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 2020

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

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

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*This report, for which the directors (the "**Directors**") of Vertical International Holdings Limited (the "**Company**") 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

Baker Tilly Hong Kong Limited
2nd Floor
625 King's Road
North Point
Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
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

Dear Shareholder,

On behalf of the Board of Director (the "Board") of Vertical International Holdings Limited (the "Company"; together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2020.

The 2020 year was a challenging year for all businesses, not just the electronic component industry. The COVID-19 pandemic has spread across the world and the economy has experienced unprecedented challenges. Despite a tough operating environment during the year, our Group was still managed to achieve revenue of HK$96.3 million for the year 2020. Considering the adverse impacts of the global economic during the year, the Group's performance was relatively satisfactory and paving the way for a solid foundation future growth.

Although the COVID-19 pandemic continues to affect global capacitor market, the sales of our self-manufactured aluminum electrolytic capacitor products increased by approximately 31.2% to approximately HK$78.2 million this year as a result of taking an aggressive pricing strategy. We are responding to this growth in demand by expanding our production line in our factory in China.

With the growing volume of sales and demand of electronic products, the Group keeps monitoring the need to increase the production capacity and expand the production line in the foreseeable future. The Group continues to take steps to strengthen the production and sales capabilities in the markets and will take advantage of the opportunities by enhancing the supply capacity to meet the growing demand and stepping up development of highly competitive products.

In addition, it is our commitment to pursue customer satisfaction in all areas of production and service while controlling our costs. We will continue to adjust the product mix, sourcing new suppliers and to explore ways to reduce our product costs with the aim to achieve better financial results and to enhance our core competitiveness.

On the investment side, investment based on environmental, social and governance ("ESG") has grown in popularity in the past few years. To capture this opportunity, ESG investing with technology as a focus of our Group's investment strategy and we will start to look for investment opportunities in ESG sector in the coming year.

While to continue developing our businesses, we will also seek to enhance our corporate value by building a valuable relationship with our investors. Share the Group's performance with our shareholder is our management priority, the Board recommends the payment of a final dividend of HK0.15 cents per share for the year (2019: HK0.20 cents). We believe this will eventually maximize our corporate value and strengthen our business structure.

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 2021 continue to be a challenging year for us and the industry. However, like all thing, success is found in advanced preparation, so despite the various challenges, we are in full confidence about the future.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components, including semiconductor devices and passive components.

The global economy in the year 2020 faces numerous issues, including the intensification of the spread of the coronavirus disease 2019 (COVID-19), the declining China economy and its impact on the global market. Many enterprises are suffering from a drop in revenue and profit.

During the year 2020, the Group has continued to expand its overall business with key and new customers and adopted a more aggressive pricing strategy to increase its market share in order to neutralize the impact from COVID-19. The revenue of the Group increased by approximately 17.1% to approximately HK$96.3 million for the year ended 31 December 2020 from approximately HK$82.2 million for the year ended 31 December 2019. The gross profit of the Group decreased by approximately 14.5% to approximately HK$15.2 million for the year ended 31 December 2020 from approximately HK$17.7 million for the year ended 31 December 2019.

Despite short-term pressure on customer's demand due to the overall declining economy, the Group's ability to provide a cost-effective and more flexible supply chain and shorten the production cycle is helping it to build up more long-lasting customer relationships in the medium term which remains the key to the Group's growth momentum. Revenue from sales of the Group's self-manufactured aluminum electrolytic capacitors increased substantially from approximately HK$59.6 million for the year ended 31 December 2019 to approximately HK$78.2 million for the year ended 31 December 2020.

PROSPECTS

Due to the impact of the intensification of the spread of COVID-19, ongoing concerns and uncertainties, global economic growth may further slow down. Although this may pose a new challenge to the Group's business, the Group remains committed to investing in technology development, advancing its technology capabilities and enforcing the competitive advantage, which will help the Group achieve its long-term strategic and financial goals.

The current economic uncertainty is expected to continue. To cope with the challenging business environment, the Group will continuously review its business approach.

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK$96.3 million for the year ended 31 December 2020 from approximately HK$82.2 million for the corresponding year in 2019, representing an increase of approximately 17.1%. Such increase in the Group's revenue was mainly attributable to the Group's aggressive pricing strategy to increase its market share in order to neutralize the impact from COVID-19, the declining China economy and its impact on the global market.

The revenue for the sales of manufactured aluminum electrolytic capacitors increased by approximately HK$18.6 million, from approximately HK$59.6 million for the year ended 31 December 2019 to approximately HK$78.2 million for the year ended 31 December 2020. The revenue derived from sales of trading electronic components decreased to approximately HK$18.1 million for the year ended 31 December 2020 from approximately HK$22.6 million for the year ended 31 December 2019.

Cost of sales

The Group's cost of sales primarily consists of cost of goods sold and other direct costs. The cost of sales increased to approximately HK$81.1 million for the year ended 31 December 2020 from approximately HK$64.4 million for the year ended 31 December 2019, representing an increase of approximately 25.9%. The Group's cost of sales increased along with the growth in revenue for the year ended 31 December 2020.

Gross profit and gross profit margin

The Group's gross profit decreased to approximately HK$15.2 million for the year ended 31 December 2020 from approximately HK$17.7 million for the year ended 31 December 2019, representing a decrease of approximately 14.5%. The Group's gross profit margin dropped from approximately 21.6% for the year ended 31 December 2019 to approximately 15.8% for the year ended 31 December 2020.

Selling and distribution costs

The Group's selling and distribution expenses decreased to approximately HK$2.9 million for the year ended 31 December 2020 from approximately HK$3.2 million for the year ended 31 December 2019, representing a decrease of approximately 10.4%. This decrease was mainly due to decrease in sales commission paid.

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 decreased to approximately HK$11.5 million for the year ended 31 December 2020 from approximately HK$13.3 million for the year ended 31 December 2019, representing a decrease of approximately HK$1.8 million. Such decrease was mainly due to the decrease in consultancy fee, compliance and professional fee.

Income tax expense

Income tax expense increased by approximately HK$0.7 million, from approximately HK$0.5 million for the year ended 31 December 2019 to approximately HK$1.2 million for the year ended 31 December 2020.

Profit for the year

The Group's profit for the year decreased by approximately HK$0.7 million, from approximately HK$1.5 million for the year 31 December 2019 to approximately HK$0.8 million for the year ended 31 December 2020. This was mainly due to a decline in gross profit.

Basic earnings per share

The Company's basic earnings per share dropped 0.09 HK cents as compared with the year ended 31 December 2019. It was due to the decrease of profit for the year ended 31 December 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the Group has total assets of approximately HK$132.8 million (2019: HK$122.5 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$35.4 million (2019: HK$29.3 million) and approximately HK$97.4 million (2019: HK$93.2 million) respectively. The current ratio as at 31 December 2020 of the Group was approximately 2.4 times (2019: 2.7 times).

As at 31 December 2020, the Group had cash and cash equivalents and restricted bank deposit of approximately HK$31.9 million (2019: HK$38.9 million).

The total interest-bearing bank borrowing of the Group as at 31 December 2020 was approximately HK$5.6 million (2019: HK$10.6 million). The gearing ratio (calculated based on lease liabilities and interest bearing bank borrowings, divided by total equity) of the Group as of 31 December 2020 was 0.07 times (2019: 0.15 times).

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2020 are set out in the consolidated statement of changes in equity.

DIVIDENDS

The Board has recommended the payment of a final dividend of 0.15 HK cents per ordinary share for the year ended 31 December 2020 (2019: 0.2 HK cents) out of the share premium account of the Company to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 9 June 2021. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, it is expected that the final dividend will be paid on or around Friday, 2 July 2021.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group did not have any significant capital commitments (2019: HK$nil).

MATERIAL ACQUISITIONS OR DISPOSALS

The Group did not have any material acquisition or disposal during the year ended 31 December 2020.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 December 2019 and 2020.

CHARGES ON GROUP'S ASSETS

As at 31 December 2020, the leasehold land and building with the carrying value of approximately HK$4.7 million (2019: HK$4.9 million) is pledged to a bank to secure banking facilities granted to the Group.

EMPLOYEE INFORMATION

As at 31 December 2020, the Group had 162 full-time employees (2019: 116 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2020 was approximately HK$20.1 million (2019: HK$14.7 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 Group 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**	
	2020	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**—**	5	**6**	1,059
US$	**2,096**	3,677	**2,052**	2,124
RMB	**26**	26	**48**	55

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 2020, the Group did not hold any significant investments (2019: HK$nil).

EVENTS AFTER THE REPORTING PERIOD

On 12 March 2021, the Company entered into a placing agreement with Kingsway Financial Services Group Limited (the "**Placing Agent**"), pursuant to which the Placing Agent agreed, as agent of the Company, to procure, on a best effort basis, not less than six independent third parties to subscribe for up to 160,000,000 shares at the price of HK$0.051 per share ("**Placing**"). Details of the Placing are set out in the Company's announcement dated 12 and 14 March 2021. The placing has not been completed up to date of this report.

Save as disclosed above and in note 11 to the consolidated financial statements and elsewhere in this annual report, the Group does not have other significant events after the reporting period.

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 the 13 November 2017 (the "**Listing Date**") to 31 December 2020 were used as follows:

Use of proceeds	**Planned use of net proceeds (adjusted on a pro rata basis based on the actual net proceeds)** HK$ million	**Planned use of net proceeds up to 31 December 2020 (adjusted on a pro rata basis based on the actual net proceeds)** HK$ million	**Actual use of net proceeds up to 31 December 2020** HK$ million	**Unutilized proceeds as at 31 December 2020** HK$ million	**Expected timeline for fully utilizing the unutilized proceeds**
To increase the production capacity of the Group's chip type aluminum electrolytic capacitors	21.5	21.5	21.5	—	N/A
To establish the second production plant in Dongguan, Guangdong Province, the PRC	6.6	6.6	3.5	3.1	By 31 December 2021 *(Note)*
To continue research and development effort	2.5	2.5	2.5	—	N/A
To promote the Group's branded products	2.3	2.3	2.3	—	N/A
General working capital	1.9	1.9	1.9	—	N/A
	34.8	34.8	31.7	3.1	

Note: As at 31 December 2020, the proceeds of HK$3.5 million were utilized to pay rental and fitting out expenses for the Group's second production plant in Dongguan. The unutilized proceeds of HK$3.1 million as at 31 December 2020 will be used to pay the rental of the second production plant which is expected to be fully utilized by 31 December 2021. The expected timeline for fully utilizing the proceeds have been extended as compared to the initial plan as there was a delay in the rental of the second production plant and the actual rental and renovation costs were lower than anticipated.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Boon Ho Yin Henry (温浩然), aged 45, 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 over 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 36, 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 49, 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 46, was appointed as an independent non-executive Director on 24 October 2017 and is mainly responsible for overseeing the management of our Group independently and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company.

Mr. 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 43, was appointed as an independent non-executive Director on 24 October 2017 and is mainly responsible for overseeing the management of our Group independently and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company.

Mr. 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 and an independent non-executive director of Zhongchang International Holdings Group Limited (中昌國際控股集團有限公司) (Stock code: 859) since 13 May 2020, the shares of which 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 39, 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, a Chartered Governance Professional and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly "The Institute of Chartered Secretaries and Administrators").

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 2020, 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 2020.

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 2020, 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 will be renewed 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 a term of three years commencing from 13 November 2020, unless terminated by not less than three months' notice in writing served by either party.

All the Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings. 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.

The Board shall regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

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 2020:

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

Note: Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

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 2020, the Audit Committee held five meetings 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 2019; quarterly financial results and report for the three months and nine months ended 31 March 2020 and 30 September 2020 respectively; and interim financial results and report for the six months ended 30 June 2020 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 19 March 2021 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 2020 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 2020, the Remuneration Committee held one meeting to review and make recommendations to the Board on the remuneration packages of executive Directors and non-executive Directors, and to review 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 Company's board diversity policy (the "Board Diversity Policy") which has been revised and adopted by the Board on 27 December 2018. 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 relevant criteria as set out in the Company's director nomination policy (the "Director Nomination Policy") necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. The Director Nomination Policy as adopted by the Board sets out the procedure and criteria in the nomination and appointment of Directors.

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

During the year ended 31 December 2020, the Nomination Committee held one meeting to review the structure, size and composition of the Board, the Director Nomination Policy, 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 19 March 2021 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.

Board Diversity Policy

The Board Diversity Policy, which was adopted by the Company on 24 October 2017 and subsequently revised by a Board resolution passed on 27 December 2018, sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile.

In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, length of service and industry and regional experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices of Board positions are appropriately structured so that a diverse range of candidates are considered.

At present, the Nomination Committee considered that the Board is sufficiently diverse. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate and on a regular basis, to ensure its effectiveness.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee. The Company has adopted the Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity aspects under the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, length of service and industry and regional experience;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the GEM Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2020, there was no change in the composition of the Board.

The Nomination Committee will conduct regular review on the Director Nomination Policy, as appropriate, to ensure its effectiveness.

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 2020 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 2020 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	5/5	1/1	1/1	1/1
Mr. Chik Kin Man Paul	4/4	5/5	1/1	1/1	1/1
Mr. Wong Wai Leung	4/4	5/5	N/A	N/A	1/1

Four regular board meetings were held during the year ended 31 December 2020.

On 20 March 2020, the Chairman of the Board held a meeting with the independent non-executive Directors without the presence of other 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 2020, 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 2020.

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 62 to 67.

AUDITOR'S REMUNERATION

Baker Tilly Hong Kong Limited is appointed as the external auditor of the Company, the Audit Committee has been notified of the nature and services charges of non-audit services performed by Baker Tilly Hong Kong Limited's affiliates and considered that such services have no adverse effect on the independence of the external auditor. During the year ended 31 December 2020, the total fees paid/payable in respect of audit services and non-audit services provided by Baker Tilly Hong Kong Limited and its affiliates are set out below:

Services rendered to the Company	**Fees paid and payable** HK$
Audit services:	
2020 annual audit	680,000
Non-audit services:	
Financial due diligence	30,000
Risk advisory services	120,000
Taxation	21,300
	851,300

COMPANY SECRETARY

Ms. Cheung Yuet Fan of Tricor Services Limited, external service provider, has been engaged by the Company as the company secretary. Mr. Boon Ho Yin Henry, Chairman of the Company, is the primary contact person at the Company who would work and communicate with Ms. Cheung on the Company's corporate governance and secretarial and administrative matters. Ms. Cheung has confirmed that for the year ended 31 December 2020, 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 2020. 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 dividend policy (the "Dividend Policy") on payment of dividends, 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.

The Company do not have any pre-determined dividend payout ratio. Depending on the financial results and conditions of the Company and the Group, and the conditions and factors as set out in the Dividend Policy, including but not limited to cash flow situation, business conditions and strategies, future operations and earnings, and capital requirements and expenditure plans of the Group, as well as the interests of Shareholders and any restrictions on payment of dividends, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

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 2020.

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 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 35 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 2020 are set forth in the consolidated financial statements on pages 68 to 69 and 132 of this annual report.

The Board has recommended for the approval of the Shareholders at the forthcoming annual general meeting of the Company (the "**AGM**") for the payment of a final dividend of 0.15 HK cents per Share (2019: 0.2 HK cents) totaling HK$1.2 million for the year ended 31 December 2020 (the "**Proposed Final Dividend**") (2019: HK$1.6 million) out of the Company's share premium account to the Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 9 June 2021.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2020, 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 2020 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 38 to 61.

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 2020.

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 2020, our largest customer accounted for approximately 16.5% (2019: 15.9%) of our total revenue, while the percentage of our total revenue attributable to our five largest customers in aggregate was approximately 53.4% (2019: 53.5%).

For the year ended 31 December 2020, our largest supplier accounted for approximately 7.8% (2019: 9.6%) of our total purchases, while the percentage of our total purchases attributable to our five largest suppliers in aggregate was approximately 30.7% (2019: 40.0%).

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 27 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 2020 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands and subject to the provisions of the Articles, the share premium account of the Company may be applied for distribution to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2020, the aggregate amount of distributable reserves of the Company, including share premium and retained profits of the Company, amounted to approximately HK$48 million (2019: HK$48 million).

SUBSIDIARIES

Details of the subsidiaries of the Company as at 31 December 2020 are set out in note 35 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 31 December 2020 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. Chik Kin Man Paul and Mr. Wong Wai Leung shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from 13 November 2020, 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 32 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 2020.

MANAGEMENT CONTRACTS

During the year ended 31 December 2020, 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.

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 2020 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 2020, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 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 2020, none of the Directors or chief executive of the Company had 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 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 2020, 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 2020, 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 2020, 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 2020, 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 32 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 2020, 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 2020. 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 2020.

DONATIONS

No charitable or other donations were made by the Group during the year (2019: HK$nil).

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 2020 and up to the date of this annual report.

CLOSURE OF REGISTER OF MEMBERS

For attending and voting at the annual general meeting

The register of members of the Company will be closed from Wednesday, 26 May 2021 to Monday, 31 May 2021, both days inclusive, during which period no transfer of shares will be registered. For determining the entitlement of members of the Company to attend and vote at the AGM, all share 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 25 May 2021.

For entitlement of Proposed Final Dividend

The register of members of the Company will be closed from Monday, 7 June 2021 to Wednesday, 9 June 2021, both days inclusive, during which period no transfer of shares will be registered. Subject to the approval by the shareholders of the Company at the AGM, the final dividend will be paid on or around Friday, 2 July 2021 to the shareholders whose names appear on the register of members of the Company on Wednesday, 9 June 2021. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 4 June 2021.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress from Listing Date to 31 December 2020 ("**Review Period**") is set out below:

Business objectives	Actual business progress during the Review Period
— To increase the production capacity of our Group's chip-type aluminum electrolytic capacitors	— The Group has fully utilized the amount for acquiring necessary machinery and equipment.
— To establish the second production plant in Dongguan, Guangdong Province, the PRC	— As at 31 December 2020, the proceeds of HK$3.5 million were utilized to pay rental and fitting out expenses for the Group's second production plant which is expected to be fully utilizing the proceeds by 31 December 2021. The expected timeline for fully utilizing the proceeds have been extended as compared to the initial plan as there was a delay in the rental of the second production plant and the actual rental and renovation costs were lower than anticipated.
— To continue research and development effort	— The Group has fully utilized the amount for recruiting and retaining additional staff, and investing time and resource into research and development department.
— To promote our branded products	— The Group has fully utilized the amount for recruiting 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 38 to 61 in this annual report.

AUDITOR

Baker Tilly Hong Kong Limited has been appointed as the auditor of the Company and has audited the Company's consolidated financial statements for the year ended 31 December 2020.

The Company has not changed its external auditor during the year ended 31 December 2020 and up to the date of this annual report. A resolution will be proposed at the forthcoming AGM for the re-appointment of Baker Tilly Hong Kong Limited as the auditor of the Company.

EVENTS AFTER THE REPORTING DATE

On 12 March 2021, the Company entered into a placing agreement with Kingsway Financial Services Group Limited (the "**Placing Agent**"), pursuant to which the Placing Agent agreed, as agent of the Company, to procure, on a best effort basis, not less than six independent third parties to subscribe for up to 160,000,000 shares at the price of HK$0.051 per share ("**Placing**"). Details of the Placing are set out in the Company's announcements dated 12 and 14 March 2021. The placing has not been completed up to date of this report.

On Behalf of the Board

Boon Ho Yin Henry
Chairman

Hong Kong 19 March 2021

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 2020 to 31 December 2020 (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 19 March 2021.

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.

Preparation Basis of the ESG Report

This ESG Report is prepared in accordance with the ESG Reporting Guide (the "Guide") as set out in Appendix 20 to the GEM Listing Rules on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and complies with all provisions of "Mandatory Disclosure" and "Comply or Explain", as well as the principles of materiality, quantitative, balance and consistency. In preparing the ESG Report, the Group has adopted the international standards and emission factors specified in the guidance materials on Environmental, Social and Governance ("ESG") issued by the Stock Exchange for computing the relevant Key Performance Indicators ("KPIs")[1], there is no change from previous year in the way the Report has been prepared. The application of materiality is detailed in the subsection headed "ESG Management — Materiality Assessment".

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 analyses 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), QC080000:2017 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 28 utility model patents and an invention patent. The team has also submitted 6 applications for the registration of new utility model patents and 2 invention 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.

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1 How to prepare an ESG Report? — Appendix 2: Reporting Guidance on Environmental KPIs, https://www.hkex.com.hk/-/media/hkex-market/listing/rules-and-guidance/other-resources/environmental-social-and-governance/how-to-prepare-an-esg-report/app2_kpis

ESG Management

Statement of the board

As a responsible corporate citizen, the Group acknowledges that prudent environmental and societal management is of great importance to sustainable economic growth. The Report summarizes the strategy, practice and vision of the Group in respect of issues related to ESG, and conveys the Group's devotion for sustainability. To address the global concern about climate change that affects not only the environmental systems but also our daily lives, the Group has considered the climate-related issues and incorporated them into our risk management system to enhance our resilience and adaptive capacity to potential climate change impacts. All potential risks that may have impact on the Group's businesses will be covered and evaluated in the annual enterprise risk assessment.

The Group has established a governance structure to enhance its management of ESG issues. The Board has an overall responsibility for overseeing the Group's ESG-related risks and opportunities, establishing and adopting the ESG-related strategies and targets of the Group, reviewing the Group's performance annually against the targets, and revising the strategies as appropriate if significant variance from the target is identified. In order to exert governance over the ESG issues, the Group has set up an ESG Working Group that comprises of members from middle to senior management, and it serves as a supportive role to the Board in implementing the ESG-related strategies and targets, conducting materiality assessments of ESG issues and prioritise them, and promote the implementation of respective measures. Under the authority of the Board, the ESG Working Group assists in collecting ESG data from respective functional department, monitoring the implementation of the measures, and investigating deviation from the targets and liaise with the respective functional department to take prompt rectification actions.

The Board will continue to review the progress based on the set goals and targets to help building sustainable markets, with broader benefits for the society as a whole.

Governance Structure

Board	•	The Board is responsible for the overall decision-making, oversees the formulation, administration, and assessment of the ESG system.
ESG Working Group	•	The ESG Working Group is responsible for assisting the Board in managing and monitoring the ESG matters on a daily basis.
Functional Department	•	Functional department is responsible for the execution of implemented measures to achieve the set strategies and targets.

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

Materiality Assessment

The Group has identified ESG issue that have potential or actual impact on its sustainable development from various sources, such as issues identified in previous ESG report, internal policies, industry trends and the Sustainability Accounting Standards Board's Materiality Map[2]. The ESG issues have been analysed with reference to an array of factors, including the Group's overall strategy, development, and goals and targets. The Group has conducted a materiality assessment to rate the identified ESG issues that are pertinent to its business and stakeholders, and their respective level of impact. The ESG issues have been identified as follows:

1. Emission and Greenhouse Gas Emission
2. Hazardous Waste and Non-Hazardous Waste
3. Energy and Water Consumption
4. Product Responsibility
5. Health and Safety
6. Supply Chain Management

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.

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2 Sustainability Accounting Standards Board's Materiality Map, https://materiality.sasb.org/

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). Due to the increase in production volume, the amount of emissions has increased compared to the previous reporting period.

	Tin Compounds		**Toluene**		**Xylene**		**Total VOCs**	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Total volume (calculated in kg)	**0.0020**	0.0005	**0.0811**	0.0457	**0.0910**	0.0427	**9.6296**	3.12

Vehicle Emission

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

During the reporting year, the Group has 4 motor vehicles and 1 electric car for transporting of our management and team members. To enhance fuel consumption efficiency, the Group optimizes 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. During the reporting year, Carbon Dioxide Equivalent Emissions decreased by 37.94% due to one of the motor vehicles was disposed in the middle of 2019 as well as the usage of vehicles have decreased significantly owing to the closure of borders checkpoints connecting Hong Kong with the PRC and also the reduction of business social events between PRC provinces that requires travelling.

The vehicle emission of the Group are as follows:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Nitrogen Oxides Emissions (kg)	**4.40**	5.41
Sulphur Dioxide Emissions (kg)	**0.08**	0.08
Particulate Matter Emissions (kg)	**0.32**	0.40
Carbon Dioxide Equivalent Emissions (scope 1 only) (kg)[3]	**11,773.41**	18,972.21

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

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. In order to reduce emissions from our vehicle fleets, the Group acquired an electric vehicle which generates electricity while charging. The following are the greenhouse gas emissions data generated by using outsourced electricity in the production process and our operation:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Power consumption (kWh)	**3,579,478.95**	2,900,597.48
Power consumption density (kWh/sq m)	**929.61**	753.30
Carbon emission (scope 2 only) (metric tonnes of carbon dioxide equivalence)[4]	**2,875.82**	2,434.45
Carbon emission density (metric tonnes of carbon dioxide equivalence/sq m)	**0.75**	0.63

Due to the increase in production volume, the amount of emissions has increased 23% compared to the previous Reporting Period. To uphold the principles of sustainable development, the Group is committed to reduce the impact of its operation on carbon footprints, and aims to maintain the GHG emissions density at/below 0.8 metric tonnes CO_2e per square meters in the next reporting period through adopting the following mitigating measures.

Hazardous Waste

The Group obtained QC080000:2017 certification in 2019 which is valid for three years 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. The Group will make continuous efforts in maintaining the density of total hazardous waste produced at/below 0.013 tonnes per square meters in the next reporting period.

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4 We only include carbon emission in scope 2 (indirect emissions generated from the electricity purchased). According to the emission factor of the 2019 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 0.8042 kg/kWh (2017: 0.84 kg/kWh). According to the CLP Sustainability Reports (as at the latest public information shown in the CLP's website), the carbon dioxide produced by fuel combustion per degree of electricity on average in 2019 was 0.50 kg (2018: 0.51 kg).

The following shows the key performance indicators related to hazardous waste during the Reporting Period:

	Used Packaging Drums and Packaging Cans		Wasted Electrolytes	
	2020	2019	**2020**	2019
Total volume (calculated in tonnes)	**1.74**	2.08	**48.96**	38.37
Non-hazardous waste density (tonnes/sq m)	**0.00046**	0.00055	**0.01288**	0.01009

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	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Total volume (calculated in tonnes)	**11.4160**	6.7890	**40.8870**	23.2420	**3.4800**	2.7090	**1.38**	4.9397
Non-hazardous waste density (tonnes/sq m)	**0.00300**	0.00179	**0.01076**	0.00611	**0.00092**	0.00071	**0.00036**	0.00130

During the Reporting Period, the increase in production leads to an increase in non-hazardous waste. The Group will make continuous efforts in maintaining the density of total non-hazardous waste at/below 0.015 tonnes per square meters in the next reporting period.

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 2020	For the year ended 31 December 2019
Water consumption volume (cm^3)	**5,473.89**	5,763.13
Water consumption density (cm^3/sq m)	**1.4216**[5]	1.4967

The Group will make continuous efforts in working towards the target of maintaining the density of total water consumption at or at/below 1.45 cubic metres per square meters in the next reporting period.

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5 During the Reporting Period, we have not received water bills for our Hong Kong office from the Water Supplies Department of HKSAR from October to December 2020 due to small usage of water.

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

Our products mainly used materials such as paper, paper boxes, partition cardboard, plastic bags, and foam sponge for packaging. During the Reporting Period, approximately 280.07 tonnes of packaging materials were used (2019: 182.18 tonnes), and the intensity of packaging material used was 0.0003 tonnes per square meters.

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

Category of packaging	Paper		Plastic	
	2020	2019	**2020**	2019
Total volume (calculated in tonnes)	**125.30**	92.02	**154.77**	90.16
Packaging materials intensity (tonnes/sq m)	**0.0330**	0.0242	**0.0407**	0.0237

Climate Change

The Group has considered the potential climate-related risks in respect of the recommendations of the Task Force on Climate-related Financial Disclosures, in which potential physical risk and transition risk from climate change may pose adverse financial impacts on the Group's businesses.

Acute physical risk can arise from extreme weather conditions such as flooding and storms and chronic physical risk can arise from sustained high temperature, while transition risk may result from the change in environmental-related regulations or change in customer preferences. Upon evaluation of the potential acute physical risk that may cause disruption to the manufacturing activities and supply network, our office and production plant do not locate in high-risk flood areas and that we maintain a large supplier base so we can source from alternate suppliers in the event of our suppliers being affected by extreme weather conditions. While sustained high temperature may result in an elevation of electricity consumption, the Group has adopted energy conservation measures in managing such risk, which is detailed in the above subsection headed "Environmental — Energy Use Efficiency". As for the potential transition risk, the Group continues to monitor the regulatory environment and the product market to ensure that our products meet customers and regulatory' demand and expectations.

It is expected that potential extreme weather condition, sustained high temperature, change in environmental-related regulations and customer preference do not have a material impact on the Group's operation. Nevertheless, the Group continues to monitor the climate-related risks and implemented relevant measures to minimise the potential physical and transition risks.

CARING THE SOCIETY

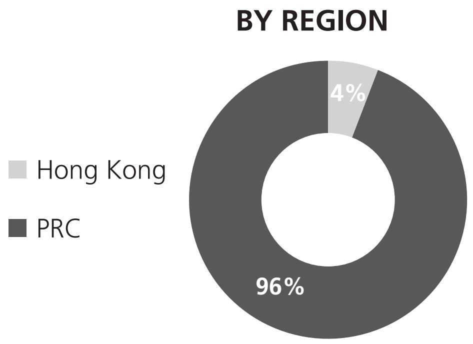
Overview of Employees

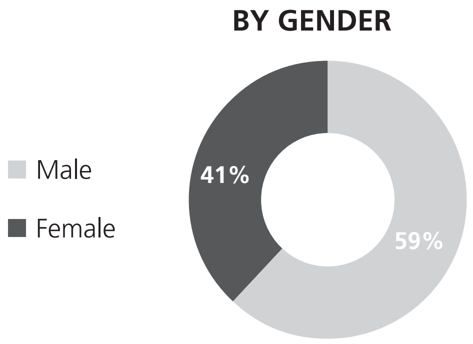
The Group values the personal growth of each employee. It also establishes a variety of communication channels to enhance employee's sense of belonging to the Company. Such practice has attracted specialists from different fields to join, which promotes mutual exchange and helps creating good values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

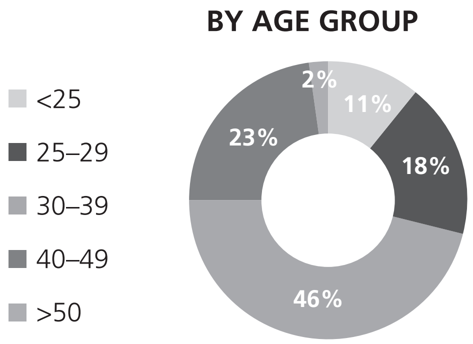
As at 31 December 2020, the Group had a total of 162 employees. Set out below is the statistics of our employees by region, gender, age group and employment type:

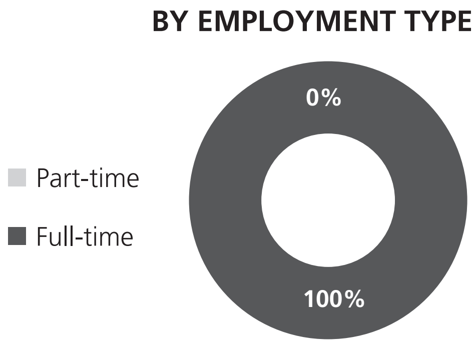
	Number 2020	Percentage 2020
By Region		
Hong Kong	6	4%
Mainland China	156	96%
By Gender		
Male	96	59%
Female	66	41%
By Age Group		
＜25	18	11%
25–29	29	18%
30–39	74	46%
40–49	37	23%
＞50	4	2%
By Employment Type		
Full-time	162	100%
Part-time	0	0%

The breakdown of our workforce by region, gender, age group and employment type is as follows:









Turnover rate

As of 31 December 2020, the employee turnover across the Group was 51 per cent, the details are as follows:

	Number 2020	Percentage of Total Turnover 2020
By Region		
Hong Kong	1	1%
Mainland China	81	99%
By Gender		
Male	58	71%
Female	24	29%
By Age Group		
＜25	27	33%
25–29	15	18%
30–39	23	28%
40–49	14	17%
＞50	3	4%

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 ISO 45001: 2018 "Occupational Health and Safety Management Systems — Requirements with guidance for use" 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.

In the midst of COVID-19 pandemic, the Group has set up a COVID-19 emergency recovery team and developed contingency plans to ensure all practicable preventive and protective measures are in place to minimize occupational risk, including but not limited to employees' and visitors' health declaration, daily temperature check, work from home arrangement, mask wearing and social distancing requirement, provision of masks and sanitizers. There is also a specially formulated plan to guide and manage cross-broader drivers entering the Dongguan production plant. The Group will pay close attention to the latest development and regularly reviews the plans to ensure the plans' continuing suitability.

Over the past three years including the reporting year, no work-related fatality and lost days due to work injury were recorded by the Group. In case any employee encounters any work-related injuries, the Group will take all necessary measures to make sure that proper medical care is offered to the respective employees.

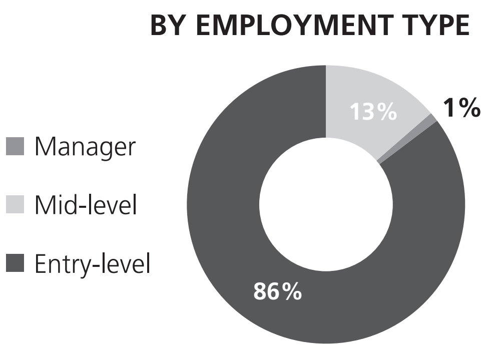
Development and Training

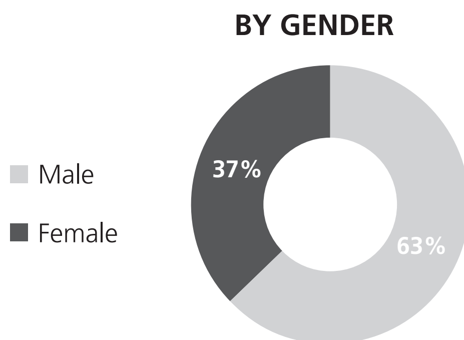
As talent cultivation is critical to the future development of the Group, the Group spares effort in talent development and training. In order to enhance the work ability and efficiency of the employees, the Group offers relevant training to employees according to their rank and department concerned, 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 are as follows:

	Percentage 2020
By Employee Category	
Manager	1%
Mid-level employees	13%
Entry-level employees	86%
By Gender	
Male	63%
Female	37%

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





The average training hours completed per employee of the Group are as follows:

	Hours 2020
By Employee Category	
Manager	5
Mid-level employees	6.25
Entry-level employees	2.59
By Gender	
Male	3.09
Female	3.13

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.

Currently, the Group has a total of 32 suppliers and all are located in the PRC. 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: 2017 concerning the management of hazardous substances in the production process. Also, the Group's quality control department comprised 17 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 15 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.

Intellectual Property

The Group recognises the importance of protecting and enforcing its intellectual property rights, and strictly complies with all relevant laws and regulations that have a significant impact on it including but not limited to the "Trade Marks Ordinance and Copyright Ordinance" in Hong Kong, and "Trademark Law" and "Patent Law" in the PRC. The Group has adopted practices to avoid infringement of intellectual property rights, such as entered into Confidentiality Agreement ("CA") or Non-Disclosure Agreement ("NDA") with its subcontracted manufacturer and employees; and register intellectual property rights that are material to its business operation.

The Group now has 9 trademarks, 28 patents, an invention patent and a domain name that are material to its business.

Privacy Protection

In the course of the Group's business operations, it collects and maintains basic information of its customers, suppliers and employees, any dispatch or use of such data for other purposes is strictly prohibited. The Group has set up rules and formulated Personal Data Policy to handle confidential information and prohibit any leakage of information relating to the Group, its suppliers and its customers to any external parties. The Group's practices in collecting, using and maintaining its information are in line with the "Personal Data (Privacy) Ordinance" in Hong Kong and "Cybersecurity Law" in the PRC.

Complaints and Responses

The Group takes all feedback and complaints from customers seriously and ensures that immediate follow up actions are taken upon receipt of complaints. The Group has established a customer complaint handling procedure, in cases where complaints are received, the quality engineer from the Quality Assurance Department will investigate the incidents and issue a report that outlines the responsible department, the problem analysed, and the corrective actions identified and implemented.

During the Reporting Period, the Group received 14 complaints and all have been resolved after the Group taken the follow-up actions. No products were subjected to recalls due to safety and health reasons.

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", subject to non-disclosure of any personal information, to encourage employees to actively report and disclose corruption, fraud, events that pose threats to the public order or security and related illegal acts. A policy is also in place to provide guidance against corruption for all employee to comply with, 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. The Group encourages employees to participate in community activities to support and care for society.

HKEX Environmental, Social and Governance Guide Content Index

Aspect	Description	Chapter/Section	Remarks
A. Environmental			
A1 Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection	
KPI A1.1	The types of emissions and respective emissions data.	Exhaust Gas Emission Vehicle Emission	
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Greenhouse Gas Emissions	
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Hazardous Waste	
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Non-hazardous Waste	
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Greenhouse Gas Emissions, Energy Efficiency Project	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Hazardous Waste, Non-hazardous Waste	

Aspect	Description	Chapter/Section	Remarks
A2 Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Resource Usage Policy	
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).	Greenhouse Gas Emission	
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Water Resources Management	
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Greenhouse Gas Emission, Water Resources Management, Energy Efficiency Project	
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Resources Management	
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Packaging Materials	
A3 The Environment and Natural Resources			
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Environmental Protection	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Protection	
A4 Climate Change			
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change	
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change	

Aspect	Description	Chapter/Section	Remarks
B. Social			
B1 Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Standards	
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Employment and Labour Standards	
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment and Labour Standards	
B2 Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety	
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Health and Safety	
KPI B2.2	Lost days due to work injury.	Health and Safety	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety	
B3 Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work.	Development and Training	
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training	
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training	

Aspect	Description	Chapter/Section	Remarks
B4 Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Employment and Labour Standards	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	Employment and Labour Standards	
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Employment and Labour Standards	
B5 Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management	
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management	
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management	
B6 Product and Service Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility	
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Complaints and Responses	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property	
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Intellectual Property	

Aspect	Description	Chapter/Section	Remarks
B7 Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	
KPI B7.2	Description of preventive measures, how they are implemented and monitored.	Anti-Corruption	
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-Corruption	
B8 Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment	
PI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Community Investment	
PI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment	

INDEPENDENT AUDITOR'S REPORT

bakertilly
天職國際

Independent auditor's report to the shareholders of
Vertical International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Vertical International Holdings Limited and its subsidiaries (together the "Group") set out on pages 68 to 133, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year 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 2020 and of its consolidated financial performance and 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 judgement, 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 (Continued)

The Key Audit Matter	How the matter was addressed in our audit
Valuation of inventories	
Refer to note 17 of the audited consolidated financial statements	
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 amount of inventories is 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 2020, the carrying amount of inventories is HK$10,460,000 without any allowance for inventories recognised as disclosed in note 4(a) 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's 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 notes.

KEY AUDIT MATTERS (Continued)

The Key Audit Matter	How the matter was addressed in our audit
Valuation of trade receivables	
Refer to note 18 of the audited consolidated financial statements	
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 notes 4(b) and 29(c) to the consolidated financial statements, the impairment under expected credit losses 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 2020, the carrying amount of trade receivables is HK$38,307,000 (net of allowance for credit losses of HK$315,000).	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 trade 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 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 identified above 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 are responsible for the preparation of 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. This report is made solely to you, as a body, 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.

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.

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

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.

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 director on the audit resulting in this independent auditor's report is Tong Wai Hang.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 19 March 2021
Tong Wai Hang
Practising certificate number P06231

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Notes	**2020** **HK$'000**	2019 HK$'000
Revenue	*5*	**96,269**	82,185
Cost of sales		**(81,100)**	(64,439)
Gross profit		**15,169**	17,746
Other income	*6*	**1,713**	1,562
Other gains and losses	*7*	**(165)**	(75)
Selling and distribution costs		**(2,883)**	(3,216)
Administrative expenses		**(11,505)**	(13,299)
Finance costs	*8*	**(363)**	(706)
Profit before taxation	*9*	**1,966**	2,012
Income tax expense	*10*	**(1,162)**	(466)
Profit for the year		**804**	1,546
Other comprehensive income/(expense) for the year			
Item that may be reclassified subsequently to profit or loss:			
— Exchange differences arising on translation of foreign operations, net of nil tax		**4,903**	(1,315)
Total comprehensive income for the year		**5,707**	231
Earnings per share			
		HK cents	HK cents
Basic and diluted	*13*	**0.10**	0.19

The notes on pages 73 to 133 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Notes	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment	*14*	**43,283**	42,335
Right-of-use assets	*15*	**1,220**	3,439
Intangible assets	*16*	**2,000**	—
		46,503	45,774
Current assets			
Inventories	*17*	**10,460**	9,365
Trade and bills receivables	*18*	**38,307**	25,072
Bills receivables at fair value through other comprehensive income	*19*	**1,168**	447
Deposits, prepayments and other receivables	*20*	**4,416**	2,930
Bank balances and cash	*21*	**31,923**	38,919
		86,274	76,733
Current liabilities			
Trade and bills payables	*22*	**21,576**	10,058
Other payables and accruals	*23*	**5,303**	3,616
Tax payable		**1,811**	1,380
Lease liabilities	*24*	**952**	2,453
Bank borrowings	*25*	**5,573**	10,646
		35,215	28,153
Net current assets		**51,059**	48,580
Total assets less current liabilities		**97,562**	94,354
Non-current liabilities			
Lease liabilities	*24*	**205**	1,104
NET ASSETS		**97,357**	93,250
Capital and reserves	*27*		
Share capital		**8,000**	8,000
Reserves		**89,357**	85,250
TOTAL EQUITY		**97,357**	93,250

The consolidated financial statements on pages 68 to 133 were approved and authorised for issue by the Board of Directors on 19 March 2021 and are signed on its behalf by:

Boon Ho Yin Henry
Director

Chow Cheung Chu
Director

The notes on pages 73 to 133 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Share capital HK$'000	Share premium HK$'000 (note 27(b)(i))	Statutory reserve HK$'000 (note 27(b)(ii))	Exchange reserve HK$'000 (note 27(b)(iii))	Retained profits HK$'000	Total HK$'000
At 1 January 2019	8,000	69,172	10,000	(2,460)	8,307	93,019
Changes in equity for 2019:						
Profit for the year	—	—	—	—	1,546	1,546
Other comprehensive expense for the year	—	—	—	(1,315)	—	(1,315)
Total comprehensive (expense)/ income for the year	—	—	—	(1,315)	1,546	231
At 31 December 2019 and 1 January 2020	8,000	69,172	10,000	(3,775)	9,853	93,250
Changes in equity for 2020:						
Profit for the year	**—**	**—**	**—**	**—**	**804**	**804**
Other comprehensive income for the year	**—**	**—**	**—**	**4,903**	**—**	**4,903**
Total comprehensive income for the year	**—**	**—**	**—**	**4,903**	**804**	**5,707**
Dividends paid *(note 11)*	**—**	**(1,600)**	**—**	**—**	**—**	**(1,600)**
At 31 December 2020	**8,000**	**67,572**	**10,000**	**1,128**	**10,657**	**97,357**

The notes on pages 73 to 133 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Notes	2020 HK$'000	2019 HK$'000
Operating activities			
Profit before taxation		**1,966**	2,012
Adjustments for:			
— Depreciation of property, plant and equipment	*5(c)*	**824**	914
— Depreciation of right-of-use assets	*5(c)*	**143**	136
— Loss on write off/disposal of property, plant and equipment	*7*	**32**	28
— Impairment loss recognised on trade receivables	*7*	**145**	51
— Write off of trade receivables	*9*	**—**	8
— Interest expense	*8*	**363**	706
— Interest income	*6*	**(197)**	(289)
Operating profit before working capital changes		**3,276**	3,566
Decrease in inventories		**5,889**	13,113
Increase in trade and bills receivables		**(11,238)**	(3,714)
(Increase)/decrease in bills receivables at fair value through other comprehensive income		**(721)**	2,865
Increase in deposits, prepayments and other receivables		**(1,411)**	(1,201)
Increase/(decrease) in trade and bills payables		**10,373**	(1,682)
Increase/(decrease) in other payables and accruals		**1,419**	(5,467)
Net cash generated from operations		**7,587**	7,480
PRC Enterprise Income Tax paid		**(841)**	(510)
Hong Kong Profits Tax refunded		**—**	7
Net cash generated from operating activities		**6,746**	6,977
Investing activities			
Purchase of property, plant and equipment		**(3,670)**	(4,204)
Purchase of intangible assets		**(2,000)**	—
Withdrawal/(placement) of restricted bank deposits		**1,012**	(2,757)
Interest received		**197**	289
Proceeds from disposal of property, plant and equipment		**49**	130
Net cash used in investing activities		**(4,412)**	(6,542)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Notes	2020 HK$'000	2019 HK$'000
Financing activities			
Repayment of bank borrowings		**(5,073)**	(6,644)
Repayment of lease liabilities		**(2,469)**	(2,220)
Interest paid		**(363)**	(706)
Dividends paid		**(1,600)**	—
New bank borrowings raised		**—**	7,417
Net cash used in financing activities		**(9,505)**	(2,153)
Net decrease in cash and cash equivalents		**(7,171)**	(1,718)
Cash and cash equivalents at beginning of the year	*21*	**33,606**	35,602
Effect of foreign exchange rate changes		**1,187**	(278)
Cash and cash equivalents at end of the year, represented by bank balances and cash	*21*	**27,622**	33,606

The notes on pages 73 to 133 form part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 COMPANY INFORMATION

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 Company has its registered office and principal place of business at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Unit 2212, 22/F, Global Gateway Tower, 63 Wing Hong Street, Cheung Sha Wan, Hong Kong respectively.

The Company acts as an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components.

At 31 December 2020, the immediate and ultimate holding company of the Company is Vertical Technology Investment Limited, a company incorporated in the British Virgin Islands ("BVI"). Its ultimate controlling party is Mr. Boon Ho Yin Henry, who is also the chairman and chief executive officer of the Company.

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

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

(a) New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

Amendments to HKFRS 3 "Definition of a Business"

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

(Expressed in Hong Kong dollars)

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

(a) New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

Amendments to HKFRS 3 "Definition of a Business" (Continued)

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no material impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

(b) 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 17	Insurance Contracts and the related Amendments[1]
Amendment to HKFRS 16	COVID-19 — Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

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

(b) New and amendments to HKFRSs in issue but not yet effective (Continued)

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.

Amendment to HKFRS 16 "COVID-19 — Related Rent Concessions"

The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19 related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

(i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(iii) there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 "Leases" if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application is not expected to have impact on the Group's financial position and performance as the Group does not intend to apply the practical expedient.

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 (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for bills receivables at fair value through other comprehensive income that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 these 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 accounted for in accordance with HKFRS 16, 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:

(i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(ii) 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

(iii) Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

(a) 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:

(i) has power over the investee;

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

(iii) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(b) Revenue from contracts with customers

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.

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:

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(ii) the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

(iii) 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 the 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

(i) the amount of the initial measurement of the lease liability;

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the Group; and

(iv) an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets (Continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

(i) fixed payments (including in-substance fixed payments) less any lease incentives receivable;

(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(iii) amounts expected to be payable by the Group under residual value guarantees;

(iv) the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and

(v) payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

(i) the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

(ii) the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

(i) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(ii) the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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 on 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 operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

(e) 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.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

(f) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Government grants (Continued)

Government grants related to income 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. Such grants are presented under "other income".

(g) 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 services entitling them to the contributions.

Short-term and other long-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.

(h) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same tax authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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.

(j) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Intangible assets (Continued)

Research expenditure

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

(k) Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these 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. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount 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 established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established.

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 a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where 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 a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated 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.

(m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

(n) 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 market place.

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 “Revenue from Contracts with Customers”. 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)

(n) Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

(ii) 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 fair value through other comprehensive income ("FVTOCI"):

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

(ii) 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 or loss, except that at 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (Continued)

Financial assets (Continued)

Bills receivables classified as 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. When these receivables are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and bills receivables, deposits, other receivables and bank balances) which are subject to impairment under HKFRS 9. 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, 12-month ECL ("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.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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;

— 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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:

— significant financial difficulty of the issuer or the borrower;

— a breach of contract, such as a default or past due event;

— 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;

— it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

— 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(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 and 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. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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.

Lifetime ECL for certain trade and bills receivables, deposits, other receivables and bank balances are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

— 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 OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (Continued)

Financial assets (Continued)

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 accruals, lease liabilities and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any members of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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 judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other 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 and liabilities within the next financial year.

(a) 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 2020, the carrying amounts of inventories were approximately HK$10,460,000 (2019: HK$9,365,000). No allowance for inventories was recognised for the years ended 31 December 2020 and 2019.

(b) Provision of ECL for trade receivables

The Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportably available 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, trade receivables with certain balances that are credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. Due to the financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates. The information about the ECL and the Group's trade receivables are disclosed in note 29(c)(iii).

As at 31 December 2020, the carrying amounts of trade receivables were approximately HK$38,307,000 (2019: HK$23,641,000), net of allowance for credit losses of approximately HK$315,000 (2019: HK$170,000).

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 customers' 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 "Operating Segments".

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 goods delivered. Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(i) 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.

(ii) Trading of electronic components

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

During the years ended 31 December 2020 and 2019, all performance obligations for sales of manufactured aluminum electrolytic capacitors and trading of electronic components are for a 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 2020 and 2019 is not disclosed.

(Expressed in Hong Kong dollars)

5 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Segment results

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 from each segment without allocation of unallocated expenses (including administrative expenses and selling and distribution costs), other income, other gains and losses, finance costs and income tax expense. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

	2020		
	Sales of manufactured aluminum electrolytic capacitors HK$'000	**Trading of electronic components HK$'000**	**Total HK$'000**
Segment revenue			
External sales	**78,163**	**18,106**	**96,269**
Results			
Segment profit	**12,453**	**2,716**	**15,169**
Unallocated expenses			**(14,388)**
Other income			**1,713**
Other gains and losses			**(165)**
Finance costs			**(363)**
Profit before taxation			**1,966**

5 REVENUE AND SEGMENT INFORMATION (Continued)

(a) Segment results (Continued)

	2019		
	Sales of manufactured aluminum electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
Segment revenue			
External sales	59,600	22,585	82,185
Results			
Segment profit	15,431	2,315	17,746
Unallocated expenses			(16,515)
Other income			1,562
Other gains and losses			(75)
Finance costs			(706)
Profit before taxation			2,012

There were no inter-segment sales in both years.

(b) Segment assets and liabilities

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(c) Other segment information

	2020		
	Sales of manufactured aluminum electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
Amounts included in the measure of segment results:			
Impairment loss on trade receivables	134	11	145
Depreciation of property, plant and equipment	4,194	—	4,194
Depreciation of right-of-use assets	2,259	—	2,259
Amounts regularly provided to the CODM but not included in the measurement of segment results:			
Additions to intangible assets	—	2,000	2,000
Additions to property, plant and equipment	3,670	—	3,670
Depreciation of property, plant and equipment	142	682	824
Depreciation of right-of-use assets	8	135	143

5 REVENUE AND SEGMENT INFORMATION (Continued)

(c) Other segment information (Continued)

	2019		
	Sales of manufactured aluminum electrolytic capacitors HK$'000	Trading of electronic components HK$'000	Total HK$'000
Amounts included in the measure of segment results:			
Impairment loss on trade receivables	45	6	51
Write off of trade receivables	—	8	8
Depreciation of property, plant and equipment	3,796	—	3,796
Depreciation of right-of-use assets	2,123	—	2,123
Amounts regularly provided to the CODM but not included in the measurement of segment results:			
Additions to property, plant and equipment	5,635	21	5,656
Additions to right-of-use assets	2,814	676	3,490
Depreciation of property, plant and equipment	140	774	914
Depreciation of right-of-use assets	42	94	136

(d) Geographical information

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

	2020 HK$'000	2019 HK$'000
Hong Kong	**5,123**	7,841
PRC	**82,983**	61,799
Japan	**7,878**	11,881
Other Asian regions *(note)*	**285**	664
	96,269	82,185

Note: Revenue generated from Asian regions, other than Hong Kong, the PRC and Japan, are mainly derived from sales to Vietnam and Macau based customers.

5 REVENUE AND SEGMENT INFORMATION (Continued)

(d) 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, right-of-use assets and intangible assets), analysed by the geographical area in which the assets are located:

	2020 **HK$'000**	2019 HK$'000
Hong Kong	**7,746**	5,612
PRC	**38,757**	40,162
	46,503	45,774

(e) Information about major customers

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

	2020 **HK$'000**	2019 HK$'000
Customer A *(note 1)*	**15,843**	13,061
Customer B *(note 1)*	**15,431**	11,674
Customer C *(note 2)*	**N/A#**	11,881

Note 1: Revenue from sales of manufactured aluminum electrolytic capacitors.

Note 2: Revenue from trading of electronic components.

\# Revenue did not contribute 10% or more of the total revenue for the year ended 31 December 2020.

6 OTHER INCOME

	2020 HK$'000	2019 HK$'000
Government grants *(note)*	**424**	316
Scrap sales	**202**	153
Bank interest income	**197**	289
Handling charges income	**557**	591
Sundry income	**333**	213
	1,713	1,562

Note: Government grants during the year ended 31 December 2020 mainly represent subsidy related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region in respect of COVID-19 related subsidies. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

Government grants during the year ended 31 December 2019 represented 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

	2020 HK$'000	2019 HK$'000
Net foreign exchange gain	**12**	4
Impairment loss recognised on trade receivables	**(145)**	(51)
Loss on write off/disposal of property, plant and equipment	**(32)**	(28)
	(165)	(75)

8 FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest on bank borrowings	**221**	444
Interest on lease liabilities	**142**	262
	363	706

9 PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2020 HK$'000	2019 HK$'000
Cost of inventories recognised as expenses	**76,956**	60,225
Depreciation of property, plant and equipment	**5,018**	4,710
Depreciation of right-of-use assets	**2,402**	2,259
	7,420	6,969
Depreciation capitalised in inventories	**(6,453)**	(5,919)
	967	1,050
Employee benefit expense (including directors' remuneration *(note 12)*)		
Wages and salaries	**19,228**	12,915
Contributions to retirement benefits schemes	**829**	1,783
	20,057	14,698
Minimum lease payments of rented premises	**49**	44
Auditor's remuneration	**680**	700
Research and development expenses (included in cost of sales)	**4,144**	4,214
Write off of trade receivables	**—**	8

10 INCOME TAX EXPENSE

	2020 HK$'000	2019 HK$'000
Current tax:		
PRC Enterprise Income Tax	**1,162**	929
Over provision in prior years:		
PRC Enterprise Income Tax	**—**	(424)
Deferred tax credit *(note 26)*	**—**	(39)
	1,162	466

10 INCOME TAX EXPENSE (Continued)

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 rate regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rate 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 the group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

No provision for taxation in Hong Kong has been made for the year (2019: HK$nil) as the Company and subsidiaries incorporated in Hong Kong have no assessable profits for the year.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

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% since 2016.

The income tax expense for the year can be reconciled to the profit before taxation as follows:

	2020 **HK$'000**	2019 HK$'000
Profit before taxation	**1,966**	2,012
Tax at the applicable tax rate of 15% (2019: 15%)	**295**	302
Tax effect of expenses not deductible for tax purpose	**187**	307
Tax effect of income not taxable for tax purpose	**(108)**	(34)
Tax effect of different tax rates of subsidiaries operating in other jurisdiction	**(64)**	(150)
Over provision in prior years, net	**—**	(424)
Tax effect of deductible temporary differences not recognised	**(87)**	—
Tax effect of tax losses not recognised	**939**	471
Utilisation of tax losses previously not recognised	**—**	(6)
	1,162	466

11 DIVIDENDS

During the year ended 31 December 2020, a final dividend of 0.2 HK cents per ordinary share in respect of the year ended 31 December 2019 (2019: HK$nil), was declared and paid to the shareholders of the Company. The aggregate amount of final dividend paid from share premium of the Company during the year amounted to approximately HK$1,600,000.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of 0.15 HK cents (2019: 0.2 HK cents) per ordinary share, in an aggregate amount of HK$1,200,000 (2019: HK$1,600,000) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

The aggregate amount of the proposed final dividend of HK$1,200,000 (2019: HK$1,600,000) in respect of the year ended 31 December 2020 has been calculated by reference to 800,000,000 shares (2019: 800,000,000 shares) in issue.

12 EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND EMPLOYEES

(a) Directors and chief executive

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

	2020				
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related bonus *(note)* HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000
Executive directors					
Mr. Boon Ho Yin Henry	683	1,076	136	18	1,913
Ms. Chow Cheung Chu	642	—	52	18	712
	1,325	1,076	188	36	2,625
Independent non-executive directors					
Mr. Liu Kwan	66	—	—	—	66
Mr. Chik Kin Man Paul	66	—	—	—	66
Mr. Wong Wai Leung	132	—	—	—	132
	264	—	—	—	264
	1,589	1,076	188	36	2,889

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

(a) Directors and chief executive (Continued)

	2019				
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related bonus *(note)* HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000
Executive directors					
Mr. Boon Ho Yin Henry	618	1,076	164	18	1,876
Ms. Chow Cheung Chu	618	—	93	18	729
	1,236	1,076	257	36	2,605
Independent non-executive directors					
Mr. Liu Kwan	60	—	—	—	60
Mr. Chik Kin Man Paul	60	—	—	—	60
Mr. Wong Wai Leung	120	—	—	—	120
	240	—	—	—	240
	1,476	1,076	257	36	2,845

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)

(b) Employees

The five highest paid individuals of the Group during the year include two (2019: two) directors, details of whose remunerations are set out in note 12(a). Details of the remuneration for the year of the remaining three (2019: three) highest paid individuals who are neither director nor chief executive of the Company are as follows:

	2020	2019
	HK$'000	HK$'000
Salaries and allowance	**1,168**	1,529
Performance related bonus *(note)*	**47**	66
Contributions to retirement benefits schemes	**39**	62
	1,254	1,657

Note: The performance related bonus is determined with reference to the operating results 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:

	2020 Number of employees	2019 Number of employees
Nil to HK$1,000,000	**3**	3

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 years ended 31 December 2020 and 2019. None of the director waived or agreed to waive any emoluments for both years.

13 EARNINGS PER SHARE

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

	2020	2019
	HK$'000	HK$'000
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year)	**804**	1,546

	2020	2019
	Number of shares	Number of shares
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**800,000**	800,000

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the years ended 31 December 2020 and 2019.

(Expressed in Hong Kong dollars)

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 2019	5,573	283	1,232	46,466	2,122	—	55,676
Currency realignment	—	—	(21)	(815)	(8)	—	(844)
Additions	—	7	427	5,210	—	12	5,656
Transfer	—	—	—	12	—	(12)	—
Written off/disposal	—	(6)	(2)	(345)	(525)	—	(878)
At 31 December 2019 and 1 January 2020	**5,573**	**284**	**1,636**	**50,528**	**1,589**	**—**	**59,610**
Currency realignment	**—**	**—**	**79**	**3,149**	**30**	**—**	**3,258**
Additions	**—**	**—**	**107**	**2,024**	**—**	**1,539**	**3,670**
Transfer	**—**	**—**	**—**	**1,539**	**—**	**(1,539)**	**—**
Written off/disposal	**—**	**(64)**	**(87)**	**(12)**	**—**	**—**	**(163)**
At 31 December 2020	**5,573**	**220**	**1,735**	**57,228**	**1,619**	**—**	**66,375**
Depreciation							
At 1 January 2019	521	187	608	10,690	1,441	—	13,447
Currency realignment	—	—	(8)	(151)	(3)	—	(162)
Provided for the year	169	44	198	4,030	269	—	4,710
Elimination on written off/ disposal	—	(4)	(2)	(189)	(525)	—	(720)
At 31 December 2019 and 1 January 2020	**690**	**227**	**796**	**14,380**	**1,182**	**—**	**17,275**
Currency realignment	**—**	**—**	**42**	**821**	**18**	**—**	**881**
Provided for the year	**169**	**44**	**245**	**4,345**	**215**	**—**	**5,018**
Elimination on written off/ disposal	**—**	**(64)**	**(18)**	**—**	**—**	**—**	**(82)**
At 31 December 2020	**859**	**207**	**1,065**	**19,546**	**1,415**	**—**	**23,092**
Carrying values							
At 31 December 2020	**4,714**	**13**	**670**	**37,682**	**204**	**—**	**43,283**
At 31 December 2019	4,883	57	840	36,148	407	—	42,335

(Expressed in Hong Kong dollars)

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for CIP, after taking into account the residual values, are depreciated on a straight-line basis 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$4,714,000 (2019: HK$4,883,000) is pledged to a bank to secure banking facilities of HK$10,973,000 (2019: HK$12,260,000) granted to the Group.

(Expressed in Hong Kong dollars)

15 RIGHT-OF-USE ASSETS

	Leased properties HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost			
At 1 January 2019	2,217	—	2,217
Currency realignment	(42)	—	(42)
Additions	2,814	676	3,490
At 31 December 2019 and 1 January 2020	**4,989**	**676**	**5,665**
Currency realignment	**332**	**—**	**332**
At 31 December 2020	**5,321**	**676**	**5,997**
Depreciation			
At 1 January 2019	—	—	—
Currency realignment	(33)	—	(33)
Provided for the year	2,165	94	2,259
At 31 December 2019 and 1 January 2020	**2,132**	**94**	**2,226**
Currency realignment	**149**	**—**	**149**
Provided for the year	**2,267**	**135**	**2,402**
At 31 December 2020	**4,548**	**229**	**4,777**
Carrying values			
At 31 December 2020	**773**	**447**	**1,220**
At 31 December 2019	2,857	582	3,439

For both years, the Group leases various offices, factories and motor vehicles for its operations. Lease contracts are entered into for fixed term of 5 years (2019: 2 years to 5 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Company has issued a corporate guarantee in respect of the motor vehicles under leases at 3.5% per annum (2019: 3.3%–3.5% per annum) with the carrying amount of approximately HK$270,000 (2019: HK$582,000) as at 31 December 2020.

16 INTANGIBLE ASSETS

	Dealership agreement HK$'000
Cost	
At 1 January 2019, 31 December 2019 and 1 January 2020	—
Additions	2,000
At 31 December 2020	**2,000**
Amortisation	
At 1 January 2019, 31 December 2019 and 1 January 2020	—
Provided for the year	—
At 31 December 2020	**—**
Carrying values	
At 31 December 2020	**2,000**
At 31 December 2019	—

The Group's dealership agreement was acquired from an independent third party and is amortised on a straight-line basis over 15 years.

It will be tested for impairment annually and whenever there is an indication that it may be impaired.

The recoverable amount of the dealership agreement has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15%. Dealership agreement's cash flow beyond the 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. The cash flow projections, growth rates and discount rate have been reassessed as at 31 December 2020 taking into consideration higher degree of estimation uncertainties in the current year due to the COVID-19 pandemic may progress and evolve and volatility in financial markets.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying value of the dealership agreement to exceed its recoverable amount.

17 INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials and consumables	**4,135**	4,619
Work in progress	**3,420**	2,918
Finished goods	**2,905**	1,828
	10,460	9,365

18 TRADE AND BILLS RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	**38,622**	23,811
Less: Allowance for credit losses	**(315)**	(170)
	38,307	23,641
Bills receivables	**—**	1,431
	38,307	25,072

The credit period allowed by the Group to its customers was up to 90 days (2019: 90 days) from the date of issuing invoice. The following is an aged analysis of trade receivables based on the delivery dates which is the revenue recognition point, net of allowance for credit losses at the end of each reporting period:

	2020 HK$'000	2019 HK$'000
0 to 30 days	**11,738**	7,196
31 to 60 days	**10,502**	6,132
61 to 90 days	**7,487**	5,060
91 to 180 days	**6,960**	4,780
181 days to 1 year	**1,620**	473
	38,307	23,641

18 TRADE AND BILLS RECEIVABLES (Continued)

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 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$13,510,000 (2019: HK$8,351,000) which are past due but not considered as in default based on good repayment records for those customers and continuous business with the Group. The following table provides information about the Group's exposure to credit risk of trade receivables as at 31 December 2020:

	2020	2019
	HK$'000	HK$'000
Current (not past due)	**24,797**	15,290
Less than 90 days past due	**11,418**	7,895
90 days to 1 year past due	**2,092**	456
	38,307	23,641

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.

Refer to note 29(c)(iii) 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:

	2020	2019
	HK$'000	HK$'000
Denominated in Hong Kong Dollars ("HK$")	**—**	1,053
Denominated in United States Dollars ("US$")	**2,051**	692
Denominated in Renminbi ("RMB")	**—**	2

19 BILLS RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	2020 **HK$'000**	2019 HK$'000
61 to 90 days	**—**	56
91 to 180 days	**1,168**	391
	1,168	447

20 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2020 **HK$'000**	2019 HK$'000
Prepayments	**2,566**	2,045
Other receivables	**312**	487
Deposits	**1,538**	398
	4,416	2,930

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.

21 BANK BALANCES AND CASH

	2020 **HK$'000**	2019 HK$'000
Cash on hand and at bank	**27,622**	33,606
Restricted bank deposits	**4,301**	5,313
	31,923	38,919

Bank balances and cash carry interests at variable rates ranging from 0.01% to 1.30% (2019: 0.01% to 1.30%) per annum.

21 BANK BALANCES AND CASH (Continued)

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 of HK$1,256,000 (2019: HK$2,279,000) and bank borrowings of HK$nil (2019: HK$981,000) and are therefore classified as current assets. The restricted bank deposits carry interests at variable rates of 0.12% to 1.13% (2019: 1.13% to 1.30%) per annum. Restricted bank deposits of HK$1,256,000 (2019: HK$2,279,000) will be released upon settlement of bills payables.

For the year ended 31 December 2020, the Group performed impairment assessment on bank balances and cash and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided (2019: nil).

22 TRADE AND BILLS PAYABLES

	2020 **HK$'000**	2019 HK$'000
Trade payables	**20,320**	7,779
Bills payables	**1,256**	2,279
	21,576	10,058

The credit period of trade payables granted by suppliers ranged from 0 to 90 days (2019: 0 to 90 days) upon the issue of invoices.

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

	2020 **HK$'000**	2019 HK$'000
0 to 30 days	**5,807**	3,877
31 to 60 days	**6,509**	2,570
61 to 90 days	**5,123**	893
91 to 180 days	**2,717**	284
181 days to 1 year	**164**	155
	20,320	7,779

22 TRADE AND BILLS PAYABLES (Continued)

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

	2020 HK$'000	2019 HK$'000
0 to 30 days	—	2,279
61 to 90 days	1,256	—
	1,256	2,279

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

	2020 HK$'000	2019 HK$'000
Denominated in United States Dollars ("US$")	2,079	1,782
Denominated in Renminbi ("RMB")	26	243

23 OTHER PAYABLES AND ACCRUALS

	2020 HK$'000	2019 HK$'000
Other payables	778	455
Value added tax payables	1,663	896
Accrued staff salaries and allowance	1,589	1,026
Accrued expenses	1,273	1,239
	5,303	3,616

24 LEASE LIABILITIES

	2020 HK$'000	2019 HK$'000
Lease liabilities payable:		
Within one year	**952**	2,453
After one year but within two years	**95**	899
After two years but within five years	**110**	205
	1,157	3,557

25 BANK BORROWINGS

	2020 HK$'000	2019 HK$'000
Bank borrowings, secured	**5,573**	6,860
Trust receipt loans, secured	**—**	2,355
Bills discounted with recourse, secured	**—**	1,431
	5,573	10,646
Carrying amount repayable, based on scheduled repayment:		
— Within one year	**1,352**	5,022
— After one year but within two years	**1,376**	1,524
— After two years but within five years	**1,816**	2,744
— Over five years	**1,029**	1,356
	5,573	10,646
Less: Amounts included under current liabilities (including bank borrowings with a repayable on demand clause)	**(5,573)**	(10,646)
	—	—

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) is from 2.36% to 5.28% (2019: 2.40% to 5.28%).

Bank borrowings amounting to HK$5,573,000 (2019: HK$10,646,000) were secured by the Group's leasehold land and building, bills receivables and restricted bank deposits as set out in notes 14, 18 and 21 respectively.

26 DEFERRED TAX LIABILITIES

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

	2020 **HK$'000**	2019 HK$'000
Accelerated tax depreciation		
At 1 January	—	39
Credited to profit or loss	—	(39)
At 31 December	—	—

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 temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$53,025,000 (2019: HK$48,880,000), 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$18,606,000 (2019: HK$12,913,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses may be carried forward indefinitely.

27 CAPITAL AND RESERVES

(a) Share capital

	Number of shares '000	**Amount** HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2019 and 2020	5,000,000	50,000
Issued and fully paid:		
At 31 December 2019 and 2020	800,000	8,000

27 CAPITAL AND RESERVES (Continued)

(b) Nature and purpose of reserves

(i) Share premium

Under the Companies Law, Chapter 22 of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall in the ordinary course of business.

(ii) Statutory reserve

Amount represents statutory reserve of the subsidiaries in 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.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong which are dealt with in accordance with the accounting policies as set out in note 3(d).

28 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 lease liabilities and bank borrowings, disclosed in notes 24 and 25 respectively, 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.

29 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 HK$'000	2019 HK$'000
Financial assets		
Financial assets at amortised cost	**72,080**	64,876
Bills receivables at FVTOCI	**1,168**	447
Financial liabilities		
Financial liabilities at amortised cost	**31,946**	26,981

(b) Financial risk management objectives and policies

The Group's major financial instruments trade and bills receivables, deposits, other receivables, bank balances and cash, bills receivables at FVTOCI, trade and bills payables, other payables and accruals, bank borrowings and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (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 of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Market risks

(i) 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.

	2020 HK$'000	2019 HK$'000
Assets:		
HK$	**6**	1,059
US$	**2,052**	2,124
RMB	**48**	55
Liabilities:		
HK$	—	5
US$	**2,096**	3,677
RMB	**26**	26

29 FINANCIAL INSTRUMENTS (Continued)

(c) Market risks (Continued)

(i) Currency risk (Continued)

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.

(ii) 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 21 and 25 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 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.

(Expressed in Hong Kong dollars)

29 FINANCIAL INSTRUMENTS (Continued)

(c) Market risks (Continued)

(iii) Credit risk and impairment assessment

As at 31 December 2020, 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 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 38% (2019: 45%) of the total gross trade receivables was due from the Group's trade debtors which is over 10% (2019: 10%) of the total gross trade receivables, and 55% (2019: 57%) 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 receivables which is over 10% of the total gross trade receivables at end of each reporting period is as follows:

	% of total trade receivables	
	2020	2019
Customer A	**27**	28
Customer B	**11**	17

29 FINANCIAL INSTRUMENTS (Continued)

(c) Market risks (Continued)

(iii) 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	Lifetime ECL — not credit impaired
Group D	There is evidence indicating the asset is credit-impaired.	Lifetime ECL — credit impaired	Lifetime 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

(Expressed in Hong Kong dollars)

29 FINANCIAL INSTRUMENTS (Continued)

(c) Market risks (Continued)

(iii) Credit risk and impairment assessment (Continued)

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

Financial assets at amortised cost	*Notes*	External credit rating	Internal credit rating	12-month or lifetime ECL
Trade receivables	*18*	N/A	*(note 1)*	Lifetime ECL — provision matrix
			Group D	Lifetime ECL — credit-impaired
Bills receivables	*18*	A+	N/A	12-month ECL
Deposits and other receivables	*20*	N/A	*(note 2)*	12-month ECL
Bank balances	*21*	A — A+	N/A	12-month ECL

Note 1: 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.

Note 2: 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.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL.

	2020			
	Average loss rate	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Internal credit rating				
Group A	**0.3%**	**33,790**	**(115)**	**33,675**
Group B	**1.7%**	**4,694**	**(81)**	**4,613**
Group C	**5.5%**	**20**	**(1)**	**19**
Group D	**100.0%**	**118**	**(118)**	**—**
		38,622	**(315)**	**38,307**

29 FINANCIAL INSTRUMENTS (Continued)

(c) Market risks (Continued)

(iii) Credit risk and impairment assessment (Continued)

	2019			
	Average loss rate	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Internal credit rating				
Group A	0.2%	6,490	(14)	6,476
Group B	0.7%	16,089	(113)	15,976
Group C	3.5%	1,232	(43)	1,189
Group D	100.0%	—	—	—
		23,811	(170)	23,641

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are 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 debtors 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.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (non credit-impaired) HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
At 1 January 2019	119	58	177
Impairment losses recognised	51	—	51
Amounts written off as uncollectible	—	(58)	(58)
At 31 December 2019 and 1 January 2020	**170**	**—**	**170**
Impairment losses recognised	**145**	**—**	**145**
At 31 December 2020	**315**	**—**	**315**

29 FINANCIAL INSTRUMENTS (Continued)

(c) Market risks (Continued)

(iv) 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 table details the Group's remaining contractual maturity for its financial liabilities. The table has 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 table includes 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 the reporting period.

	Weighted average interest rate	On demand or within one year	One to two years	Two to five years	Total undiscounted cash flows	Carrying amounts
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2020						
Trade and bills payables	**—**	**21,576**	**—**	**—**	**21,576**	**21,576**
Other payables and accruals	**—**	**3,640**	**—**	**—**	**3,640**	**3,640**
Bank borrowings	**3.27%**	**5,573**	**—**	**—**	**5,573**	**5,573**
Lease liabilities	**5.65%**	**996**	**106**	**114**	**1,216**	**1,157**
		31,785	**106**	**114**	**32,005**	**31,946**
At 31 December 2019						
Trade and bills payables	—	10,058	—	—	10,058	10,058
Other payables and accruals	—	2,720	—	—	2,720	2,720
Bank borrowings	4.33%	10,646	—	—	10,646	10,646
Lease liabilities	5.65%	2,595	940	220	3,755	3,557
		26,019	940	220	27,179	26,981

29 FINANCIAL INSTRUMENTS (Continued)

(c) Market risks (Continued)

(iv) Liquidity risk (Continued)

Bank borrowings with a repayment on demand clause are included in the "on demand or less than one year" time band in the above maturity analysis. As at 31 December 2020, the aggregate carrying amounts of these bank borrowings amounted to HK$5,573,000 (2019: HK$10,646,000). 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 and believe that such bank borrowings 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:

	2020 HK$'000	2019 HK$'000
Maturity Analysis — Bank borrowings with a repayment on demand clause based on scheduled repayments		
Less than one year	**1,494**	5,280
After one year but within two years	**1,473**	1,730
After two years but within five years	**1,939**	2,988
Over five years	**1,067**	1,422
Total undiscounted cash outflows	**5,973**	11,420
Carrying amount	**5,573**	10,646

29 FINANCIAL INSTRUMENTS (Continued)

(c) Market risks (Continued)

(v) Fair value measurements of financial instruments

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

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

Financial assets	Fair value at 31 December 2020	Fair value at 31 December 2019	Fair value hierarchy	Valuation techniques and key inputs
Bills receivables at FVTOCI *(note)*	**HK$1,168,000**	HK$447,000	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.

	Fair value hierarchy			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2020				
Bills receivables at FVTOCI	**—**	**1,168**	**—**	**1,168**
At 31 December 2019				
Bills receivables at FVTOCI	—	447	—	447

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated 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.

30 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.

	Lease liabilities *(note 24)* HK$'000	Bank borrowings *(note 25)* HK$'000	Total HK$'000
At 1 January 2019	2,341	9,873	12,214
Financing cash flows, net	(2,482)	329	(2,153)*
New leases entered into	3,490	—	3,490
Finance costs	262	444	706
Exchange adjustments	(54)	—	(54)
At 31 December 2019 and 1 January 2020	**3,557**	**10,646**	**14,203**
Financing cash flows, net	**(2,611)**	**(5,294)**	**(7,905)***
Finance costs	**142**	**221**	**363**
Exchange adjustments	**69**	**—**	**69**
At 31 December 2020	**1,157**	**5,573**	**6,730**

* The financing cash flows from bank borrowings make up the net amount of new bank borrowings raised, repayment of bank borrowings and lease liabilities and interest paid on bank borrowings and lease liabilities in the consolidated statement of cash flows.

31 TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2020 and 2019 that were transferred to banks by discounting these 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.

	2020 HK$'000	2019 HK$'000
Bills receivables discounted to a bank with full recourse		
Carrying amount of transferred assets	**—**	1,431
Carrying amount of associated liabilities	**—**	(1,431)
Net position	**—**	—

(Expressed in Hong Kong dollars)

32 RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and certain of the highest paid employee as disclosed in note 12, is as follows:

	2020	2019
	HK$'000	HK$'000
Short-term benefits	**3,486**	3,303
Post-employment benefits	**48**	68
	3,534	3,371

(b) Other related party transactions

During the year, the Group entered into the following material related party transaction:

	2020	2019
	HK$'000	HK$'000
Acquisition of motor vehicles from Mr. Boon Ho Yin, Henry	**—**	226

Save as disclosed above and elsewhere in these consolidated financial statements, the Group did not have any material related party transactions during the years ended 31 December 2020 and 2019.

(c) Balance with related parties

Balances with related parties are disclosed in the Company's statement of financial position in note 36(a).

33 MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2019, the Group entered into new lease agreements for the use of leased properties and motor vehicles. On the lease commencement, the Group recognised HK$3,490,000 of right-of-use assets and HK$3,490,000 lease liabilities.

34 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.

(Expressed in Hong Kong dollars)

34 RETIREMENT BENEFIT PLAN (Continued)

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$829,000 (2019: HK$1,783,000) represents contributions paid and payable to these plans by the Group at rates specified in the rules of the plan.

35 PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Place of operations	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company 2020	2019	Principal activities
Directly held						
Vertical Technology (B.V.I.) Limited	BVI	Hong Kong	US$1	**100%**	100%	Investment holding
Indirectly held						
Vertical Technology Company Limited	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	**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 subsidiaries at any time during the year or is outstanding at the end of the year.

(Expressed in Hong Kong dollars)

36 STATEMENT OF FINANCIAL POSITION AND EQUITY OF THE COMPANY

(a) Statement of financial position of the Company

	2020 HK$'000	2019 HK$'000
Non-current assets		
Investment in a subsidiary	**54,486**	54,486
Current assets		
Prepayments	**260**	534
Amount due from a subsidiary	**1,000**	1,000
Bank balances and cash	**1,042**	1,046
	2,302	2,580
Current liabilities		
Other payables	**708**	778
Amounts due to subsidiaries	**39**	39
	747	817
Net current assets	**1,555**	1,763
NET ASSETS	**56,041**	56,249
Capital and reserves		
Share capital	**8,000**	8,000
Reserves	**48,041**	48,249
TOTAL EQUITY	**56,041**	56,249

36 STATEMENT OF FINANCIAL POSITION AND EQUITY OF THE COMPANY (Continued)

(b) Equity of the Company

	Share capital HK$'000	**Share premium** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2019	8,000	69,172	(20,830)	56,342
Loss for the year	—	—	(93)	(93)
At 31 December 2019 and 1 January 2020	**8,000**	**69,172**	**(20,923)**	**56,249**
Profit for the year	**—**	**—**	**1,392**	**1,392**
Dividends paid *(note 11)*	**—**	**(1,600)**	**—**	**(1,600)**
At 31 December 2020	**8,000**	**67,572**	**(19,531)**	**56,041**

37 EVENTS AFTER THE REPORTING PERIOD

Save as disclosed below, note 11 to the consolidated financial statements and elsewhere in the annual report, the Group does not have other significant events after the reporting period.

On 12 March 2021, the Company entered into a placing agreement with Kingsway Financial Services Group Limited, the placing agent, to procure not less than six placees who are independent third parties to subscribe for up to 160,000,000 placing shares at the placing price of HK$0.051 per placing share (the "Placing"). The Placing has not been completed up to date of this report.

FIVE-YEARS FINANCIAL SUMMARY

The results and the assets and liabilities of the Group for the last five 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.

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**96,269**	82,185	100,373	109,677	92,774
Profit before taxation	**1,966**	2,012	7,185	566	11,433
Income tax expense	**(1,162)**	(466)	(2,052)	(1,173)	(2,307)
Profit/(loss) for the year	**804**	1,546	5,133	(607)	9,126

	As at 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**132,777**	122,507	125,521	126,997	76,755
Total liabilities	**(35,420)**	(29,257)	(32,378)	(35,404)	(45,004)
Total equity	**97,357**	93,250	93,143	91,593	31,751