

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

INTERIM
REPORT
2018

The background features a complex geometric design. It includes several large, overlapping triangles in shades of orange and yellow. A prominent diagonal line runs from the bottom left towards the top right. To the right of this line, there is a grid pattern of small squares, with a faint line graph overlaid on it. The overall color palette is warm, dominated by oranges and yellows, with some dark brown accents.


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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

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COMPANY SECRETARY

Ms. Cheung Yuet Fan

AUTHORISED REPRESENTATIVES

Mr. Boon Ho Yin Henry

Ms. Cheung Yuet Fan

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

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COMPLIANCE ADVISER

Vinco Capital Limited

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**HONG KONG BRANCH SHARE
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OFFICE**

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PRINCIPAL BANK

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

COMPANY WEBSITE ADDRESS

www.verticaltech.com.cn

STOCK CODE

8375

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2018, turnover of the Group was approximately HK\$59.5 million, representing an increase of approximate 28.0% as compared to the corresponding period in 2017.
- The Group's gross profit margin at approximately 23.0% for the six months ended 30 June 2018 and approximately 22.6% for the six months ended 30 June 2017.
- Excluding the non-recurring listing expenses, profit for the period of the Company for the six months ended 30 June 2018 would have been approximately HK\$4.2 million, representing a decrease of approximately HK\$1.3 million as compared with the period ended 30 June 2017.
- Basic earnings per share for the six months ended 30 June 2018 was approximately 0.53 HK cents, and basic loss per share for the six months ended 30 June 2017 was approximately 0.88 HK cents.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2018. During the six months ended 30 June 2017, no dividend was paid or declared.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF VERTICAL INTERNATIONAL HOLDINGS LIMITED

弘浩國際控股有限公司

(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Vertical International Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on page 8 to 32, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Other Matter

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income for the three-month periods ended 30 June 2018 and 2017 and the six-month period ended 30 June 2017, condensed consolidated statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2017 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
7 August 2018

The board of the Directors (the “**Board**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018 together with the comparative unaudited figures for the corresponding period in 2017 are set out as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	NOTES	Three months ended 30 June		Six months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	3	32,210	21,578	59,467	46,456
Cost of sales		(24,597)	(15,904)	(45,798)	(35,945)
Gross profit		7,613	5,674	13,669	10,511
Other income		224	—	345	23
Other gains and losses	4	(37)	(64)	(436)	(57)
Selling and distribution costs		(905)	(465)	(2,081)	(1,091)
Administrative expenses		(2,868)	(631)	(5,956)	(3,002)
Finance costs	5	(44)	(93)	(79)	(153)
Listing expenses		—	(7,294)	—	(10,758)
Profit (loss) before taxation	6	3,983	(2,873)	5,462	(4,527)
Income tax expense	7	(851)	(483)	(1,243)	(762)
Profit (loss) for the period		3,132	(3,356)	4,219	(5,289)
Other comprehensive (expense) income:					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of foreign operations		(2,237)	63	(747)	607
Total comprehensive income (expense) for the period		895	(3,293)	3,472	(4,682)
Earnings (loss) per share, basic (Hong Kong cents)	9	0.39	(0.56)	0.53	(0.88)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	37,867	29,237
Deposit for acquisition of plant and equipment		—	2,793
		37,867	32,030
Current assets			
Inventories		18,237	14,753
Trade and bills receivables	11	34,645	33,888
Deposits, prepayments and other receivables		4,624	1,324
Bank balances and cash		38,857	45,002
		96,363	94,967
Current liabilities			
Trade and bills payables	12	21,109	20,902
Other payables and accruals		12,349	8,447
Tax payable		2,354	2,133
Bank borrowings	13	3,299	3,829
		39,111	35,311
Net current assets			
		57,252	59,656
Total assets less current liabilities			
		95,119	91,686
Non-current liability			
Deferred tax liabilities		54	93
		95,065	91,593
Capital and reserves			
Share capital	14	8,000	8,000
Reserves		87,065	83,593
		95,065	91,593

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (note ii)	Statutory reserve HK\$'000 (note i)	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2017 (audited)	—*	—	20,000	1,764	(2,154)	12,141	31,751
Loss for the period	—	—	—	—	—	(5,289)	(5,289)
Exchange differences arising on translation of foreign operations	—	—	—	—	607	—	607
Total comprehensive income (expense) for the period	—	—	—	—	607	(5,289)	(4,682)
Effect of reorganisation (note iii)	—	26,486	(26,486)	—	—	—	—
Deemed contribution	—	—	6,486	—	—	—	6,486
At 30 June 2017 (unaudited)	—*	26,486	—	1,764	(1,547)	6,852	33,555
At 1 January 2018 (audited)	8,000	69,172	—	3,265	1,123	10,033	91,593
Profit for the period	—	—	—	—	—	4,219	4,219
Exchange differences arising on translation of foreign operations	—	—	—	—	(747)	—	(747)
Total comprehensive (expense) income for the period	—	—	—	—	(747)	4,219	3,472
At 30 June 2018 (unaudited)	8,000	69,172	—	3,265	376	14,252	95,065

Note i: Amount represents statutory reserve of the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, the subsidiaries in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

Note ii: Special reserve represents (i) deemed contribution arisen from the capitalisation of an amount due to a shareholder of HK\$6,486,000 during the period ended 30 June 2017; and (ii) merger reserve arising from the acquisition of Vertical Technology Company Limited by Vertical Technology (B.V.I.) Limited ("**Vertical (BVI)**") on 30 December 2015 and the acquisition of Vertical (BVI) by the Company on 17 March 2017.

Note iii: Amount represents the differences between the nominal value of the share capital issued by the Company for the acquisition of the entire equity interests in Vertical (BVI) and the nominal value of share capital of Vertical (BVI).

* *Less than HK\$1,000*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES	2,666	4,548
INVESTING ACTIVITIES		
Interest received	14	7
Purchase of property, plant and equipment	(9,501)	(1,871)
Proceeds from disposal of property, plant and equipment	946	—
NET CASH USED IN INVESTING ACTIVITIES	(8,541)	(1,864)
FINANCING ACTIVITIES		
Repayment of bank borrowings	(2,579)	(745)
Interest paid	(79)	(153)
New borrowings raised	2,049	717
NET CASH USED IN FINANCING ACTIVITIES	(609)	(181)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,484)	2,503
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	45,002	5,969
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	339	282
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD represented by bank balances and cash	38,857	8,754
Analysis of the balance of cash and cash equivalents		
Bank balance and cash	38,857	10,750
Bank overdraft	—	(1,996)
	38,857	8,754

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL

Vertical International Holdings Limited (the “**Company**”) is a public limited company incorporated in the Cayman Islands. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 13 November 2017.

The immediate and ultimate holding company is Vertical Technology Investment Limited (“**Vertical Investment**”), a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Boon Ho Yin Henry, who is also the Chairman and Chief Executive Officer of the Company.

The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Unit 9, 27/F, W50, 50 Wong Chuk Hang Road, Hong Kong respectively.

The Company is 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.

The functional currency of the Company is Hong Kong dollars (“**HK\$**”).

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Rules**”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognises revenue from the following major sources:

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

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

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

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

A performance obligation represents a good and 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:

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

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

Revenue is derived from sales of manufactured aluminium electrolytic capacitors and trading of electronic component. All of the Group's revenue is recognised 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.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

of contract assets or contract liabilities upon adoption of HKFRS 15, and therefore no adjustment on the condensed consolidated statement of financial positions was made.

Impacts and changes in accounting policies of application on HKFRS 9 “Financial Instruments”

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

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

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

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

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

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

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (“**FVTOCI**”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset 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 (“**FVTPL**”).

The directors of the Company reviewed and assessed the Group’s financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date.

Bills receivables without recourse classified as loan receivables are carried at amortised cost under HKAS 39. Upon the application of HKFRS 9, the bills receivables are measured at FVTOCI, and the fair value gains or losses are subsequently reclassified to profit or loss when the bills receivables without recourse are derecognised or reclassified.

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

Impairment of financial assets under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables and bank balances and cash), if applicable. 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 and bills receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, 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.

Significant increase in credit risk

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

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

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

- 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 foregoing, 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 considers that default has occurred when the instrument 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.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

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

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 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 receivables that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these receivables.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and concluded that no material financial impact exists, and therefore no adjustment to the opening retained profits at 1 January 2018 was recognised.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Summary of effects arising from initial application of HKFRS 9

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

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

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

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of aluminium electrolytic capacitors and trading of electronic components. All of the Group's revenue is recognised 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.

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

— Sales of manufactured aluminium electrolytic capacitors

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

— Trading of electronic components

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

The Group derives its revenue from the transfer of goods at a point in time in its major revenue stream (i) sales of manufactured aluminum electrolytic capacitors and (ii) trading of electronic components. This is consistent with the revenue information that is disclosed for each reportable segment under HKFRS 8.

For the six months ended 30 June 2018

	Sales of manufactured aluminium electronic capacitors <i>HK\$'000</i>	Trading of electrolytic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	47,932	11,535	59,467
RESULTS			
Segment profit	12,179	1,490	13,669
Unallocated expenses			(8,037)
Other income			345
Other gains and losses			(436)
Finance costs			(79)
Profit before taxation			5,462

For the six months ended 30 June 2017

	Sales of manufactured aluminium electrolytic capacitors <i>HK\$'000</i>	Trading of electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	36,615	9,841	46,456
RESULTS			
Segment profit	9,652	859	10,511
Unallocated expenses			(4,093)
Other income			23
Other gains and losses			(57)
Finance costs			(153)
Listing expenses			(10,758)
Loss before taxation			(4,527)

There were no inter-segment sales in both periods.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment results represents the profit earned by each segment without allocation of unallocated expenses (including administrative expenses and selling and distribution costs), other income, other gains and losses, finance costs and listing expenses. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

Geographical information

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

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
PRC	45,352	30,499
Hong Kong	10,960	8,722
Malaysia	—	4,421
Other Asian regions (<i>Note</i>)	3,155	2,814
	59,467	46,456

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

4. OTHER GAINS AND LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Net foreign exchange loss	(37)	(64)	(86)	(49)
Reversal of allowance for doubtful debts	—	—	9	—
Loss on write off/disposal of property, plant and equipment	—	—	(359)	(8)
	(37)	(64)	(436)	(57)

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Interest on:				
— Bank borrowings	25	39	50	80
— Bank overdraft	19	54	29	73
	44	93	79	153

6. PROFIT (LOSS) BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Profit (loss) before taxation for the period has been arrived at after charging:				
Depreciation	901	577	1,679	1,157
Depreciation capitalised in inventories	(688)	(339)	(1,255)	(679)
	213	238	424	478
Cost of inventories recognised as expense	23,283	14,841	43,223	34,133
Operating lease rental in respect of minimum lease payments of rental premises	127	118	562	529

7. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
The charge comprises:				
Current period				
Hong Kong	—	—	—	44
PRC Enterprise Income Tax (the "EIT")	870	815	1,282	1,121
	870	815	1,282	1,165
Overprovision in prior year				
PRC EIT	—	(332)	—	(332)
Deferred tax	(19)	—	(39)	(71)
	851	483	1,243	762

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, PRC EIT is calculated at 25% of the assessable profits for the subsidiaries established in the PRC. Pursuant to the relevant laws and regulations in the PRC, 東莞首科電子科技有限公司 is granted tax incentives as a High and New Technology Enterprise and is entitled to a preferential tax rate of 15% for 3 years from 1 January 2016 to 31 December 2018.

8. DIVIDENDS

No dividend has been paid or declared by the Company during both periods.

9. EARNINGS (LOSS) PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Earnings:				
Earnings (loss) for the purpose of calculating basic earnings (loss) per share	3,132	(3,356)	4,219	(5,289)
Number of shares:				
Number of ordinary shares for the purpose of calculating basic earnings (loss) per share	800,000,000	600,000,000	800,000,000	600,000,000

No diluted earnings (loss) per share was presented since there were no potential ordinary shares in issue for both periods.

The number of ordinary shares for the purpose of calculating basic earnings (loss) per share for both periods has been determined on the assumption that the group reorganisation to enable the Company to become the holding company of the Group ("**Group Reorganisation**") had been effective on 1 January 2017 and the 600,000,000 shares in issue upon completion of the Group Reorganisation.

10. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired certain property, plant and equipment amounting to approximately HK\$12,294,000 (six months ended 30 June 2017: HK\$1,871,000).

During the current period, the Group disposed of property, plant and equipment with aggregate carrying amount of approximately HK\$1,305,000 (six months ended 30 June 2017: HK\$8,000).

11. TRADE AND BILLS RECEIVABLES

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Trade receivables	33,361	32,957
Allowance for doubtful debts	(76)	(86)
	33,285	32,871
Bills receivables	1,360	1,017
	34,645	33,888

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

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
0 to 30 days	11,644	14,483
31 to 60 days	11,842	11,266
61 to 90 days	5,127	3,606
91 to 180 days	1,719	3,336
181 days to 1 year	2,609	149
Over 1 year	344	31
	33,285	32,871

Bills receivables are those bills not yet due at the end of the reporting period and the management considers the default rate is low as the Group did not encounter any default on bills receivables based on the past experience. The maturity period of all bills receivables as at 30 June 2018 was within 180 days.

12. TRADE AND BILLS PAYABLES

	At 30 June 2018 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Trade payables	18,586	20,902
Bills payables	2,523	—
	21,109	20,902

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

	At 30 June 2018 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
0 to 30 days	2,622	12,085
31 to 60 days	8,131	6,006
61 to 90 days	3,627	1,579
91 to 180 days	4,055	1,232
181 days to 1 year	66	—
Over 1 year	85	—
	18,586	20,902

All bills payable at the end of the reporting period are not yet due.

13. BANK BORROWINGS

During the current period, the Group raised bank borrowings of approximately HK\$2,049,000 (six months ended 30 June 2017: HK\$717,000), and repaid bank borrowings of approximately HK\$2,579,000 (six months ended 30 June 2017: HK\$745,000) respectively.

The bank borrowings carry interest at best lending rate plus/minus certain basis points. The average of effective interest rates (which are also equal to contracted interest rates) ranged from 2.50% to 5.25% (31 December 2017: 2.42% to 5.75%).

14. SHARE CAPITAL

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

	Number of shares	Share capital HK\$
Authorised:		
Upon incorporation (<i>note 1</i>)	38,000,000	380,000
Increase during the year (<i>note 3</i>)	4,962,000,000	49,620,000
	5,000,000,000	50,000,000
Issued and fully paid:		
Upon incorporation	1	0.01
Allotment of shares (<i>note 2</i>)	99	0.99
Capitalisation issue	599,999,900	5,999,999
	600,000,000	6,000,000
Issue of new shares upon listing (<i>note 4</i>)	200,000,000	2,000,000
At 31 December 2017 (audited) and 30 June 2018 (unaudited)	800,000,000	8,000,000

Note 1: The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 January 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.

Note 2: On 17 March 2017, the Company allotted 99 new shares at par value of HK\$0.01 each to Vertical Investment to acquire the entire equity interests in Vertical (BVI).

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

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

15. OPERATING LEASES

The Group as lessee

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

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Within one year	1,046	975
In the second to fifth year inclusive	2,459	3,904
Over fifth years	124	144
	3,629	5,023

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

The Group as lessor

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

	At 30 June 2018 HK\$'000	At 31 December 2017 HK\$'000
Within one year	—	71

16. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

	Six months ended 30 June	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Short-term benefits	1,209	356
Post-employment benefits	43	23
	1,252	379

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the manufacturing and trading of aluminium electrolytic capacitors and trading of electronic components. The revenue for the six months ended 30 June 2018 was derived from the manufacturing and trading of aluminium electrolytic capacitors and trading of electronic components.

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

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

For the six months ended 30 June 2018, the Group recorded increases in revenue of approximately 28.0% and gross profit of approximately 30.0% as compared with those for the corresponding period in 2017. Such increases were mainly due to the increased demand for our Group's chip type and radial lead type aluminum electrolytic capacitor products, in which the revenue for the sales of manufactured aluminium electrolytic capacitors recorded an increase of approximately HK\$11.3 million or 30.9% from approximately HK\$36.6 million for the six months ended 30 June 2017 to approximately HK\$47.9 million for the six months ended 30 June 2018. To cope with the challenging business environment, while the Group continuously secured more orders from our customers for our manufactured products, it also enhances business exposure and maintain a growth in revenue.

PROSPECTS

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

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK\$59.5 million for the six months ended 30 June 2018 from approximately HK\$46.5 million for the corresponding period in 2017, representing an increase of approximately 28.0%. Such increase in the Group's revenue was mainly attributable to the sale of our self-manufactured products as a result of our continuous effort in expanding our customer base and production capacity during the period under review.

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\$45.8 million for the six months ended 30 June 2018 from approximately HK\$35.9 million for the six months ended 30 June 2017, representing an increase of approximately 27.6%. Such increase was primarily attributable to an increased consumption of raw materials and direct labour costs in line with our increased sales volume of our self-manufactured products over the period under review.

Gross profit and gross profit margin

The Group's gross profit increased to approximately HK\$13.7 million for the six months ended 30 June 2018 from approximately HK\$10.5 million for the six months ended 30 June 2017, representing an increase of approximately 30.5%. The Group's gross profit margin was approximately 23.0% for the six months ended 30 June 2018 and approximately 22.6% for the six months ended 30 June 2017. The increase was primarily attributable to the expansion in our group production lines and reduce the production cost for the six months ended 30 June 2018.

Selling and distribution expenses

The Group's selling and distribution expenses increased to approximately HK\$2.1 million for the six months ended 30 June 2018 from approximately HK\$1.1 million for the six months ended 30 June 2017, mainly due to an increase in the warehouse charges and salaries as a result of the Group's increase in the scale of its business.

Administrative expenses

Administrative expenses increased to approximately HK\$6.0 million for the six months ended 30 June 2018 from approximately HK\$3.0 million for the six months ended 30 June 2017, representing an increase of approximately HK\$3.0 million. The increase was primarily attributable to the increase in professional fee, salaries and employee benefit expenses of managerial and staff cost.

Total comprehensive income (expense) for the period

Excluding the non-recurring listing expenses, the Company's total comprehensive income of approximately HK\$6.1 million for the six months ended 30 June 2017 decreased to HK\$3.5 million for the six months ended 30 June 2018. The decrease was primarily attributable to the increase in selling and distribution expenses and administrative expenses as discussed above.

Earnings (loss) per share

The Company's basic earnings (loss) per share increased to earnings per share of approximately 0.53 HK cents for the six months ended 30 June 2018 from loss per share of approximately 0.88 HK cents for the six months ended 30 June 2017, representing an increase of approximately 1.41 HK cents. Such increase was mainly because of the non-recurring listing expenses of approximately HK\$10.8 million for the six months ended 30 June 2017 was no longer incurred during the current period.

RESERVES

Movements in the reserves of the Group for the six months ended 30 June 2018 are set out above in the condensed consolidated statement of changes in equity.

DIVIDEND

No dividend was paid, proposed or declared for the ordinary shareholders of the Company for the six months ended 30 June 2018 (For the six months ended 30 June 2017: Nil).

CAPITAL COMMITMENTS

As at 30 June 2018, the Group had capital commitments contracted for but not provided in the unaudited condensed consolidated financial statements amounting to approximately HK\$9.7 million (31 December 2017: HK\$2.8 million). Such commitments primarily related to purchases of equipment and machineries for the expansion of the Group's production capacity.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 17 March 2017, the Group completed the Reorganisation steps, details of which are set out in the Prospectus. Subsequent to the completion of the Reorganisation steps and up to 30 June 2018, the Group did not have any acquisitions or disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 30 June 2018 and 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018 and 31 December 2017, the Group has total assets of approximately HK\$134.2 million and HK\$127.0 million respectively, which is financed by total liabilities, shareholders' equity (comprising share capital and reserve) of approximately HK\$39.2 million (31 December 2017: HK\$35.4 million), approximately HK\$95.0 million (31 December 2017: HK\$91.6 million) respectively. The current ratio as at 30 June 2018 of the Group was approximately 2.5 times (31 December 2017: approximately 2.7 times).

As at 30 June 2018 and 31 December 2017, the Group had cash and cash equivalents of approximately HK\$38.9 million and HK\$45.0 million respectively.

The total interest-bearing bank borrowing of the Group as at 30 June 2018 was approximately HK\$3.3 million (31 December 2017: HK\$3.8 million). The gearing ratio (calculated based on interest bearing bank borrowings, divided by total equity) of the Group as of 30 June 2018 was 0.03 times (31 December 2017: 0.04 times).

The shares of the Company (the "Shares") were successfully listed on GEM on 13 November 2017. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises ordinary Shares.

As at 30 June 2018, the Company's issued share capital amounted to HK\$8,000,000 divided into 800,000,000 Shares of HK\$0.01 each.

CHARGES ON GROUP'S ASSETS

As at 30 June 2018, the leasehold land and building with the carrying value of approximately HK\$5.1 million (31 December 2017: HK\$5.2 million) is pledged to a bank to secure banking facilities granted to the Group.

EMPLOYEE INFORMATION

As at 30 June 2018 and 2017, the Group had 185 and 168 full-time employees respectively, including the Directors. Total remuneration for the six months ended 30 June 2018 and 2017 was HK\$10.8 million and HK\$7.0 million respectively. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

FOREIGN EXCHANGE EXPOSURE

The Company is mainly operated in its local jurisdiction with most of the transactions settled in its functional currencies of the operations and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities other than the functional currencies of the relevant entities now comprising the Group are as follows.

	Liabilities		Assets	
	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
US\$	—	—	987	1,561
RMB	(232)	(223)	25	30

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

SIGNIFICANT INVESTMENTS

As at 30 June 2018, the Group did not hold any significant investments (31 December 2017: Nil).

EVENTS AFTER THE REPORTING DATE

As from 30 June 2018 to the date of this interim report, no significant event has occurred.

USE OF PROCEEDS

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

The net proceeds from the Share Offer from 13 November 2017 (the “**Listing Date**”) to 30 June 2018 were used as follows:

Use of proceeds	Planned use of net proceeds (adjusted on a pro rata basis based on the actual net proceeds) <i>HK\$ million</i>	Planned use of net proceeds up to 30 June 2018 (adjusted on a pro rata basis based on the actual net proceeds) <i>HK\$ million</i>	Actual use of net proceeds up to 30 June 2018 <i>HK\$ million</i>	Unutilized proceeds as at 30 June 2018 <i>HK\$ million</i>
To increase the production capacity of the Group’s chip type aluminum electrolytic capacitors	21.5	16.4	14.6	6.9
To establish the second production plant in Dongguan, Guangdong Province, the PRC	6.6	3.0	—	6.6
To continue research and development effort	2.5	2.3	2.3	0.2
To promote the Group’s branded products	2.3	1.3	0.9	1.4
General working capital	1.9	0.8	0.8	1.1
	34.8	23.8	18.6	16.2

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 30 June 2018 (“**Review Period**”) is set out below:

Business strategies	Actual business progress during the Review Period
— To increase the production capacity of our Group’s chip-type aluminum electrolytic capacitors	— Review of the required specifications of the machineries to be installed is being carried out. Orders have been placed.
— To establish the second production plant in Dongguan, Guangdong Province, the PRC	— The Group is at the stage of exploring and identifying the location for establishing the second production plant in a prudent manner. We expect it can be concluded in the latter half of the year 2018.
— To continue research and development effort	— The Group has recruited additional staff for, and is investing time and resource into research and development department.
— To promote our branded products	— The Group has recruited additional sales staffs and issued booklets for marketing events.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2018, the interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) held by the Directors and chief executives of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO) or which as entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are set out as follows:

(a) Long position in the Shares of the Company

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

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

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

Notes:

- (1) The letter "L" denotes long position in the relevant 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 30 June 2018, 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 taken under the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, the following persons (not being a Director or chief executive of the Company) had or were deemed or taken to have an interest or short position in the Shares or 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 30 June 2018, none of the Directors is aware of any other person who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under Section 336 of the SFO, who are directly or indirectly interested in 5% or more of the Shares.

SHARE OPTION SCHEME

The Company has a share option scheme (the “**Share Option Scheme**”) which was approved and adopted by the written resolutions of the then sole shareholder of the Company passed on 24 October 2017. No share option has been granted under the Share Option Scheme since its adoption.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 during the six months ended 30 June 2018.

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

DIRECTORS’ INTEREST IN COMPETING BUSINESS

During the six months ended 30 June 2018, none of the Directors or the controlling shareholders or their respective 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.

CORPORATE GOVERNANCE PRACTICES

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 shareholders of the Company, 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.

During the six months ended 30 June 2018, the Company has complied with the applicable code provisions as set out in the CG Code except for the deviation from code provision A.2.1 which 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 chief executive should be clearly established and set out in writing.

Mr. Boon 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 the view that Mr. Boon 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 taking 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.

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed the Company's listed securities during the six months ended 30 June 2018.

INTERESTS OF THE COMPLIANCE ADVISER

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

AUDIT COMMITTEE

The Company established an audit committee ("**Audit Committee**") with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Mr. Wong Wai Leung, Mr. Liu Kwan and Mr. Chik Kin Man Paul. Mr. Wong Wai Leung possesses the appropriate professional accounting qualifications and related financial management expertise as required in Rule 5.05(2) of the GEM Listing Rules, and he serves as the chairman of the Audit Committee.

The primary duties of the Audit Committee are to assist the Board in providing an independent review of the effectiveness of the Group's internal audit function, financial reporting process, internal control and risk management systems, and to oversee the audit process. The Audit Committee had reviewed the unaudited interim results of the Company for the six months ended 30 June 2018.

By order of the Board
Vertical International Holdings Limited
Boon Ho Yin Henry
Chairman

Hong Kong, 7 August 2018