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 2018

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.

*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 2212, 22/F
Global Gateway Tower
63 Wing Hong Street
Cheung Sha Wan
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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P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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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

The year of 2018 was a challenge one. Especially in the second half year of 2018, the weakening demand in the consumer market under the uncertain global business environment. The Group's business was affected as well as the overall profit. Despite the uncertainties and negative effects created by the trade war and tariff dispute, our revenue remained relatively stable, reflecting the high level of acceptance of our products by our customers, and also our capability to continuously develop our business and grow our market share. The Group has applied its rich operating experience and strong research and development capabilities, together with production technologies upgrade and automation, to reduce the negative impact from the trade war, as a result, the Group was able to achieve and maintain its revenue at a steady level and was managed to keep its gross profits margin at a steady rate.

During the year, the Group also extended its manufacturing sectors by acquiring certain new and advanced manufacturing machinery and equipment to further enhance the development of its business. The Group's production efficiency is expected to increase substantially in the next few years, enabling it to provide flexible product solutions to meet the needs of different markets and customers.

Looking at 2019, the Group will closely monitor the development of the market and its business and deploy its strategies flexibly. This includes optimising product designs and technologies, standardising raw materials, allocation of productivity, and optimisation of production automation, etc. At the same time, the Group will continue to invest resources in research and development activities to offer our customers with more advanced technology solutions, and to maintain our position in a leading manufacturer of high quality capacitors to stay ahead of the market. We will also step up efforts to enrich our product mix and to meet the ever-changing needs of the market. The Group will adhere to its established business strategies with the aims of enhancing efficiency and realising sustainable growth in the future.

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 their valuable contributions and support in the past year. We expect year 2019 to be a challenging year for the industry. Our Group's revenue is likely to be remain affected by the global economic environment, however, with our competitive advantages in the capacitor manufacturer sector coupled with the expansion of our manufacturing machinery and equipment and product lines, I expect these would mitigate part of the negative impact of the trade war and global business environment uncertainties.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components. The revenue for the year 2018 was derived from the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components.

The Group had a strong start in the first half of year 2018. However, the business environment is changing recently due to the global trade tariff dispute, especially for the financial performance in the second half of the year 2018 and forward could be adversely affected. The revenue of the Group for the year ended 31 December 2018 decreased by 8.5% to as compared with that of the year ended 31 December 2017 as the revenue of sales of our products decreased under uncertain global business environment.

Despite the mist of global trade tariff dispute affects economic growth worldwide significantly. The Group's relentless efforts on manufacturing quality products and enhancing their technology have demonstrated positive progress, the Group's sales of manufactured aluminum electrolytic capacitor has achieved continuing improvement in performance during the year. The revenue for the sales of manufactured aluminum electrolytic capacitors remained steady of approximately HK$78.8 million for the year ended 31 December 2018 and approximately HK$78.4 million for the year ended 31 December 2017.

The Group has continuously dedicated to enhance the manufacturing method and to develop premium and quality products to meet the market needs, and to closely observe the development trend in the future to research and develop products continuously in order to meet the future development needs in the industry. It is expected that these measures will enhance the research and development capabilities of the Group so as to maintain the leading position of its technologies in the industry in China.

PROSPECTS

The Group expect that over time, global trade tariff dispute will affect international trade and growth, and these uncertainties may pose a new challenge to the Group's business. The Group however remain committed to investing in technology development, advancing our technology capabilities and enforcing our competitive advantage, which will help the Group achieve our long-term strategic and financial goals.

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.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased to approximately HK$100.4 million for the year ended 31 December 2018 from approximately HK$109.7 million for the corresponding year in 2017, representing a decrease of approximately 8.5%. Decrease was mainly attributable to weakening demand in the consumer market under the uncertain global business environment as a result of the trade war and tariff dispute.

The revenue for the sales of manufactured aluminum electrolytic capacitors remained steady of approximately HK$78.8 million and HK$78.4 million for the years ended 31 December 2018 and 2017 respectively. The revenue derived from sales of trading electronic components decreased to approximately HK$21.6 million for the year ended 31 December 2018 from approximately HK$31.3 million for the corresponding year in 2017.

Cost of sales

The Group's cost of sales primarily consists of cost of goods sold and other direct costs. The cost of sales decreased to approximately HK$77.7 million for the year ended 31 December 2018 from approximately HK$85.4 million for the year ended 31 December 2017, representing a decrease of approximately 9.0%. The Group's cost of sales decreased along with the decline in revenue for the year ended 31 December 2018.

Gross profit and gross profit margin

The Group's gross profit decreased to approximately HK$22.6 million for the year ended 31 December 2018 from approximately HK$24.2 million for the year ended 31 December 2017, representing a decrease of approximately 6.5%. The Group's gross profit margin remained steady at approximately 22.6% for the year ended 31 December 2018 and approximately 22.1% for the year ended 31 December 2017.

Selling and distribution costs

The Group's selling and distribution expenses increased to approximately HK$4.0 million for the year ended 31 December 2018 from approximately HK$2.6 million for the year ended 31 December 2017, representing an increase of approximately HK$1.4 million, mainly due to increase in salaries, transportation expenses and expansion of warehouse space as to streamline the logistic functions of the Group resulting in an increase in warehouse rental expenses.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, office supplies, depreciation of property, plant and equipment, legal and professional fees and other miscellaneous general and administrative expenses. Administrative expenses increased to approximately HK$12.1 million for the year ended 31 December 2018 from approximately HK$7.9 million for the year ended 31 December 2017, representing an increase of approximately HK$4.1 million. Such increase was mainly due to the increase in salaries and employee benefit expenses of managerial and staff cost and professional and compliance services fee subsequent to the listing of the Group on the Stock Exchange.

Income tax expenses

Income tax expenses increased by approximately HK$0.9 million or 74.9%, from approximately HK$1.2 million for the year ended 31 December 2017 to approximately HK$2.1 million for the year ended 31 December 2018.

Profit (loss) for the year

Excluding the non-recurring listing expenses, profit for the year of the Company for the year ended 31 December 2018 would decrease approximately HK$8.0 million, as compared with the year ended 31 December 2017. Such decrease was mainly because of the revenue decrease approximately HK$9.3 million and increase in selling and distribution costs and administrative expenses as discussed above.

Basic earnings (loss) per share

The Company's basic earnings per share increased to earnings per share of approximately 0.64 HK cents for the year ended 31 December 2018 from loss per share of approximately 0.10 HK cents for the year ended 31 December 2017, representing an increase of approximately 0.74 HK cents. Such increase was mainly due to the non-recurring listing expenses of approximately HK$13.7 million for the year ended 31 December 2017 was no longer incurred during the current period.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the Group has total assets of approximately HK$125.5 million (2017: HK$127.0 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserve) of approximately HK$32.4 million (2017: HK$35.4 million) and approximately HK$93.1 million (2017: HK$91.6 million) respectively. The current ratio as at 31 December 2018 of the Group was approximately 2.5 times (2017: approximately 2.7 times).

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$38.2 million (2017: HK$45.0 million).

The total interest-bearing bank borrowing of the Group as at 31 December 2018 was approximately HK$9.9 million (2017: HK$3.8 million). The gearing ratio (calculated based on interest bearing bank borrowings, divided by total equity) of the Group as of 31 December 2018 was 0.11 times (2017: 0.04 times).

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2018 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 2018 (for the year ended 31 December 2017: Nil).

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately HK$2.4 million (31 December 2017: HK$2.8 million). Such commitments primarily related to purchases of equipment and machineries for the expansion of the Group's production capacity.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group did not have any material acquisition or disposal during the year ended 31 December 2018.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 December 2017 and 2018.

CHARGES ON GROUP'S ASSETS

As at 31 December 2018, the leasehold land and building with the carrying value of approximately HK$5.1 million (2017: HK$5.2 million) is pledged to a bank to secure banking facilities granted to the Group.

EMPLOYEE INFORMATION

As at 31 December 2018, the Group had 129 full-time employees (31 December 2017: 154 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2018 was HK$20.6 million (2017: HK$15.6 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**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**—**	—	**1,325**	1,561
RMB	**(523)**	(223)	**11**	30

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.

SIGNIFICANT INVESTMENTS

As at 31 December 2018, the Group did not hold any significant investments (31 December 2017: Nil).

EVENTS AFTER THE REPORTING DATE

As from 31 December 2018 to the date of this annual report, no significant event has occurred.

USE OF PROCEEDS

The net proceeds from public offering and placing ("Share Offer") amounted to approximately HK$34.8 million. These proceeds were and will be used in accordance with the business strategies as set out in the Company's prospectus dated 31 October 2017. The unused proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong.

The net proceeds from the Share Offer from 13 November 2017 (the "Listing Date") to 31 December 2018 were used as follows:

Use of proceeds	**Planned use of net proceeds (adjusted on a pro rata basis based on the actual net proceeds)**	**Planned use of net proceeds up to 31 December 2018 (adjusted on a pro rata basis based on the actual net proceeds)**	**Actual use of net proceeds up to 31 December 2018**	**Unutilized proceeds as at 31 December 2018**
	HK$ million	HK$ million	HK$ million	HK$ million
To increase the production capacity of the Group's chip type aluminum electrolytic capacitors	21.5	20.1	18.6	2.9
To establish the second production plant in Dongguan, Guangdong Province, the PRC	6.6	5.8	—	6.6
To continue research and development effort	2.5	2.5	2.5	—
To promote the Group's branded products	2.3	2.0	1.7	0.6
General working capital	1.9	1.4	1.4	0.5
	34.8	31.8	24.2	10.6

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Boon Ho Yin Henry (温浩然), aged 43, 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 34, 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 47, 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 44, 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 20 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 41, 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 37, 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.

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 a Fellow 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.

The Company has in place a corporate governance framework and has established a set of policies and procedures based on the CG Code. Such policies and procedures provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

Throughout the year ended 31 December 2018, the Company has complied with the 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 throughout the year ended 31 December 2018.

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

During the year ended 31 December 2018, 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 13 November 2017 (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.

Pursuant to the articles of association of the Company ("Articles"), any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company ("AGM") and shall then be eligible for re-election. At each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an AGM at least once every three years and being eligible to offer themselves for re-election.

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/her 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 2018:

	Types of training
Executive Directors	
Mr. Boon Ho Yin Henry	B
Ms. Chow Cheung Chu	B, C
Independent non-executive Directors	
Mr. Liu Kwan	B, C
Mr. Chik Kin Man Paul	C
Mr. Wong Wai Leung	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. On 27 December 2018, the Board adopted the revised written terms of reference of the Audit Committee by a resolution passed on the same date. An up to date version of the revised written terms of reference is available on the website of the Stock Exchange and of the Company. 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.

During the year ended 31 December 2018, the Audit Committee held four meetings, with all members present, to review the remuneration, terms of engagement and independence of the Company's auditor, the Company's risk management and internal control systems and financial reporting matters, and the arrangements for employees to raise concerns about possible improprieties. The Audit Committee also reviewed the Group's annual financial results and report for the year ended 31 December 2017; quarterly financial results and report for the three months and nine months ended 31 March 2018 and 30 September 2018 respectively; and interim financial results and report for the six months ended 30 June 2018 before submission to the Board for approval.

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

The Audit Committee has also held a meeting on 20 March 2019 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 2018 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.

During the year ended 31 December 2018, the Remuneration Committee held one meeting, with all members present, to review and make recommendations to the Board on the remuneration packages of executive Directors, and to review the remuneration packages of non-executive Directors as well as the Company's policy and structure for the remuneration 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 as well as factors concerning Board diversity as set out in the Board diversity policy which has been revised and adopted by the Board on 27 December 2018, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, length of service 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.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

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

During the year, the Board has also adopted a director nomination policy, which sets out the procedure and criteria in the nomination and appointment of Directors.

During the year ended 31 December 2018, the Nomination Committee held one meeting, with all members present, to review the structure, size and composition of the Board, the Board diversity policy and the independence of the independent non-executive Directors, as well as to consider the qualifications of the retiring directors standing for election at the AGM. 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 20 March 2019 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 for securities transactions by Directors and written guidelines for securities transactions by relevant employees 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

The remuneration bands of the members of senior management who are not Directors of the Company for the year ended 31 December 2018 are as follows:

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

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 year ended 31 December 2018 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	4/4	N/A	1/1	1/1	1/1
Ms. Chow Cheung Chu	4/4	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Liu Kwan	4/4	4/4	1/1	1/1	1/1
Mr. Chik Kin Man Paul	4/4	4/4	1/1	1/1	1/1
Mr. Wong Wai Leung	4/4	4/4	N/A	N/A	1/1

Four regular board meetings were held during the year ended 31 December 2018.

On 8 November 2018, the Chairman of the Board held a meeting with the independent non-executive Directors without the presence of the other executive Director.

Independent non-executive Directors have attended the AGM to gain and develop a balanced understanding of the views of Shareholders.

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.

During the year ended 31 December 2018, 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 2018.

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 51 to 56.

AUDITOR'S REMUNERATION

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

During the year ended 31 December 2018, 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:	
2018 annual audit	1,230,000
Non-audit services:	
Interim review for the six months ended 30 June 2018	200,000
	1,430,000

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 2018, 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 2212, 22/F, Global Gateway Tower, 63 Wing Hong Street, Cheung Sha Wan, Kowloon, 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 2212, 22/F, Global Gateway Tower,
63 Wing Hong Street, Cheung Sha Wan,
Kowloon, 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 during the year ended 31 December 2018. An up to date version of the Articles is also available on the Company's website and the Stock Exchange's website.

POLICIES RELATING TO SHAREHOLDERS

The Company has in place a shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from 1 January 2019, which sets out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of dividends to Shareholders.

In proposing or declaring any dividend payment, the Board shall take into account the following factors:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

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 2018.

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 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 33 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 5 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 2018 are set forth in the consolidated financial statements on pages 57 to 58 and 122 of this annual report.

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

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2018, 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 2018 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 50.

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 2018.

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 2018, our largest customer accounted for approximately 14.3% (2017: 15.2%) of our total revenue, while the percentage of our total revenue attributable to our five largest customers in aggregate was approximately 54.9% (2017: 50.1%).

For the year ended 31 December 2018, our largest supplier accounted for approximately 19.9% (2017: 18.0%) of our total purchases, while the percentage of our total purchases attributable to our five largest suppliers in aggregate was approximately 48.5% (2017: 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 14 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 24 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 2018 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the reserve of the Company available for distribution to Shareholders under the Companies Law of the Cayman Islands amounted to approximately HK$48 million (2017: HK$55 million).

SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 December 2018 are set out in Note 33 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 31 December 2018 and the date of this annual report).
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") during the year 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 articles 84(1) and (2) of the Articles, Mr. Liu Kwan and Mr. Chik Kin Man Paul 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 12 to the consolidated financial statements of this annual report.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save for the related party transactions disclosed in note 30 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 year ended 31 December 2018.

MANAGEMENT CONTRACTS

During the year ended 31 December 2018, 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 year ended 31 December 2018 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 2018, 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 2018, 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 2018, 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 2018, 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

During the year ended 31 December 2018, 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

During the year ended 31 December 2018, 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 30 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

During the year ended 31 December 2018, 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 "Prospectus").

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 year ended 31 December 2018. 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 during the year ended 31 December 2018.

DONATIONS

Charitable or other donations made by the Group during the year amounted to HK$10,000 (2017: 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 during the year ended 31 December 2018 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 Thursday, 2 May 2019 to Tuesday, 7 May 2019 (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 Tuesday, 30 April 2019.

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 for the year ended 31 December 2018 ("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. The Group has acquired certain new and advanced manufacturing equipment to enhance the business development of the Group.
— To establish the second production plant in Dongguan, Guangdong Province, the PRC	— Up to the date of this report, the Group has already leased an additional space for its expansion needs.
— To continue research and development effort	— The Group has recruited additional staff for, and is investing time and resource into research and development department.
— To promote our branded products	— The Group has recruited additional sales staffs and issued 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 50 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 2018.

The Company has not changed its external auditor during the year ended 31 December 2018 and 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 2018 to the date of this annual report, no significant event has occurred.

On Behalf of the Board

Boon Ho Yin Henry
Chairman

Hong Kong 20 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Scope and Boundary

This Environmental, Social and Governance Report (the "ESG Report") covers the Group's management approach, strategies, priorities, and objectives during the period from 1 January 2018 to 31 December 2018 (the "reporting year"). The 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 of Hong Kong Limited.

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 ESG 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 ESG Report was approved by the Board on 20 March 2019.

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 aluminum 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 aluminum 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 aluminum 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 aluminum electrolytic capacitors.

Regarding the production of aluminum electrolytic capacitors, the Group's internal research and development team has registered in the PRC and holds 20 utility model patents and an invention patent. The team has also submitted an application for the registration of new utility model patents. The Group's products are mainly sold to the PRC, Hong Kong and other Asian regions. The Group's production method of aluminum 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 aluminum 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).

	Tin Compounds		**Toluene**		**Xylene**		**Total VOCs**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Total volume (calculated in kg)	**0.0003**	0.1483	**0.0421**	25.6339	**0.0029**	11.6844	**22.5763**	744.3072

Changes in our production processes has given rise to the decrease in the exhaust gas emission as compared to 2017.

- Tin Compounds: During the year, the Group has reduced the production steps in our reflow process, emissions of tin compounds have significantly decreased.

- Toluene, Xylene and VOC: The Group has refined the heat curing process, and replaced the UV tube with UV LED tube. As such, emissions of Toluene, Xylene and VOC therefore have significantly decreased.

Vehicle Emission

The Group has generated air emissions and greenhouse gas through our direct vehicle emissions.

The Group has 4 motor vehicles for transporting of our management team members. To enhance fuel consumption efficiency, the Group optimize route plans for transportation. Moreover, maintenance checks are arranged for the motor vehicles to ensure road safety with a view to keeping carbon emission from the vehicles to a minimum.

The Group has refined the emission data collection process during the year. As such, the Group are able to record and disclose the motor vehicle emission data starting 2018.

For the year ended 31 December 2018

Nitrogen Oxides Emissions (kg)	4.64
Sulphur Dioxide Emissions (kg)	0.07
Particulate Matter Emissions (kg)	0.34
Carbon Dioxide Equivalent Emissions (scope 1 only) (kg)[1]	12,931.26

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:

	For the year ended 31 December 2018	For the year ended 31 December 2017[2]
Power consumption (kWh)	**3,160,943.74**	2,852,106.14
Power consumption density (kWh/sq m)	**813.53**	734.05
Carbon emission (scope 2 only) (metric tonnes of carbon dioxide equivalence)[3]	**2,653.19**	2,479.06
Carbon emission density (metric tonnes of carbon dioxide equivalence/sq m)	**0.68**	0.64

1 We only include carbon emission in scope 1 (direct emissions or removals from sources).

2 As in 2017, we have deployed the meter for the electricity consumption figures. However, as at mid-2018, we were subsequently discovered that the electricity consumption for one of the air pumps was not included in the power consumption data we have disclosed. Thus, we have revised the power consumption figure in 2017 to better reflect the power consumption.

3 We only include carbon emission in scope 2 (indirect emissions generated from the electricity purchased). According to the emission factor of the 2017 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 0.84 kg/kWh (2016: 0.87 kg/kWh). According to the descriptions of the Hong Kong electric bill, the carbon dioxide produced by fuel consumption per degree of electricity on average in 2017 was 0.79 kg (2016: 0.79 kg). According to the CLP Sustainability Reports, the carbon dioxide produced by fuel combustion per degree of electricity on average in 2017 was 0.51 kg (2016: 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.

During the Reporting Period, the Group has refined the hazardous waste data collection process. As such, the Group are able to better retrieve the relevant data in 2017. The following shows the key performance indicators related to hazardous waste:

	Used Packaging Drums and Packaging Cans		Wasted electrolytes	
	2018	2017	**2018**	2017
Total volume (calculated in tonnes)	**2.97**	4.74	**58.58**	43.80
Non-hazardous waste density (tonnes/sq m)	**0.00078**	0.00125	**0.01541**	0.01152

Non-hazardous Waste

The guide pins, aluminum 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, office-use paper and cardboard boxes used by suppliers to supply raw materials are also the main source of non-hazardous waste 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.

	Scrap		Leads		Cardboard boxes		Paper[4]	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Total volume (calculated in tonnes)	**19.3170**	12.0085	**30.0280**	14.0637	**3.0100**	3.1200	**6.9625**	6.1125
Non-hazardous waste density (tonnes/sq m)	**0.00508**	0.00316	**0.00790**	0.00370	**0.00079**	0.00082	**0.00183**	0.00161

The increase in the total production in leads is as a result of our disposal of obsolete and substandard leads during 2018.

4 During the Reporting Period, we have made an effort to refine our non-hazardous waste data collection process. As such, we have expanded the scope of our disclosure. We have identified paper as a source of our non-hazardous waste with its consumption figures collected and disclosed.

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.

Moreover, qualified third-party waste recycling companies are engaged for our disposal of scraps and lead. All scraps and lead produced during the Reporting Period were recycled.

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 year ended 31 December 2018	For the year ended 31 December 2017
Water consumption volume (cm^3)	**5,372.91**	6,847.31
Water consumption density (cm^3/sq m)	**1.3828**	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; and
- 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:

Category of packaging	Paper		Plastic	
	2018	2017	**2018**	2017
Total volume (calculated in tonnes)	**112.05**	127.92	**112.08**	106.19
Packaging materials intensity (tonnes/sq m)	**0.0295**	0.0337	**0.0295**	0.0279

CARING THE SOCIETY

Overview of Employees

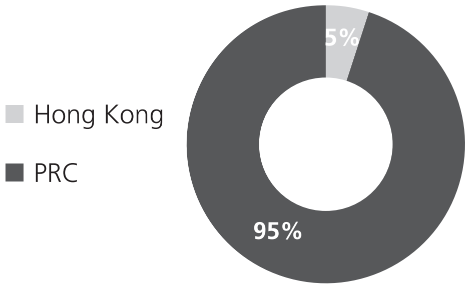
The Group values the personal growth of each employee. It also establishes a variety of communication channels to enhance employee's sense of belonging to the Company. Such practice has attracted specialists from different fields to join, which promotes mutual exchange and helps creating good values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

As at 31 December 2018, the Group had 129 employees (2017: 154 employees) in total. Set out below is the statistics of our employees by region, gender and age:

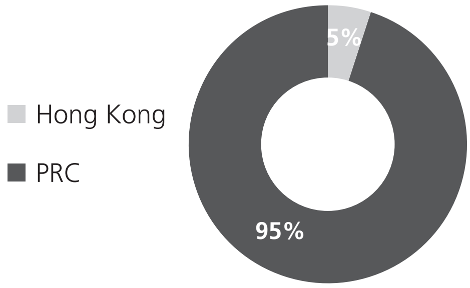
	Number		Percentage	
	2018	2017	**2018**	2017
By Region				
Hong Kong	**7**	7	**5%**	5%
Mainland China	**122**	147	**95%**	95%
By Gender				
Male	**79**	96	**61%**	62%
Female	**50**	58	**39%**	38%
By Age				
18–25 years old	**29**	36	**23%**	23%
26–35 years old	**54**	70	**42%**	46%
36–45 years old	**39**	43	**30%**	28%
46–55 years old	**7**	5	**5%**	3%

The breakdown of our workforce by region, gender and age group is as follows.

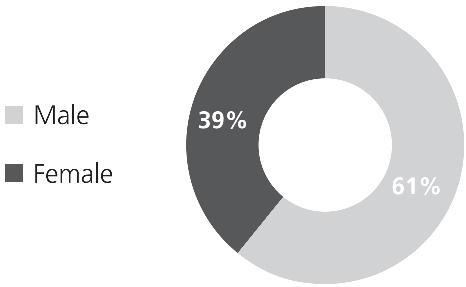
BY REGION (2018)



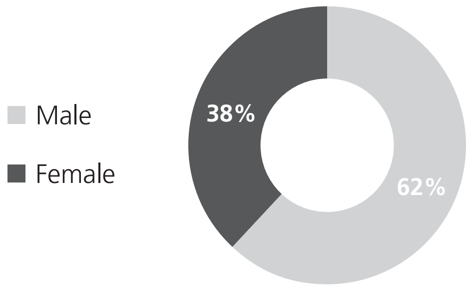
BY REGION (2017)



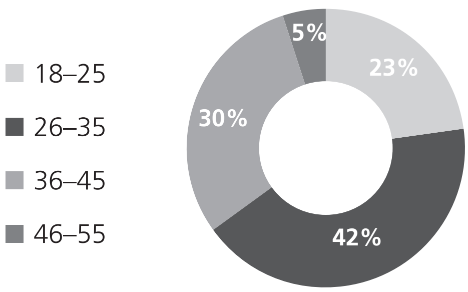
BY GENDER (2018)



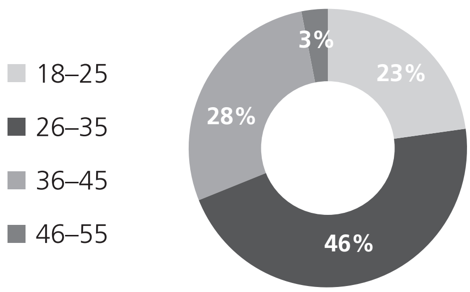
BY GENDER (2017)



BY AGE GROUP (2018)



BY AGE GROUP (2017)



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, code of conduct and safety knowledge, etc., which can help employees adapt to the operation of the Group more quickly.

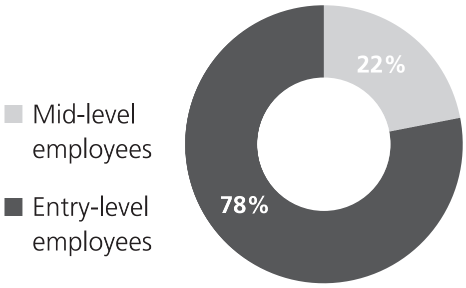
The percentages of trained employees of the Group for Year 2017 and 2018 are as follows:

	Percentage	
	2018	2017
By Employee Category		
Mid-level employees[5]	**22%**	23%
Entry-level employees	**78%**	77%
By Gender		
Male	**56%**	63%
Female	**44%**	37%

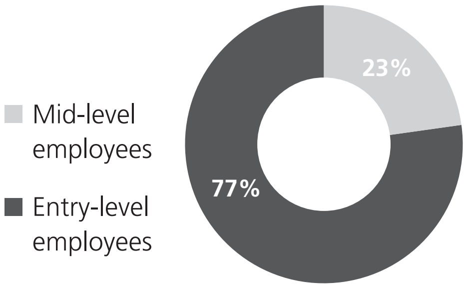
[5] Employees in Dongguan are classified into three tiers: 1. Manager 2. Mid-level employees 3. Entry-level employee. There are two managers in this year, who have not received any training during the reporting year.

The breakdown of our trained employees by employee category and gender is as follows.

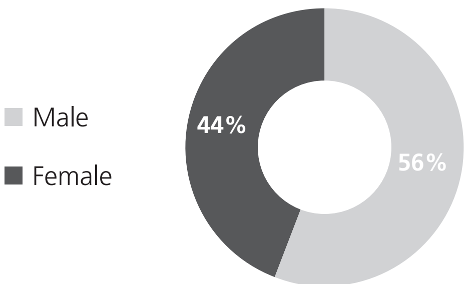
BY EMPLOYEE CATEGORY (2018)



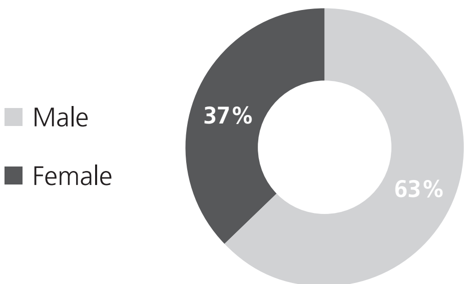
BY EMPLOYEE CATEGORY (2017)



BY GENDER (2018)



BY GENDER (2017)



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.

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 aluminum electrolytic capacitors business for more than ten years, the Group has established a renowned customer base for its aluminum 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 aluminum 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 aluminum 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 aluminum 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 aluminum electrolytic capacitors meet the required performance specifications. Testing is conducted on every finished aluminum electrolytic capacitors and finished aluminum electrolytic capacitors which have undergone the FQC process are taped to the connectors and rolled up ready for packaging and shipment. Packed goods will be inspected for the 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. Our community investment initiatives encompass multiple aspects, including but not limited to social welfare, medical, recreation, environmental protection and social enterprise services. During the Reporting Period, the Group has taken initiatives to support the community through making a donation to the Hong Kong Racehorse Owners Association Charitable Foundation Ltd. 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 57 to 123, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the 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 at the end of the reporting period, 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 2018, the carrying amount of inventories is HK$16,760,000 without any allowance for inventories recognised as disclosed in note 4 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; • 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; • Testing, on a sample basis, the net realisable values of raw materials and consumables and finished goods by tracing to the materials issue notes and latest sales invoices; and • Tracing, on a sample basis, the subsequent usage of raw materials and consumables to the materials issue note.

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 as the carrying amount of trade receivables is significant and the impairment assessment of trade receivables requires significant management judgements. As disclosed in note 4 and note 26 to the consolidated financial statements, the impairment under ECL model on trade receivables are assessed individually and/or collectively using a provision matrix with appropriate groupings. The provision matrix is based on the Group's historical observed default rates taking into consideration forward-looking information that is reasonable and supportably available to the directors of the Company without undue costs or effort, and are updated if considered to be required. At 31 December 2018, the carrying amount of trade receivables is HK$21,100,000 (net of allowance for credit losses of HK$177,000).	Our procedures in relation to the valuation of trade receivables included: • Obtaining an understanding and evaluating the key controls over credit risk assessment and management's process on reviewing the recoverability of accounts receivables; • Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year; and • Testing, on a sample basis, the accuracy of aging categories of trade receivables to the delivery notes, sales invoices and sales order.

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
20 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
Revenue	*5*	**100,373**	109,677
Cost of sales		**(77,728)**	(85,448)
Gross profit		**22,645**	24,229
Other income	*6*	**1,041**	1,145
Other gains and losses	*7*	**(326)**	(352)
Selling and distribution costs		**(3,950)**	(2,551)
Administrative expenses		**(12,064)**	(7,937)
Finance costs	*8*	**(161)**	(246)
Listing expenses		**—**	(13,722)
Profit before taxation	*9*	**7,185**	566
Income tax expense	*10*	**(2,052)**	(1,173)
Profit (loss) for the year		**5,133**	(607)
Other comprehensive (expense) income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(3,583)**	3,277
Total comprehensive income for the year		**1,550**	2,670
Earnings (loss) per share — basic *(Hong Kong cents)*	*13*	**0.64**	(0.10)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	14	**42,229**	29,237
Deposits for acquisition of property, plant and equipment		**1,452**	2,793
		43,681	32,030
Current assets			
Inventories	15	**16,760**	14,753
Trade and bills receivables	16	**21,825**	33,888
Bills receivables at fair value through other comprehensive income	17	**3,312**	—
Deposits, prepayments and other receivables	18	**1,785**	1,324
Bank balances and cash	19	**38,158**	45,002
		81,840	94,967
Current liabilities			
Trade and bills payables	20	**11,910**	20,902
Other payables and accruals	21	**9,152**	8,447
Tax payable		**1,404**	2,133
Bank borrowings	22	**9,873**	3,829
		32,339	35,311
Net current assets		**49,501**	59,656
Total assets less current liabilities		**93,182**	91,686
Non-current liability			
Deferred tax liabilities	23	**39**	93
		93,143	91,593
Capital and reserves			
Share capital	24	**8,000**	8,000
Reserves		**85,143**	83,593
		93,143	91,593

The consolidated financial statements on pages 57 to 123 were approved and authorised for issue by the Board of Directors on 20 March 2019 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 2018

	Share capital HK$'000 (note 24)	Share premium HK$'000	Special reserve HK$'000 (note ii)	Statutory reserve HK$'000 (note i)	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	—+	—	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 (expense) for the year	—	—	—	—	3,277	(607)	2,670
Transfer to statutory reserve	—	—	—	1,501	—	(1,501)	—
Effect of reorganisation *(note iii)*	—	26,486	(26,486)	—	—	—	—
Deemed contribution *(note iv)*	—	—	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
Profit for the year	—	—	—	—	—	5,133	5,133
Other comprehensive expense for the year	—	—	—	—	(3,583)	—	(3,583)
Total comprehensive (expense) income for the year	—	—	—	—	(3,583)	5,133	1,550
Transfer to statutory reserve	—	—	—	6,735	—	(6,735)	—
At 31 December 2018	8,000	69,172	—	10,000	(2,460)	8,431	93,143

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) deemed contribution from the acquisition of Vertical Technology Company Limited by Vertical Technology (B.V.I.) Limited ("Vertical (BVI)") on 30 December 2015 and the acquisition of Vertical (BVI) by the Company on 17 March 2017.

(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).

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

\+ Less than HK$1,000

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Profit before taxation	**7,185**	566
Adjustments for:		
Depreciation of property, plant and equipment	**603**	663
Loss on written off/disposal of property, plant and equipment	**349**	9
Impairment loss recognised on trade receivables	**177**	35
Interest expense	**161**	246
Interest income	**(145)**	(29)
Operating cash flows before movements in working capital	**8,330**	1,490
Decrease (increase) in inventories	**275**	(4,385)
Decrease in trade and bills receivables	**10,701**	4,354
Increase in bills receivables at FVTOCI	**(3,311)**	—
(Increase) decrease in deposits, prepayments and other receivables	**(588)**	1,103
(Decrease) increase in trade and bills payables	**(8,397)**	2,365
Increase (decrease) in other payables and accruals	**1,126**	(3,589)
Cash generated from operations	**8,136**	1,338
PRC Enterprise Income Tax (paid) refunded	**(2,857)**	189
Hong Kong Profits Tax refunded (paid)	**22**	(2,400)
Net cash from (used in) operating activities	**5,301**	(873)
Investing activities		
Purchase of property, plant and equipment	**(16,900)**	(8,260)
Deposits for acquisition of property, plant and equipment	**(1,452)**	(2,793)
Placement of time deposits	**(18,100)**	—
Withdrawal of time deposits	**18,100**	—
Interest received	**145**	29
Proceeds from disposal of property, plant and equipment	**911**	—
Net cash used in investing activities	**(17,296)**	(11,024)
Financing activities		
Repayment of bank borrowings	**(7,567)**	(1,347)
Interest paid	**(161)**	(246)
New bank borrowings raised	**13,611**	878
Listing expenses paid	**—**	(9,314)
Proceeds from issue of shares	**—**	60,000
Net cash from financing activities	**5,883**	49,971
Net (decrease) increase in cash and cash equivalents	**(6,112)**	38,074
Cash and cash equivalents at beginning of the year	**45,002**	5,969
Effect of foreign exchange rate changes	**(732)**	959
Cash and cash equivalents at end of the year, represented by bank balances and cash	**38,158**	45,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL

Vertical International Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on GEM of 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 "Corporate 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 aluminum electrolytic capacitors and trading of electronic components.

The consolidated financial statements is presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousands (HK$'000) except when otherwise indicated.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatory effective for the current year

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatory effective for the current year (Continued)

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

HKFRS 15 "*Revenue from Contracts with Customers*"

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "*Revenue*" and the related interpretations.

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "*Revenue*", HKAS 11 "*Construction Contracts*" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of manufactured aluminum electrolytic capacitors
- Trading of electronic components

The Group has performed an assessment on the impact of the adoption of HKFRS 15 and concluded that no material financial impact exists, and therefore no adjustment to the opening retained profits at 1 January 2018 was made. In addition, there was no assets or liabilities as at 1 January 2018 meet the definition of contract assets or contract liabilities upon adoption of HKFRS 15, and therefore no change in presentation on the consolidated statement of financial position at 1 January 2018 was made.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "*Financial Instruments*" and the related amendments

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

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

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

	Financial assets previously classified as loans and receivables HK$'000	**Bills receivables at fair value through other comprehensive income ("FVTOCI")** HK$'000	**Financial assets at amortised cost** HK$'000
Closing balance at 31 December 2017 (under HKAS 39)	79,029	N/A	N/A
Effects arising from initial applicable of HKFRS 9:			
Reclassification			
From loans and receivables (Note)	(79,029)	139	78,890
Opening balance at 1 January 2018 (under HKFRS 9)	—	139	78,890

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "*Financial Instruments*" and the related amendments (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Note: **From loans and receivables to bills receivables at FVTOCI**

As part of the Group's cash flow management, the Group has the practice of factoring some of the bills receivables to financial institutions before the receivables are due for repayment and derecognises factored bills receivables on the basis that the Group has transferred substantially all risk and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of HK$139,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to bills receivables at FVTOCI.

From loans and receivables to financial assets at amortised cost

Except for the bills receivables at FVTOCI, all remaining loans and receivables were reclassified as financial assets at amortised cost since the Group's business model is to hold these financial assets for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

For trade receivables, the management of the Group makes periodic collective assessment and/or individual assessment on the recoverability of trade receivables based on historical settlement records, past experience and forward-looking information that is available without undue cost or effort. Based on the assessment by the management of the Group, the ECL for trade receivables is not material.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been assessed individually and/or grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, bills receivables and bank balances, are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

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

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

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 "*Leases*" (Continued)

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 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.

Other than certain requirements which are also applicable to lessor, 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 2018, the Group has non-cancellable operating lease commitments of HK$2,951,000 as disclosed in note 27. 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$42,000 as rights 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right- of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "*Determining whether an Arrangement contains a Lease*" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to HKFRS 3 *"Definition of a Business"*

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with 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 the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 in 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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is derived from sales of manufactured aluminum electrolytic capacitors and trading of electronic components. All of the Group's revenue is recognised at a point in time when the control of goods is transferred, being when the goods are delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customer's premises as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers.

Revenue recognition (prior to 1 January 2018)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 arising on the settlement of monetary items, and on the retranslation of 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 before taxation 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of 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 ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Inventories

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit and loss, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "*Business Combinations*" applies.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Bills receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for bills receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gain or losses previously recognised in other comprehensive income are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bill receivables, other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full without taking into account any collaterals held by the Group.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables, bills receivables, other receivables and bank balances are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for bills receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For bills receivables that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss of financial assets below).

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

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

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial 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 to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

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.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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 and bank borrowings, are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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 of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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.

The recoverable amount of tangible and intangible assets are estimated individually, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses (Continued)

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Valuation of inventories

Management of the Group assesses whether the carrying amounts of the inventories are recoverable and estimates 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 2018, the carrying amounts of inventories are HK$16,760,000 (2017: HK$14,753,000). No allowance for inventories is recognised for the year ended 31 December 2018 (2017: nil).

Impairment of trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar credit risk characteristic. The provision matrix is based on the Group's historical observed default rates taking into consideration forward-looking information that is reasonable and supportably available to the directors of the Company without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, certain balances of trade receivables and those credit impaired balances are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 26.

As at 31 December 2018, the carrying amount of trade receivables was approximately HK$21,100,000, net of allowance for credit losses of HK$177,000 (2017: HK$32,871,000, net of allowance for credit losses of HK$86,000).

5. REVENUE AND SEGMENT INFORMATION

The Group satisfied its performance obligation for sales of manufactured aluminum electrolytic capacitors and trading of electronic components when the manufactured goods or trading goods are delivered to the customer's specific location. Revenue from contracts with customers is recognised at a point in time and is consistent with the segment revenue information that is disclosed for each reportable segment under HKFRS 8.

Information reported to the executive directors of the Group, being the chief operating decision maker ("CODM"), is organised into divisions for the purposes of resource allocation and performance assessment focusing on the types of services delivered or provided. Specifically, the Group's reportable and operating segments under HKFRS 8 Operating Segments are as follows:

— **Sales of manufactured aluminum electrolytic capacitors**

Manufacturing and selling of aluminum electrolytic capacitors represents the manufacturing and selling of chip type and radial lead type aluminum electrolytic capacitors in the PRC.

— **Trading of electronic components**

Trading of electronic components represents trading of (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors and (ii) LED and LED lighting products in Hong Kong and the PRC.

During the year ended 31 December 2018, all performance obligations for sales of manufacture aluminum electrolytic capacitors and trading of electronic components are for period of one year or less. As permitted under HKFRS 15, the transaction price allocated to unsatisfied performance obligations as at the year ended 31 December 2018 is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2018

	Sales of manufactured aluminum electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
SEGMENT REVENUE			
External sales	**78,752**	**21,621**	**100,373**
RESULTS			
Segment profit	**18,775**	**3,870**	**22,645**
Unallocated expenses			**(16,014)**
Other income			**1,041**
Other gains and losses			**(326)**
Finance costs			**(161)**
Profit before taxation			**7,185**

5. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2017

	Sales of manufactured aluminum 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

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 3. Segment results represents the profit earned by each segment without allocation of unallocated expenses (including administrative expenses and selling and distribution costs), other income, other gains and losses, finance costs, listing expenses and income tax expense. 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.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2018

	Sales of manufactured aluminum electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
Amount included in the measure of segment results:			
Impairment loss recognised on trade receivables	151	26	177
Depreciation of property, plant and equipment	3,158	—	3,158
Amounts regularly provided to the CODM but not included in the measurement of segment results:			
Additions to property, plant and equipment	19,539	154	19,693
Depreciation of property, plant and equipment	146	457	603

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2017

	Sales of manufactured aluminum electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
Amount included in the measure of segment results:			
Impairment loss recognised on trade receivables	17	18	35
Depreciation of property, plant and equipment	1,735	—	1,735
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	132	531	663

Geographical information

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

	2018 HK$'000	2017 HK$'000
Hong Kong	**18,065**	26,584
PRC	**75,592**	72,278
Malaysia	**—**	661
Other Asian regions *(Note)*	**6,716**	10,154
	100,373	109,677

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.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information (Continued)

The following is an analysis of the carrying amounts of the Group's non-current assets (i.e. property, plant and equipment and deposits for acquisition of property, plant and equipment), analysed by the geographical area in which the assets are located:

	2018 **HK$'000**	2017 HK$'000
Hong Kong	**5,717**	6,021
PRC	**37,964**	26,009
	43,681	32,030

Information about major customers

Revenue from major customer which accounted for 10% or more of the Group's revenue for each of the year is set out below:

	2018 **HK$'000**	2017 HK$'000
Customer A from sales of manufactured aluminum electrolytic capacitors	**14,393**	16,619
Customer B from trading of electronic components	**13,145**	N/A*
Customer C from sales of manufactured aluminum electrolytic capacitors	**12,340**	N/A*
Customer D from sales of manufactured aluminum electrolytic capacitors	**10,695**	N/A*
Customer E from trading of electronic components	**N/A***	14,410

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

6. OTHER INCOME

	2018	2017
	HK$'000	HK$'000
Government subsidy *(note)*	**430**	811
Rental income from machineries	**102**	178
Scrap sales	**275**	80
Bank interest income	**145**	29
Sundry income	**89**	47
	1,041	1,145

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

7. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	HK$'000
Net foreign exchange gain (loss)	**200**	(308)
Impairment loss recognised on trade receivables	**(177)**	(35)
Loss on write off/disposal of property, plant and equipment	**(349)**	(9)
	(326)	(352)

8. FINANCE COSTS

	2018	2017
	HK$'000	HK$'000
Interests on:		
— Bank borrowings	**161**	137
— Bank overdraft	**—**	109
	161	246

9. PROFIT BEFORE TAXATION

	2018 **HK$'000**	2017 HK$'000
Profit before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	**73,423**	81,185
Depreciation	**3,761**	2,398
Depreciation capitalised in inventories	**(3,158)**	(1,735)
	603	663
Employee benefit expense (including directors' remuneration *(note 12)*)		
Wages and salaries	**18,553**	14,039
Contributions to retirement benefits schemes	**2,084**	1,596
	20,637	15,635
Minimum lease payments of rented premises	**1,104**	1,071
Auditor's remuneration	**1,230**	4,370
Research and development expenses (included in cost of sales)	**4,305**	4,263

10. INCOME TAX EXPENSE

	2018 **HK$'000**	2017 HK$'000
Current tax:		
Hong Kong	**—**	13
PRC Enterprise Income Tax (the "EIT")	**1,986**	2,667
	1,986	2,680
(Over) under provision in prior years		
Hong Kong	**(10)**	(148)
PRC EIT	**130**	(1,274)
	120	(1,422)
Deferred tax credit *(note 23)*	**(54)**	(85)
	2,052	1,173

10. INCOME TAX EXPENSE (Continued)

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK$2 million.

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:

	2018 HK$'000	2017 HK$'000
Profit before taxation	**7,185**	566
Tax at the applicable tax rate of 15% (2017: 15%)	**1,078**	85
Tax effect of expenses not deductible for tax purposes	**596**	2,525
Tax effect of income not deductible for tax purposes	**(17)**	—
Tax effect of different tax rate of subsidiary operating in other jurisdiction	**(44)**	(9)
Under (over) provision in prior years	**120**	(1,422)
Tax effect of tax loss not recognised	**332**	—
Utilisation of tax loss previously not recognised	**(13)**	(6)
Income tax expense	**2,052**	1,173

11. DIVIDEND

No dividend has been paid or declared by the Company for both years.

12. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES

Directors and Chief Executive

Mr. Boon and Ms. Chow Cheung Chu ("Ms. Chow") have been appointed as the executive directors of the Company on 3 January 2017 and 7 April 2017, respectively, and Mr. Boon is also appointed as the chief executive officer of the Company on 7 April 2017.

On 24 October 2017, the Company appointed Mr. Liu Kwan, Mr. Chik Kin Man Paul and Mr. Wong Wai Leung as independent non-executive directors of the Company.

Directors' and chief executive'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 the Hong Kong Companies Ordinance is as follows:

For the year ended 31 December 2018

	Mr. Boon HK$'000	Ms. Chow HK$'000	Total HK$'000
Executive directors			
Fees	558	558	1,116
Other emoluments			
— Salaries and other benefits	43	—	43
— Performance related bonus *(note)*	—	71	71
— Contributions to retirement benefits schemes	18	18	36
	619	647	1,266

	Mr. Liu Kwan HK$'000	Mr. Chik Kin Man Paul HK$'000	Mr. Wong Wai Leung HK$'000	Total HK$'000
Independent non-executive directors				
Fees	60	60	120	240
Other emoluments				
— Salaries and other benefits	—	—	—	—
— Contributions to retirement benefits schemes	—	—	—	—
	60	60	120	240

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

Directors and Chief Executive (Continued)

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$'000	Mr. Chik Kin Man Paul HK$'000	Mr. Wong Wai Leung HK$'000	Total HK$'000
Independent non-executive directors				
Fees	8	8	16	32
Other emoluments				
— Salaries and other benefits	—	—	—	—
— Contributions to retirement benefits schemes	—	—	—	—
	8	8	16	32

Note: The performance related bonus is determined with reference to the operating results and individual performance during both years.

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

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

Employees

The five highest paid individuals of the Group during the year include two (2017: one) directors, details of whose remunerations are set out above. Details of the remuneration for the year of the remaining three (2017: four) highest paid individuals who are neither director nor chief executive of the Company are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries and allowance	**1,465**	1,169
Performance related bonus *(note)*	**79**	75
Contributions to retirement benefits schemes	**64**	53
	1,608	1,297

Note: The performance related bonus are determined with reference to the operating results of the Group and individual performance during both years.

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

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**3**	4

No emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors 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 2018 and 31 December 2017. None of the director waived or agreed to waive any emoluments for both years.

13. EARNINGS (LOSS) PER SHARE

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

	2018 **HK$'000**	2017 HK$'000
Earnings (loss):		
Earnings (loss) for the purpose of calculating basic earnings (loss) per share (profit (loss) for the year)	**5,133**	(607)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**800,000,000**	626,849,315

No diluted earnings (loss) per share was presented as there were no potential ordinary shares in issue during the years ended 31 December 2018 and 2017.

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FOR THE YEAR ENDED 31 DECEMBER 2018

14. 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 2017	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
Currency realignment	—	—	(40)	(1,849)	(54)	(2)	(1,945)
Addition	—	—	279	19,363	—	51	19,693
Transfer	—	—	—	49	—	(49)	—
Written off/disposal	—	(7)	(4)	(1,518)	—	—	(1,529)
At 31 December 2018	5,573	283	1,232	46,466	2,122	—	55,676
DEPRECIATION							
At 1 January 2017	183	345	400	6,221	834	—	7,983
Currency realignment	—	9	9	145	10	—	173
Provided for the year	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
Currency realignment	—	—	(15)	(240)	(10)	—	(265)
Provided for the year	169	45	153	3,130	264	—	3,761
Elimination on written off/ disposal	—	(3)	(4)	(262)	—	—	(269)
At 31 December 2018	521	187	608	10,690	1,441	—	13,447
CARRYING VALUES							
At 31 December 2018	5,052	96	624	35,776	681	—	42,229
At 31 December 2017	5,221	145	523	22,359	989	—	29,237

14. 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$5,052,000 (2017: HK$5,221,000) is pledged to a bank to secure banking facilities of HK$13,467,000 (2017: HK$8,351,000) granted to the Group.

15. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials and consumables	**6,699**	7,416
Work in progress	**496**	2,798
Finished goods	**9,565**	4,539
	16,760	14,753

16. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Trade receivables	**21,277**	32,957
Allowance for credit losses	**(177)**	(86)
	21,100	32,871
Bills receivables	**725**	1,017
	21,825	33,888

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 credit losses at the end of each reporting period:

	2018	2017
	HK$'000	HK$'000
0 to 30 days	**7,390**	14,483
31 to 60 days	**6,937**	11,266
61 to 90 days	**4,206**	3,606
91 to 180 days	**1,795**	3,336
181 days to 1 year	**772**	149
Over 1 year	**—**	31
	21,100	32,871

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.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$6,443,000 which are past due as at the reporting date. Included in the past due balances of HK$945,000 has been past due over 90 days or more and is not considered as in default based on good repayment records for those customers and continuous business with the Group.

16. TRADE AND BILLS RECEIVABLES (Continued)

As at 31 December 2017, included in the Group's trade receivables balance were debtors with aggregate carrying amount of HK$6,159,000 which were past due at the reporting date for which the Group had not provided for impairment loss as the Group considers that these debtors were financially stable. The directors are of the opinion that these amounts were recoverable. The Group does not hold any collateral over these balances.

Aging of trade receivables which were past due but not impaired were as follows:

	2017 HK$'000
0 to 30 days	3,690
31 to 60 days	974
61 to 90 days	566
91 to 180 days	883
181 days to 1 year	26
Over 1 year	20
	6,159

The following is a movement in the allowance for credit losses during the year ended 31 December 2017:

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

As at 31 December 2017, included in the allowance for credit losses are individually impaired trade receivables with an aggregate balance of HK$86,000 which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

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. All bills received by the Group are with a maturity period of less than one year.

16. TRADE AND BILLS RECEIVABLES (Continued)

Refer to note 26 for credit risk assessment for trade receivables.

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

	2018	2017
	HK$'000	HK$'000
Denominated in United States Dollars ("US$")	**1,298**	1,558
Denominated in Renminbi ("RMB")	**10**	29

17. BILLS RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018
	HK$'000
Bills receivables at FVTOCI	**3,312**

The following is an aging analysis of bills receivables at FVTOCI presented based on the delivery dates at the end of the reporting period:

	2018
	HK$'000
0 to 30 days	**756**
31 to 60 days	**228**
61 to 90 days	**284**
91 to 180 days	**2,044**
	3,312

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Prepayments	**1,475**	1,122
Other receivables	**214**	139
Deposits	**96**	63
Total	**1,785**	1,324

In determining the ECL for other receivables, the directors have made individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding other receivables is insignificant.

19. BANK BALANCES AND CASH

	2018	2017
	HK$'000	HK$'000
Cash on hand in bank	**35,602**	45,002
Restricted bank deposits	**2,556**	—
	38,158	45,002

Bank balances and cash carry interests at variable rates ranging from 0.01% to 1.17% (2017: 0.01% to 0.35%) per annum.

The subsidiaries 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.

Restricted bank deposits is to secure bills payables and are therefore classified as current assets. The restricted bank deposits carry interests at variable rates of 1.13% to 1.17% (2017: nil) per annum. The restricted bank deposits will be released upon settlement of bills payables.

20. TRADE AND BILLS PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**9,354**	20,902
Bills payables	**2,556**	—
	11,910	20,902

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.

	2018 HK$'000	2017 HK$'000
0 to 30 days	**6,053**	12,085
31 to 60 days	**1,763**	6,006
61 to 90 days	**1,258**	1,579
91 to 180 days	**280**	1,232
	9,354	20,902

The following is an aged analysis of bills payables based on the invoice dates.

	2018 HK$'000	2017 HK$'000
31 to 60 days	**228**	—
61 to 90 days	**284**	—
91 to 180 days	**2,044**	—
	2,556	—

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

	2018 HK$'000	2017 HK$'000
Denominated in RMB	**523**	223

21. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Other payables	**3,060**	3,401
Accrued pension scheme contributions	**1,813**	1,910
VAT payables	**1,360**	1,347
Accrued staff salaries and allowance	**899**	976
Accrued housing provident fund	**568**	598
Accrued expenses	**1,452**	215
Total	**9,152**	8,447

22. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank borrowings, secured	**8,067**	2,951
Trust receipt loans, secured	**1,081**	—
Bills discounted with recourse, secured	**725**	878
	9,873	3,829
Carrying amount repayable*:		
Within one year	**3,002**	1,419
In the second to fifth years	**5,512**	2,410
Over five years	**1,359**	—
	9,873	3,829
Less: Amounts included under current liabilities (including bank borrowings with a repayable on demand clause)	**(9,873)**	(3,829)
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 rates) ranged from 2.42% to 5.38% (2017: 2.42% to 5.75%).

Bank borrowings amounting to HK$9,873,000 (2017: HK$3,829,000) were secured by the Group's leasehold land and building and bills receivables as set out in Note 14 and Note 16 respectively.

22. BANK BORROWINGS (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	**Bank borrowings**	**Accrued issued costs**	**Total**
	HK$'000	HK$'000 *(Note)*	HK$'000	HK$'000
At 1 January 2017	6,584	4,298	—	10,882
Financing cash flows	—	(715)	(9,314)	(10,029)
Finance costs	—	246	—	246
Non-cash changes *(note 31)*	(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

	Bank borrowings
	HK$'000 *(Note)*
At 1 January 2018	3,829
Financing cash flows	5,883
Finance costs	161
At 31 December 2018	9,873

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.

23. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK$'000
At 1 January 2017	(178)
Credit to profit or loss	85
At 31 December 2017	(93)
Credit to profit loss	54
At 31 December 2018	(39)

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the 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$40,321,000 (2017: HK$30,738,000), 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$2,342,000 (2017: HK$215,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses may be carried forward indefinitely except for HK$117,000 (2017: HK$215,000) in the tax jurisdiction of the PRC which may be carried forward for five years.

24. SHARE CAPITAL

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

	Number of shares	Share capital
		HK$
Ordinary shares of HK$0.01 each		
Authorised:		
Upon incorporation *(note 1)*	38,000,000	380,000
Increase during the year *(note 3)*	4,962,000,000	49,620,000
Balance as at 31 December 2017 and 2018	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 and 2018	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$0.01 each at HK$0.3 each with gross proceeds of HK$60,000,000.

25. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which include bank borrowings disclosed in note 22 and equity attributable to owner of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

26. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 **HK$'000**	2017 HK$'000
Financial assets		
Loans and receivables	—	79,029
Financial assets at amortised cost	**60,197**	—
Bills receivables at FVTOCI	**3,312**	—
Financial liabilities		
Amortised cost	**24,843**	28,132

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, bank balances and cash, bills receivables at FVTOCI, trade and bills payables, other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Currency risk

The Group's exposure to currency risk mainly arises from the fluctuation of US$ and RMB against the functional currencies of the relevant entities now comprising the Group. The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities other than the functional currencies of the relevant entities comprising the Group are as follows. The management closely monitors foreign exchange exposure to mitigate the foreign currency risk.

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risks (Continued)

Currency risk (Continued)

	Liabilities		Assets	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**—**	—	**1,325**	1,561
RMB	**(523)**	(223)	**11**	30

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 22 due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below 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 profit after taxation for the year ended 31 December 2018 would decrease/increase by approximately HK$82,000 and the Group's loss after taxation for the year ended 31 December 2017 would increase/decrease by approximately HK$32,000.

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

As at 31 December 2018, 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 performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. 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 27% (2017: 34%) of the total gross trade receivables was due from the Group's trade debtors which is over 10% (2017: 10%) of the total gross trade receivables, and 49% (2017: 53%) 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	
	2018	2017
Customer A	**16**	14
Customer B	**11**	N/A*
Customer C	**N/A***	20

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

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Group A	The counterparty has low risk of default based on historical repayment records and has a good reputation.	Lifetime ECL — not credit-impaired	12-month ECL — not credit-impaired
Group B	The counterparty has higher credibility but sometimes repays after due dates.	Lifetime ECL — not credit-impaired	12-month ECL — not credit-impaired
Group C	The counterparty usually settles after due day with a higher risk of default.	Lifetime ECL — not credit-impaired	12-month ECL — not credit-impaired
Group D	There is evidence indicating the asset is credit-impaired.	Lifetime ECL — credit-impaired	12-month ECL — credit-impaired
Group E	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial asset which are subject to ECL assessment:

2018	*Notes*	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount** HK$'000
Trade receivables	*16*	N/A	*(note 2)*	Lifetime ECL (provision matrix)	21,219
			Group D	Lifetime ECL — credit-impaired	58
Bills receivables	*16*	A+	N/A	12-month ECL	725
Other receivables	*18*	N/A	*(note 1)*	12-month ECL	214
Bank balances	*19*	A – A+	N/A	12-month ECL	38,158

Notes:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

2. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors which are credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating based on historical repayment records and reputation.

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). As at 31 December 2018, the debtors which are credit-impaired amounted to HK$58,000 are assessed individually and debtors which are not credit-impaired amounted to HK$21,219,000 are assessed under a provision matrix based on internal credit rating.

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Gross carrying amount

Internal credit rating	Average loss rate	Trade receivables HK$'000
Group A	0.1%	8,180
Group B	0.8%	11,855
Group C	1.4%	1,184
		21,219

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtor is updated.

In the opinion of the directors of the Company, the trade receivables at the end of the reporting period which have been past due over 90 days are not considered as in default based on good repayment records for those customers and continuous business with the Group.

Movement in lifetime ECL that has been recognised for trade receivables under the simplified approach

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000
As at 31 December 2017 under HKAS 39	—	86
Adoption of HKFRS 9	—	—
As at 1 January 2018 under HKFRS 9	—	86
Net remeasurement of impairment recognised on receivables	119	58
Amounts written off as uncollectible	—	(86)
As at 31 December 2018	119	58

26. 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 2018				
Trade and bills payables	**—**	**11,910**	**11,910**	**11,910**
Other payables	**—**	**3,060**	**3,060**	**3,060**
Bank borrowings	**4.04**	**9,873**	**9,873**	**9,873**
		24,843	**24,843**	**24,843**
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

26. 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 or less than 3 month" time band in the above maturity analysis. As at 31 December 2018, the aggregate carrying amounts of these bank borrowings amounted to HK$9,873,000 (2017: HK$3,829,000). 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 2018	**3,303**	**6,200**	**1,430**	**10,933**	**9,873**
31 December 2017	1,515	2,590	—	4,105	3,829

Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of bills receivables at FVTOCI.

(i) Fair value of the Group's bills receivables at FVTOCI that are measured at fair value on a recurring basis

The Group's bills receivables at FVTOCI are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined.

Financial assets	Fair value as at 31 December 2018	Fair value hierarchy	Valuation techniques and key inputs
Bills receivables at FVTOCI *(Note)*	HK$3,312,000 (2017: N/A)	Level 2	Discounted cash flow method. The key input is market interest rate.

Note: The discounted cash flow method uses only observable market input.

There is no transfer between different levels of the fair value hierarchy for the current period.

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's bills receivables at FVTOCI that are measured at fair value on a recurring basis (Continued)

Fair value hierarchy as at 31 December 2018

		2018		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial asset				
Bills receivables at FVTOCI	—	**3,312**	—	**3,312**

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

The fair values of the financial assets and financial liabilities at amortised cost above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

27. OPERATING LEASES

The Group as lessee

The Group made minimum lease payments in respect of its factory and office premises amounting to approximately HK$1,104,000 (2017: HK$1,071,000).

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**927**	975
In the second to fifth years inclusive	**1,922**	3,904
Over five years	**102**	144
	2,951	5,023

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

The Group as lessor

Rental income of HK$102,000 represented rental received from machineries during the year ended 31 December 2018 (2017: HK$178,000).

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**—**	71

28. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— Acquisition of plant and machinery	**2,375**	2,823

29. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2017 and 2018 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	
	2018 **HK$'000**	2017 HK$'000
Carrying amount of transferred assets	**725**	878
Carrying amount of associated liabilities	**(725)**	(878)
Net position	**—**	—

30. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors and other members of senior management during the year is as follows:

	2018 **HK$'000**	2017 HK$'000
Short-term benefits	**2,047**	1,112
Post-employment benefits	**77**	52
	2,124	1,164

31. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2018, amounted to HK$2,793,000 deposits for acquisition of property, plant and equipment was transferred to property, plant and equipment.

During the year ended 31 December 2017, amount due to shareholder amounting to approximately HK$6,486,000 was capitalised as deemed contribution in special reserve.

32. RETIREMENT BENEFIT PLAN

The Group operates a 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$1,815,000 (2017: HK$1,596,000) represents contributions paid and payable to these plans by the Group at rates specified in the rules of the plan.

33. 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 of incorporation/ establishment	Place of operations	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company		Principal activities
				2018 %	2017 %	
Directly held						
Vertical (BVI)	BVI	Hong Kong	US$1	**100**	100	Investment holding
Indirectly held						
Vertical Technology Company Limited (弘峰科技有限公司)	Hong Kong	Hong Kong	HK$26,486,155	**100**	100	Trading of electronic components
韶關弘峰電子有限公司*	PRC	PRC	HK$4,000,000	**100**	100	Trading of electronic components
東莞首科電子科技有限公司*	PRC	PRC	HK$20,000,000 (2017: HK$10,000,000)	**100**	100	Sales of manufactured aluminum electrolytic capacitors
Vertical Engineering Company Limited	Hong Kong	Hong Kong	HK$10,000	**100**	100	Inactive

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

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current asset		
Investment in a subsidiary	**54,486**	26,486
Current assets		
Other receivable and prepayment	**259**	393
Amounts due from a subsidiary	**864**	1,255
Bank balances and cash	**2,002**	36,018
	3,125	37,666
Current liabilities		
Other payables	**1,230**	1,100
Amounts due to a subsidiary	**39**	38
	1,269	1,138
Net current assets	**1,856**	36,528
Total assets less current liabilities	**56,342**	63,014
	56,342	63,014
Capital and reserves		
Share capital	**8,000**	8,000
Reserves	**48,342**	55,014
	56,342	63,014

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

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
Loss for the year	—	—	(6,672)	(6,672)
At 31 December 2018	8,000	69,172	(20,830)	56,342

Note: Share premium is arisen from acquisition of the entire interest in Vertical (BVI), 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 four 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			
	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**100,373**	109,677	92,774	75,766
Profit before taxation	**7,185**	566	11,433	9,038
Income tax expense	**(2,052)**	(1,173)	(2,307)	(2,388)
Profit (loss) for the year	**5,133**	(607)	9,126	6,650

ASSETS AND LIABILITIES

	As at 31 December			
	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**125,521**	126,997	76,755	68,726
Total liabilities	**(32,378)**	(35,404)	(45,004)	(44,079)
Total equity	**93,143**	91,593	31,751	24,647