort Law of the PRC", "Trade Descriptions Ordinance" and "Sales of Goods Ordinance", which assume civil responsibility for product descriptions and copyrights. During the reporting year, the Group did not recall sold or delivered products for safety or health reasons.

Having been engaged in the aluminium electrolytic capacitors business for more than ten years, the Group has established a renowned customer base for its aluminium electrolytic capacitors comprising over 100 customers, including customers with established brand names. The Group emphasises the quality control of its products, and its product design, development and production system aligns with ISO 9001: 2015 Quality Standard (covering all stages of its aluminium electrolytic capacitors production), as well as QC080000: 2012 concerning the management of hazardous substances in the production process. Also, the Group's quality control department comprised 16 staff members 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). The Group's senior quality control personnel have, on average, approximately 13 years of industry experience. The stringent quality control system implemented during the production process helps safeguard the quality of the raw materials, semi-finished and finished products used or produced by the Group. In addition, the Group 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 aluminium electrolytic capacitors to ensure its products meet the EU's safety standards. Certain end users of the Group's products have also performed mutual quality audit on the Group's production facility and management systems; manual and computerised inspections and reporting are conducted to ensure a stable and controlled production environment throughout the aluminium electrolytic capacitors production processes. X-ray, computerised and manual inspections are conducted at each production interval to ensure that the Group's quality standards are met.

Before shipping the products, final testing is conducted by the quality control department to ensure that the finished aluminium electrolytic capacitors meet the required performance specifications. Testing is conducted on every finished aluminium electrolytic capacitors and finished aluminium 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 last time in accordance with the Group's finished goods packaging and delivery policy to ensure product quality and safety, as well as to provide consumers with the most secure and suitable products.

Anti-corruption

The Group strictly abides by the relevant laws and regulations such as the Prevention of Bribery Ordinance and the Law of the PRC on Anti-Corruption and Anti-Bribery, and monitors at all times to ensure the observance of the laws and regulations from management to staff, prohibiting employees from gaining or demanding any benefits through work to maintain a corruption-free social culture. In addition, the Group also compiles the "Reward And Penalty Management System" to encourage employees to actively report and disclose corruption, fraud, events that pose threats to the public order or security and related illegal acts; at the same time, it also enforces harsh punishment on corruptive behaviours such as fraudulent personal gains, private interests and abuse of power, etc.

During the reporting year, the Group and its employees were not involved in any corruption litigation cases.

Community Investment

The Group understands that corporate development relies on the support of all sectors of society. While developing the company, the Group also demonstrates its spirit of giving back to society. During the reporting year, the Group made a donation to Yan Oi Tong as a support to non-profit charitable organizations to provide social welfare, education, medical, recreation, environmental protection and social enterprise services to the community. At the same time, the Group also encourages employees to participate in community activities to support and care for society.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF VERTICAL INTERNATIONAL HOLDINGS LIMITED
弘浩國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Vertical International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 54 to 103, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matters	How our audit addressed the key audit matters
Valuation of inventories	
We identified the valuation of inventories as a key audit matter due to the management's use of estimation, with reference to their industry knowledge and experience, in assessing whether the carrying amounts of inventory are recoverable. Allowance for inventories was based on the management assessment in estimating the net realisable value of the inventories with reference to the market demand and subsequent usage or sales. At 31 December 2017, the carrying amount of inventories is HK$14,753,000 without any allowance for inventories recognised as disclosed in note 5 to the consolidated financial statements.	Our procedures in relation to valuation of inventories included: • Obtaining an understanding on the management's assessment in estimating the net realisable values of the inventories; • Discussing with the management and evaluating the basis of net realisable values of inventories determined by the management, based on the management's consideration for the market demand and subsequent usage or sales; • Tracing the subsequent usage of raw materials and consumables, on a sample basis, to the materials issue notes; • Testing the net realisable values of finished goods, on a sample basis, by tracing to the latest sales invoices; and • Assessing the accuracy of management historical estimate of allowance for inventories to evaluate the appropriateness of the basis made by the management in the current year.

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the significance of the amount in the consolidated statement of financial position as a whole and the inherent subjectivity arising from the use of judgment in estimating allowance for doubtful debts by assessing the recoverability of the trade receivables. As set out in note 5 to the consolidated financial statements, when evaluating the recoverability of trade receivables, the management of the Group considered the credit history of the customers including any default or delay in payments, past settlement records, subsequent settlements made and the aging analysis of the trade receivables. At 31 December 2017, the carrying amount of trade receivables is HK$32,871,000 (net of allowance for doubtful debts of HK$86,000).	Our procedures in relation to the valuation of trade receivables included: • Understanding the Group's policy in measurement of the allowance for doubtful debts; • Testing the accuracy of aging categories of trade receivables, on a sample basis, to the delivery notes, sales invoices and sales order; • Examining the subsequent settlements of receivables, on a sample basis, by tracing to sales invoices and bank slips; • Inquiring of the management regarding the assumptions and judgements made in assessing recoverability and evaluating the reasonableness of allowances for doubtful debts with reference to the credit history of the customers including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables; and • Assessing the accuracy of management historical estimate of allowance for doubtful debts to evaluate the appropriateness of the basis made by the management in current year.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Faith Corazon Del Rosario.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	**2017** **HK$'000**	2016 HK$'000
Revenue	*6*	**109,677**	92,774
Cost of sales		**(85,448)**	(71,625)
Gross profit		**24,229**	21,149
Other income	*7*	**1,145**	200
Other gains and losses	*8*	**(352)**	46
Selling and distribution costs		**(2,551)**	(2,308)
Administrative expenses		**(7,937)**	(5,199)
Finance costs	*9*	**(246)**	(284)
Listing expenses		**(13,722)**	(2,171)
Profit before taxation	*10*	**566**	11,433
Income tax expense	*11*	**(1,173)**	(2,307)
(Loss) profit for the year		**(607)**	9,126
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**3,277**	(2,022)
Total comprehensive income for the year		**2,670**	7,104
(Loss) earnings per share — basic *(Hong Kong cents)*	*14*	**(0.10)**	1.52

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	*15*	**29,237**	22,126
Deposit for acquisition of plant and equipment		**2,793**	—
		32,030	22,126
Current assets			
Inventories	*16*	**14,753**	7,844
Trade and bills receivables	*17*	**33,888**	36,592
Deposits, prepayments and other receivables	*18*	**1,324**	2,266
Bank balances and cash	*19*	**45,002**	7,927
		94,967	54,629
Current liabilities			
Trade payables	*20*	**20,902**	17,579
Other payables and accruals	*21*	**8,447**	11,506
Amount due to a shareholder	*22*	**—**	6,584
Tax payable		**2,133**	2,901
Bank borrowings	*23*	**3,829**	4,298
Bank overdraft	*23*	**—**	1,958
		35,311	44,826
Net current assets		**59,656**	9,803
Total assets less current liabilities		**91,686**	31,929
Non-current liability			
Deferred tax liabilities	*24*	**93**	178
		91,593	31,751
Capital and reserves			
Share capital	*25*	**8,000**	—+
Reserves		**83,593**	31,751
		91,593	31,751

\+ Less than HK$1,000

The consolidated financial statements on pages 54 to 103 were approved and authorised for issue by the Board of Directors on 19 March 2018 and are signed on its behalf by:

Boon Ho Yin Henry
Director

Chow Cheung Chu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital HK$'000 (note 25)	Share premium HK$'000	Special reserve HK$'000 (note ii)	Statutory reserve HK$'000 (note i)	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	—+	—	20,000	576	(132)	4,203	24,647
Profit for the year	—	—	—	—	—	9,126	9,126
Other comprehensive expense for the year	—	—	—	—	(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 year	—	—	—	—	—	(607)	(607)
Other comprehensive income for the year	—	—	—	—	3,277	—	3,277
Total comprehensive income for the year	—	—	—	—	3,277	(607)	2,670
Transfer to statutory reserve	—	—	—	1,501	—	(1,501)	—
Effect of reorganisation *(notes 2(e) & note iii)*	—	26,486	(26,486)	—	—	—	—
Deemed contribution *(note 22)*	—	—	6,486	—	—	—	6,486
Capitalisation issue	6,000	(6,000)	—	—	—	—	—
Issue of new shares upon listing	2,000	58,000	—	—	—	—	60,000
Cost of issuance of new shares	—	(9,314)	—	—	—	—	(9,314)
At 31 December 2017	8,000	69,172	—	3,265	1,123	10,033	91,593

Notes:

(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 year ended 31 December 2017; and (ii) merger reserve arising from the acquisition of Vertical Technology Company Limited by Vertical Technology (B.V.I.) Limited ("Vertical (BVI)") on 30 December 2015 (note 2(c)) and the acquisition of Vertical (BVI) by the Company on 17 March 2017 (note 2(e)).

(iii) Amount represents the difference between the nominal value of the share capital issued by the Company for the acquisition of the entire equity interests in Vertical (BVI) and the nominal value of share capital of Vertical (BVI) (note 2(e)).

+ Less than HK$1,000

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Profit before taxation	566	11,433
Adjustments for:		
Depreciation of property, plant and equipment	2,398	2,386
Loss on written off/disposal of property, plant and equipment	9	9
Write-down of inventories	—	322
Impairment loss recognised on trade receivables	35	—
Interest expense	246	284
Interest income	(29)	(9)
Operating cash flows before movements in working capital	3,225	14,425
Increase in inventories	(6,120)	(823)
Decrease (increase) in trade and bills receivables	4,354	(4,369)
Decrease (increase) in deposits, prepayments and other receivables	1,103	(2,066)
Increase in trade and bills payables	2,365	1,436
(Decrease) increase in other payables and accruals	(3,589)	2,020
Cash generated from operations	1,338	10,623
PRC Enterprise Income Tax refunded (paid)	189	(920)
Hong Kong Profits Tax paid	(2,400)	(410)
Net cash (used in) from operating activities	(873)	9,293
Investing activities		
Purchase of property, plant and equipment	(8,260)	(5,037)
Deposit for acquisition of plant and equipment	(2,793)	—
Interest received	29	9
Withdrawal of restricted bank deposit	—	2,700
Proceeds from disposal of property, plant and equipment	—	202
Net cash used in investing activities	(11,024)	(2,126)
Financing activities		
Advance from a shareholder	—	5,421
Repayment to a shareholder	—	(8,050)
Proceeds from issue of shares	60,000	—
Listing expenses paid	(9,314)	—
Repayment of bank borrowings	(1,347)	(2,156)
Interest paid	(246)	(284)
New bank borrowings raised	878	2,440
Net cash from (used in) financing activities	49,971	(2,629)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
Net increase in cash and cash equivalents	**38,074**	4,538
Cash and cash equivalents at beginning of the year	**5,969**	2,178
Effect of foreign exchange rate changes	**959**	(747)
Cash and cash equivalents at end of the year	**45,002**	5,969
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**45,002**	7,927
Bank overdraft	—	(1,958)
	45,002	5,969

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL

Vertical International Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate and ultimate holding company is Vertical Technology Investment Limited (''Vertical Investment"), a company incorporated in the British Virgin Islands (''BVI"). Its ultimate controlling party is Mr. Boon Ho Yin Henry ("Mr. Boon" or the "Controlling Shareholder"), who is also the Chairman and chief executive officer of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "General Information" to the annual report.

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 aluminium electrolytic capacitors and trading of electronic components.

The functional currency of the Company is Hong Kong dollars ("HK$").

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared based on the accounting policies set out in note 3 which conform with HKFRSs and the conventions applicable for group reorganisation.

In preparing for the initial listing of the shares of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("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 before and after the Reorganisation.

The principle steps of the Reorganisation are 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.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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 a consideration of 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 34), became indirect wholly-owned subsidiaries of the Company.

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2016 and 2017 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 year ended 31 December 2016 and 2017, or since their respective dates of incorporation, where this is a shorter period.

The consolidated statement of financial position of the Group as at 31 December 2016 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.

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

The Group has consistently adopted all HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for annual periods beginning on 1 January 2017 for both current and prior years.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
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 Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

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
4 Effective for annual periods beginning on or after 1 January 2021

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

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 requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss; and

- 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 "Financial Instruments: Recognition and Measurement". 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 31 December 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

Bills receivables with recourse classified as loan receivables carried at amortised cost as disclosed in note 17: these are held within a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9; and

Bills receivables without recourse classified as loan receivables carried at amortised cost as disclosed in note 17: these are held within a business model whose objective is achieved both by collecting contractual cash flows and endorsing the bills receivables in the market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principle and interest on the principal outstanding. Accordingly, the bills receivables will be subsequently measured at FVTOCI upon the application of HKFRS 9, and the fair value gains or losses will be subsequently reclassified to profit or loss when the bills receivables without recourse are derecognised or reclassified.

Except as disclosed above, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

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

Impairment

In general, the directors of the Company anticipate that except for the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions, there will be no significant impact on the Group's consolidated financial statements upon application of HKFRS 9 by the Group.

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 have an impact on the timing and amounts of revenue recognised in the respective reporting period. However, there will be additional qualitative and quantitative disclosures upon application of HKFRS 15.

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

HKFRS 16 *Leases*

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. 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 operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

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 31 December 2017, the Group has non-cancellable operating lease commitments of HK$5,023,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$39,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

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 consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, 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 consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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.

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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 on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

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 statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 relevant 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 asset individually, 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 (or a cash-generating unit) 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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group 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 key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated write down of inventories

Management of the Group assesses whether the carrying amounts of the inventories are recoverable and estimate the allowance for inventories based on their industry knowledge and experience at the end of the reporting period. Management estimates the amount of allowance for inventories based on the lower of cost and their estimated net realisable value. In determining the net realisable values of the Group's inventories, the management considers the market demand and subsequent usage or sales. When the actual net realisable values are lower than expectation, such difference will impact the carrying amounts of inventories. As at 31 December 2017, the carrying amounts of inventories are HK$14,753,000 (2016: HK$7,844,000). No allowance for inventories is recognised for the year ended 31 December 2017 (2016: HK$322,000).

Impairment of trade receivables

In determining whether there is objective evidence of impairment loss, the management of the Group evaluates the recoverability of trade receivables by considering the credit history of the customers including default or delay in payments, past settlement records, subsequent settlements made and the aging analysis of the trade receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and expected cash inflows in foreseeable future. Where the actual cash flows are less than expected, a material impairment loss may arise.

As set out in note 17, the carrying amount of the trade receivables is HK$32,871,000, net of HK$86,000 allowance for doubtful debts (2016: HK$36,592,000, net of HK$260,000 allowance for doubtful debts).

6. 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 aluminium electrolytic capacitors**

Manufacturing and selling of aluminium electrolytic capacitors represents the manufacturing and selling of chip type and radial lead type aluminium 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 2017

	Sales of manufactured aluminium electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
SEGMENT REVENUE			
External sales	**78,358**	**31,319**	**109,677**
RESULTS			
Segment profit	**20,574**	**3,655**	**24,229**
Unallocated expenses			**(10,488)**
Other income			**1,145**
Other gains and losses			**(352)**
Finance costs			**(246)**
Listing expenses			**(13,722)**
Profit before taxation			**566**

6. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2016

	Sales of manufactured aluminium electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
SEGMENT REVENUE			
External sales	57,199	35,575	92,774
RESULTS			
Segment profit	16,889	4,260	21,149
Unallocated expenses			(7,507)
Other income			200
Other gains and losses			46
Finance costs			(284)
Listing expenses			(2,171)
Profit before taxation			11,433

There were no inter-segment sales in both years.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. 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, listing expenses and income tax. 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.

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2017

	Sales of manufactured aluminium electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
Amount included in the measure of segment results:			
Impairment loss recognised on trade receivables	**17**	**18**	**35**
Depreciation of property, plant and equipment	**1,290**	**—**	**1,290**
Amounts regularly provided to the CODM but not included in the measurement of segment results:			
Additions to property, plant and equipment	**8,252**	**8**	**8,260**
Depreciation of property, plant and equipment	**131**	**857**	**988**

For the year ended 31 December 2016

	Sales of manufactured aluminium 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	1,609	—	1,609
Write-down of inventories	322	—	322
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	83	622	705

6. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The following tables provide an analysis of the Group's revenue from external customers by the location of customers:

	2017	2016
	HK$'000	HK$'000
Hong Kong	**26,584**	24,741
PRC	**72,278**	50,160
Malaysia	**661**	10,407
Other Asian regions *(note)*	**10,154**	7,466
	109,677	92,774

Note: Revenue generated from other Asian regions, other than Hong Kong, the 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:

	2017	2016
	HK$'000	HK$'000
Hong Kong	**6,021**	6,544
PRC	**23,216**	15,582
	29,237	22,126

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 year is set out below:

	2017	2016
	HK$'000	HK$'000
Customer A from trading of electronic components	**N/A***	13,168
Customer B from trading of electronic components	**N/A***	10,407
Customer C from sales of manufactured aluminium electrolytic capacitors	**16,619**	N/A*
Customer D from trading of electronic components	**14,410**	N/A*

* Revenue did not account for 10% or more of the Group's revenue during the respective reporting period.

7. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Government subsidy *(note)*	811	—
Rental income from machineries	178	—
Scrap sales	80	157
Bank interest income	29	9
Sundry income	47	34
	1,145	200

Note: Government subsidy represented incentive subsidiary for a subsidy in the PRC as a High and New Technology Enterprise. There was no specific conditions attached to the grants and, therefore, the Group recognised the grants in profit or loss upon receipt.

8. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Net foreign exchange (loss) gain	(308)	59
Impairment loss recognised on trade receivables	(35)	—
Loss on write off/disposal of property, plant and equipment	(9)	(9)
Others	—	(4)
	(352)	46

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interests on:		
— Bank borrowings	137	217
— Bank overdraft	109	67
	246	284

10. PROFIT BEFORE TAXATION

	2017 HK$'000	2016 HK$'000
Profit before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	**81,185**	67,422
Depreciation	**2,398**	2,386
Depreciation capitalised in inventories	**(120)**	(72)
	2,278	2,314
Employee benefit expense (including directors' remuneration *(note 13)*)		
Wages and salaries	**14,039**	10,679
Pension scheme contributions	**1,596**	1,347
	15,635	12,026
Operating lease rental in respect of minimum lease payments of rented premises	**1,071**	605
Auditor's remuneration	**4,370**	21
Research expenses (included in cost of sales)	**4,263**	3,881
Write-down of inventories (included in cost of sales)	**—**	322

11. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax:		
Hong Kong	**13**	161
PRC Enterprise Income Tax (the "EIT")	**2,667**	2,121
	2,680	2,282
(Over) under provision in prior year		
Hong Kong	**(148)**	—
PRC EIT	**(1,274)**	14
	(1,422)	14
Deferred tax (credit) charge *(note 24)*	**(85)**	11
	1,173	2,307

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

11. INCOME TAX EXPENSE (Continued)

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 year can be reconciled to the profit before taxation as follows:

	2017 HK$'000	2016 HK$'000
Profit before taxation	**566**	11,433
Tax at the applicable income tax rate of 15% (2016: 25%) *(note)*	**85**	2,858
Tax effect of expenses not deductible for tax purposes	**2,525**	999
Tax effect of different tax rate of subsidiary operating in other jurisdiction	**(9)**	(89)
Income tax at preferential tax rate	**—**	(1,419)
(Over) under provision in prior year	**(1,422)**	14
Utilisation of tax loss previously not recognised	**(6)**	(56)
Income tax expense	**1,173**	2,307

Note: 東莞首科電子科技有限公司 is granted tax incentives as a High and New Technology Enterprise in March 2017 and is entitled to a preferential tax rate of 15%.

12. DIVIDEND

No dividend has been paid or declared during both years.

13. 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.

13. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES (Continued)

Directors and Chief Executive

Directors' and chief executive's remuneration paid or payable (including emoluments for the services as employees of the Group entities prior to becoming directors of the Company) by the entities comprising the Group during the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance is as follows:

For the year ended 31 December 2017

	Mr. Boon HK$'000	Ms. Chow HK$'000	Total HK$'000
Executive directors			
Fees	74	74	148
Other emoluments			
— Salaries and other benefits	41	368	409
— Performance related bonus *(note)*	5	72	77
— Contributions to retirement benefits schemes	4	18	22
	124	532	656

	Mr. Liu Kwan HK$'000 *(note)*	Mr. Chik Kin Man Paul HK$'000 *(note)*	Mr. Wong Wai Leung HK$'000 *(note)*	Total HK$'000
Independent non-executive Director				
Fees	8	8	16	32
Other emoluments				
— Salaries and other benefits	—	—	—	—
— Performance related bonus	—	—	—	—
— Contributions to retirement benefits schemes	—	—	—	—
	8	8	16	32

13. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES (Continued)

Directors and Chief Executive (Continued)

For the year ended 31 December 2016

	Mr. Boon HK$'000	Ms. Chow HK$'000	Total HK$'000
Executive directors			
Fees	42	—	42
Other emoluments			
— Salaries and other benefits	—	409	409
— Contributions to retirement benefits schemes	—	18	18
	42	427	469

Note: The performance related bonus are determined with reference to the operating results and individual performance for the period.

The executive directors' emolument shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Employees

The five highest paid individuals of the Group during the year include one (2016: one) director, details of whose remunerations are set out above. Details of the remuneration for the year of the remaining four (2016: four) highest paid individuals who are neither director nor chief executive of the Company are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and allowance	**1,169**	531
Performance related bonus *(note)*	**75**	—
Contributions to retirement benefits schemes	**53**	28
	1,297	559

Note: The performance related bonus are determined with reference to the operating results of the Group and individual performance for the period.

13. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES (Continued)

Employees (Continued)

The number of the highest paid employees who are not the directors nor chief executives of the Company whose remuneration fell within the following bonds is as follows:

	Number of employees	
	2017	2016
Nil to HK$1,000,000	**4**	4

No emoluments were paid by the Group to the directors 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 for the year ended 31 December 2017 and 31 December 2016. None of the director waived or agreed to waive any emoluments for the year ended 31 December 2017 and 31 December 2016.

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the following data:

	2017	2016
	HK$'000	HK$'000
Earnings:		
(Loss) earnings for the purpose of calculating basic (loss) earnings per share ((loss) profit for the year)	**(607)**	9,126
Number of shares:		
Number of ordinary shares for the purpose of calculating basic (loss) earnings per share	**626,849,315**	600,000,000

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 2 and the capitalisation issue had been effected on 1 January 2016.

No diluted (loss) earnings per share was presented as there were no potential ordinary shares in issue during the years ended 31 December 2017 and 31 December 2016.

The number of ordinary shares for the purpose of calculating basic (loss) earnings per share for the years ended 31 December 2016 and 2017 has been determined on the assumption that the Group Reorganisation had been effective on 1 January 2016.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Furniture and office equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress ("CIP") HK$'000	Total HK$'000
COST							
At 1 January 2016	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	—	9	32	1,354	35	1	1,431
Addition	—	8	447	7,805	—	—	8,260
Transfer	—	—	—	33	—	(33)	—
Written off	—	(254)	(73)	(16)	—	—	(343)
At 31 December 2017	5,573	290	997	30,421	2,176	—	39,457
DEPRECIATION							
At 1 January 2016	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	—	9	9	145	10	—	173
Provided for the period	169	45	136	1,705	343	—	2,398
Elimination on written off	—	(254)	(71)	(9)	—	—	(334)
At 31 December 2017	352	145	474	8,062	1,187	—	10,220
CARRYING VALUES							
At 31 December 2017	5,221	145	523	22,359	989	—	29,237
At 31 December 2016	5,390	182	191	15,024	1,307	32	22,126

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 HK$5,221,000 (2016: HK$5,390,000) is pledged to a bank to secure banking facilities of HK$8,351,000 (2016: HK$5,840,000) granted to the Group.

16. INVENTORIES

	2017 **HK$'000**	2016 HK$'000
Raw materials and consumables	**7,416**	3,623
Work in progress	**2,798**	2,092
Finished goods	**4,539**	2,129
	14,753	7,844

17. TRADE AND BILLS RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Trade receivables	**32,957**	36,852
Allowance for doubtful debts	**(86)**	(260)
	32,871	36,592
Bills receivables	**1,017**	—
	33,888	36,592

17. TRADE AND BILLS RECEIVABLES (Continued)

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:

	2017	2016
	HK$'000	HK$'000
0 to 30 days	**14,483**	16,151
31 to 60 days	**11,266**	9,156
61 to 90 days	**3,606**	4,644
91 to 180 days	**3,336**	5,728
181 days to 1 year	**149**	913
Over 1 year	**31**	—
	32,871	36,592

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$6,159,000 (2016: HK$6,740,000) 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

	2017	2016
	HK$'000	HK$'000
0 to 30 days	**3,690**	3,598
31 to 60 days	**974**	2,143
61 to 90 days	**566**	465
91 to 180 days	**883**	418
181 days to 1 year	**26**	116
Over 1 year	**20**	—
	6,159	6,740

17. TRADE AND BILLS RECEIVABLES (Continued)

Movement in the allowance for doubtful debts

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	**260**	278
Impairment loss recognised on trade receivables	**35**	0
Amounts written off as uncollectible	**(221)**	—
Exchange realignment	**12**	(18)
Balance at end of the year	**86**	260

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 2017 was within 180 days.

The Group's trade receivables that are denominated in currencies other than the functional currencies of relevant group entities are set out below:

	2017 HK$'000	2016 HK$'000
Denominated in United States Dollars ("US$")	**1,558**	3,040
Denominated in Renminbi ("RMB")	**29**	60

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	**1,122**	838
Other receivables	**139**	33
Deposits	**63**	58
Value-added tax ("VAT") recoverable	**—**	606
Deferred listing expenses	**—**	731
Total	**1,324**	2,266

19. BANK BALANCES AND CASH

Bank balances and cash carry interests at variable rates ranging from 0.01% to 0.35% (2016: 0.01% to 0.35%) per annum.

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.

20. TRADE PAYABLES

	2017	2016
	HK$'000	HK$'000
Trade payables	**20,902**	17,579

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.

	2017	2016
	HK$'000	HK$'000
0 to 30 days	**12,085**	10,410
31 to 60 days	**6,006**	4,162
61 to 90 days	**1,579**	1,986
91 to 180 days	**1,232**	446
181 days to 1 year	**—**	284
Over 1 year	**—**	291
	20,902	17,579

The Group's trade payables that are denominated in currencies other than the functional currencies of relevant group entities are set out below:

	2017	2016
	HK$'000	HK$'000
Denominated in US$	**—**	2,268
Denominated in RMB	**223**	206

21. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Other payables	**3,401**	4,970
Accrued pension scheme contributions	**1,910**	1,778
VAT payables	**1,347**	3,179
Accrued staff salaries and allowance	**976**	680
Accrued housing provident fund	**598**	529
Accrued expenses	**215**	197
Receipt in advance	—	173
Total	**8,447**	11,506

22. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder represents the amount due to Mr. Boon and is detailed as follows:

	2017 HK$'000	2016 HK$'000
Mr. Boon	—	6,584

The amount due to a shareholder was non-trade nature, unsecured, interest-free and repayable on demand.

During the year ended 31 December 2017, the amount due to a shareholder amounting to HK$6,486,000 has been capitalised and recognised as deemed contribution in special reserve.

23. BANK BORROWINGS/BANK OVERDRAFT

	2017	2016
	HK$'000	HK$'000
Bank borrowings, secured and guaranteed	**2,951**	2,171
Bank borrowings, unsecured and guaranteed	**—**	2,127
	2,951	4,298
Bills discounted with recourse, secured and guaranteed	**878**	—
Bank overdraft, unsecured and guaranteed	**—**	1,958
	3,829	6,256
Carrying amount repayable*:		
Within one year	**1,419**	3,464
In the second year	**2,410**	991
In the third to fifth years	**—**	1,738
Over five years	**—**	63
	3,829	6,256
Less: Amounts included under current liabilities (including bank borrowings with a repayable on demand clause)	**(3,829)**	(6,256)
Amount included under non-current liabilities	**—**	—

* The amounts due are based on scheduled repayment dates set out in loan agreement.

The bank borrowings carry interest at best lending rate plus/minus certain basis points. The average of effective interest rates (which are also equal to contracted interest notes) ranged from 2.42% to 5.75% (2016: 2.41% to 5.93%).

Certain of Group's bank borrowings amounting to HK$3,829,000 (2016: HK$2,171,000) were secured by the Group's leasehold land and building and bills receivables as set out in Note 15 and Note 17 respectively.

Details of the guarantees provided in respect of the Group's bank borrowings and bank overdraft are set out in note31(i).

23. BANK BORROWINGS/BANK OVERDRAFT (Continued)

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.

	Amount due to shareholder HK$'000	Bank borrowings HK$'000 (note)	Accrued issued costs HK$'000	Total HK$'000
At 1 January 2016	9,326	4,014	—	13,340
Financing cash flow	(2,629)	—	—	(2,629)
Finance costs	—	284	—	284
Foreign exchange translation	(113)	—	—	(113)
At 31 December 2016	6,584	4,298	—	10,882

	Amount due to shareholder HK$'000	**Bank borrowings HK$'000 (note)**	**Accrued issued costs HK$'000**	**Total HK$'000**
At 1 January 2017	**6,584**	**4,298**	**—**	**10,882**
Financing cash flow	**—**	**(715)**	**(9,314)**	**(10,029)**
Finance costs	**—**	**246**	**—**	**246**
Non-cash changes *(note 32)*	**(6,486)**	**—**	**—**	**(6,486)**
Foreign exchange translation	**(98)**	**—**	**—**	**(98)**
Cost of issuance of new shares	**—**	**—**	**9,314**	**9,314**
At 31 December 2017	**—**	**3,829**	**—**	**3,829**

Note: 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 statement of cash flows.

24. DEFERRED TAX LIABILITIES

The following is the deferred tax liabilities recognised and movements thereon during the current and prior years:

	Accelerated accounting tax depreciation HK$'000
At 1 January 2016	(167)
Charge to profit or loss	(11)
At 31 December 2016	(178)
Credit to profit loss	85
At 31 December 2017	(93)

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$30,738,000 (2016: HK$15,845,000), 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.

At the end of the reporting period, the Group has unused tax losses of approximately HK$215,000 (2016: HK$244,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$215,000 (2016: HK$244,000) that will expire in 2019.

25. SHARE CAPITAL

The share capital as at 31 December 2017 represented the issued share capital of the Company.

The share capital as at 31 December 2016 represented the share capital of Vertical (BVI).

Details of movements of authorised and issued capital of the Company are as follow:

	Number of shares	Share capital HK$
Authorised:		
Upon incorporation *(note 1)*	38,000,000	380,000
Increase during the year *(note 3)*	4,962,000,000	49,620,000
	5,000,000,000	50,000,000
Issued and fully paid:		
Upon incorporation	1	0.01
Allotment of Shares *(note 2)*	99	0.99
Capitalisation issue	599,999,900	5,999,999
	600,000,000	6,000,000
Issue of new shares upon listing *(note 4)*	200,000,000	2,000,000
At 31 December 2017	800,000,000	8,000,000

Note 1: 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.

Note 2: On 17 March 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 Vertical (BVI).

Note 3: On 24 October 2017, the Company passed written resolution of which the authorised share capital of the Company was increased by HK$49,620,000 by the creation of 4,962,000,000 shares of par value HK$0.01 each.

Note 4: On 13 November 2017, upon listing on the Stock Exchange, the Company issued 200,000,000 shares with par value HK$0.1 each at HK$0.3 each with gross proceeds at HK$60,000,000.

26. 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 from prior year.

The capital structure of the Group consists of debt, which include bank borrowings and bank overdraft disclosed in note 23 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.

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017	2016
	HK$'000	HK$'000
Financial assets		
Loans and receivables	**79,029**	44,552
Financial liabilities		
Amortised cost	**28,132**	35,389

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, 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.

27. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

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**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**—**	(2,268)	**1,561**	3,042
RMB	**(223)**	(206)	**30**	60

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 19 and 23 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.

27. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risks (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has 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. The exposure to the interest rate risk for variable-rate bank balances is insignificant in view of the low interest rate and therefore the sensitivity analysis is not presented.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss after taxation for the year ended 31 December 2017 would increase/decrease by approximately HK$32,000 and the Group's profit after taxation for the year ended 31 December 2016 would decrease/increase by approximately HK$52,000.

Credit risk

As at 31 December 2017, 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 34% (2016: 29%) of the total gross trade receivables was due from the Group's trade debtors which is over 10% (2016: 10%) of the total gross trade receivables, and 53% (2016: 43%) of the total gross trade receivables was due from the five largest debtors, 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 trade receivables	
	2017	2016
Customer A	**N/A***	19
Customer B	**N/A***	10
Customer C	**20**	N/A*
Customer D	**14**	N/A*

* Does not account for 10% or more of the Group's trade receivables.

27. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

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 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 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 2017				
Trade payables	**—**	**20,902**	**20,902**	**20,902**
Other payables	**—**	**3,401**	**3,401**	**3,401**
Bank borrowings	**3.78**	**3,829**	**3,829**	**3,829**
		28,132	**28,132**	**28,132**
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
		35,389	35,389	35,389

27. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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 2017, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$3,829,000 (2016: HK$4,298,000). 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 2017	**1,515**	**2,590**	**—**	**4,105**	**3,829**
31 December 2016	1,643	2,891	63	4,597	4,298

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.

28. OPERATING LEASES

The Group as lessee

The Group made minimum lease payments in respect of its factory and office premises amounting to approximately HK$1,071,000 (2016: HK$605,000).

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:

	2017 HK$'000	2016 HK$'000
Within one year	**975**	564
In the second to fifth years inclusive	**3,904**	620
Over fifth years	**144**	134
	5,023	1,318

Operating lease payments represent rentals payable by the Group for factory and office premises. None of the leases include any contingent rentals.

28. OPERATING LEASES (Continued)

The Group as lessor

Rental income represented rental receivable from machineries during the year was HK$178,000 (2016: HK$nil).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 **HK$'000**	2016 HK$'000
Within one year	**71**	—

29. CAPITAL COMMITMENTS

	2017 **HK$'000**	2016 HK$'000
Expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— Acquisition of plant and machinery	**2,823**	—

30. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2016 and 2017 that were transferred to a bank by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivables discounted to a bank with full recourse	
	2017 **HK$'000**	2016 HK$'000
Carrying amount of transferred assets	**878**	—
Carrying amount of associated liabilities	**(878)**	—
Net position	**—**	—

31. RELATED PARTY DISCLOSURES

(i) As at 31 December 2016, 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 to the extent of approximately HK$5,840,000, out of which approximately HK$2,171,000 were utilised by the Group. As at 31 December 2017, the joint guarantees was released and replaced by a corporate guarantee provided by the Company upon listing of Company's shares on the Stock Exchange.

As at 31 December 2016, 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$1,732,000, out of which approximately HK$1,132,000 were utilised by the Group. As at 31 December 2017, the joint guarantees was released and replaced by a corporate guarantee provided by the Company upon listing of Company's shares on the Stock Exchange.

As at 31 December 2016, 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, out of which approximately HK$995,000 utilised by the Group. As at 31 December 2017, the personal guarantees was 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 year is as follows:

	2017 **HK$'000**	2016 HK$'000
Short-term benefits	**1,112**	687
Post-employment benefits	**52**	57
	1,164	744

32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2017, amount due to shareholder amounting to approximately HK$6,486,000 (2016: HK$nil) has been capitalised as deemed contribution in special reserve.

33. 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.

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.

The total expenses recognised in profit or loss of HK$1,596,000 (2016: HK$1,347,000) represents contributions paid and payable to these plans by the Group at rates specified in the rules of the plan.

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiary	Place and date of incorporation/ establishment	Place of operations	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company		Principal activities
				2017	2016	
Directly held						
Vertical (BVI)	BVI 23 December 2015	Hong Kong	US$1	**100**	100	Investment holding
Indirectly held						
Vertical Technology (弘峰科技有限公司)	Hong Kong 7 June 2006	Hong Kong	HK$26,486,155 (2016: HK$20,000,000)	**100**	100	Trading of electronic components
韶關弘峰電子有限公司* ("Shaoguan Hongfeng")	PRC 28 November 2006	PRC	HK$4,000,000	**100**	100	Trading of electronic components
東莞首科電子科技有限公司* ("Dongguan Shouke")	PRC 23 December 2013	PRC	HK$10,000,000	**100**	100	Sales of manufactured aluminium electrolytic capacitors
Vertical Engineering Company Limited ("Vertical Engineering")	Hong Kong 16 January 2015	Hong Kong	HK$10,000	**100**	100	Inactive

* The companies are registered in the form of wholly foreign owned enterprises.

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000
Non-current asset	
Investment in a subsidiary	**26,486**
Current assets	
Other receivable and repayment	**393**
Amounts due from subsidiaries	**1,255**
Bank balances and cash	**36,018**
	37,666
Current liabilities	
Other payables	**1,100**
Amounts due to subsidiaries	**38**
	1,138
Net current assets	**36,528**
Total assets less current liabilities	**63,014**
	63,014
Capital and reserves	
Share capital	**8,000**
Reserves	**55,014**
	63,014

Movement in the Company's equity:

	Share capital HK$'000	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At date of incorporation	—+	—	—	—
Capitalisation issue	6,000	(6,000)	—	—
Issue of new shares upon listing	2,000	58,000	—	60,000
Issue of shares *(note)*	—+	26,486	—	26,486
Cost of issuance of new shares	—	(9,314)	—	(9,314)
Loss for the period	—	—	(14,158)	(14,158)
At 31 December 2017	8,000	69,172	(14,158)	63,014

Note Share premium is arisen from acquisition of the entire interest in Vertical (BVI), as set out in note 2(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

FINANCIAL SUMMARY

The results and the assets and liabilities of the Group for the last three financial years, as extracted from the Group's audited consolidated financial statements in this annual report and the Prospectus of the Company dated 31 October 2017, are set out below.

RESULTS

	For the year ended 31 December		
	2017	2016	2015
	HK$'000	HK$'000	HK$'000
Revenue	**109,677**	92,774	75,766
Profit before taxation	**566**	11,433	9,038
Income tax expense	**(1,173)**	(2,307)	(2,388)
Profit (loss) for the year	**(607)**	9,126	6,650

ASSETS AND LIABILITIES

	As at 31 December		
	2017	2016	2015
	HK$'000	HK$'000	HK$'000
Total assets	**126,997**	76,755	68,726
Total liabilities	**(35,404)**	(45,004)	(44,079)
Total equity	**91,593**	31,751	24,647