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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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

*This announcement, 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 announcement 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 announcement misleading.*

FINANCIAL HIGHLIGHTS

- The Group's revenue amounted to approximately HK\$96.3 million for the year ended 31 December 2020, representing an increase of approximately HK\$14.1 million or 17.1% as compared to approximately HK\$82.2 million for the year ended 31 December 2019.
- 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.
- Profit for the year decreased approximately HK\$0.7 million, from approximately HK\$1.5 million for the year ended 31 December 2019 to approximately HK\$0.8 million for the year ended 31 December 2020.
- Basic earnings per share for the years ended 31 December 2019 and 2020 were approximately 0.19 HK cents and 0.10 HK cents respectively.
- The Board has recommended the payment of a final dividend of 0.15 HK cents per share for the year ended 31 December 2020 (2019: 0.2 HK cents) to shareholders whose names appear on the register of members of the Company at the close of business on 9 June 2021.

The board of the Directors (the “**Board**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020 together with the comparative audited figures for the corresponding period in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	96,269	82,185
Cost of sales		<u>(81,100)</u>	<u>(64,439)</u>
Gross profit		15,169	17,746
Other income		1,713	1,562
Other gains and losses		(165)	(75)
Selling and distribution costs		(2,883)	(3,216)
Administrative expenses		(11,505)	(13,299)
Finance costs		<u>(363)</u>	<u>(706)</u>
Profit before taxation		1,966	2,012
Income tax expense	4	<u>(1,162)</u>	<u>(466)</u>
Profit for the year		<u>804</u>	<u>1,546</u>
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		<u>4,903</u>	<u>(1,315)</u>
Total comprehensive income for the year		<u>5,707</u>	<u>231</u>
Earnings per share		<i>HK cents</i>	<i>HK cents</i>
Basic and diluted	6	<u>0.10</u>	<u>0.19</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		43,283	42,335
Right-of-use assets		1,220	3,439
Intangible assets		2,000	—
		46,503	45,774
Current assets			
Inventories		10,460	9,365
Trade and bills receivables	7	38,307	25,072
Bills receivables at fair value through other comprehensive income	8	1,168	447
Deposits, prepayments and other receivables		4,416	2,930
Bank balances and cash		31,923	38,919
		86,274	76,733
Current liabilities			
Trade and bills payables	9	21,576	10,058
Other payables and accruals		5,303	3,616
Tax payable		1,811	1,380
Lease liabilities		952	2,453
Bank borrowings		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		205	1,104
NET ASSETS		97,357	93,250
Capital and reserves			
Share capital		8,000	8,000
Reserves		89,357	85,250
TOTAL EQUITY		97,357	93,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**”)

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.

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.

3 REVENUE AND SEGMENT INFORMATION

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 Operating Segments 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 People’s Republic of China (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.

Segment results

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.

For the year ended 31 December 2020

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

For the year ended 31 December 2019

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

There were no inter-segment sales in both years.

Geographical information

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

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

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.

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 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	7,746	5,612
PRC	38,757	40,162
	<u>46,503</u>	<u>45,774</u>

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 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A (<i>note 1</i>)	15,843	13,061
Customer B (<i>note 1</i>)	15,431	11,674
Customer C (<i>note 2</i>)	#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.

4 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	—	(39)
	<u>1,162</u>	<u>466</u>

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.

5 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: 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.

6 EARNINGS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year)	<u>804</u>	<u>1,546</u>
	2020 Number of shares '000	2019 Number of shares '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>800,000</u>	<u>800,000</u>

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.

7 TRADE AND BILLS RECEIVABLES

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

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 <i>HK\$'000</i>
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
	<u>38,307</u>	<u>23,641</u>

8 BILLS RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The following is an ageing analysis of bills receivables at fair value through other comprehensive income presented based on the delivery dates at the end of the reporting period:

	2020 HK\$'000	2019 <i>HK\$'000</i>
61 to 90 days	—	56
91 to 180 days	1,168	391
	<u>1,168</u>	<u>447</u>

9 TRADE AND BILLS PAYABLES

	2020 HK\$'000	2019 <i>HK\$'000</i>
Trade payables	20,320	7,779
Bills payables	1,256	2,279
	<u>21,576</u>	<u>10,058</u>

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 <i>HK\$'000</i>
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
	<u>20,320</u>	<u>7,779</u>

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

	2020 HK\$'000	2019 <i>HK\$'000</i>
0 to 30 days	—	2,279
61 to 90 days	1,256	—
	<u>1,256</u>	<u>2,279</u>

10 EVENTS AFTER THE REPORTING PERIOD

Save as disclosed below, note 5 and elsewhere in this annual results announcement, 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 (“**Placing**”). The Placing has not been completed up to date of this report.

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 years 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).

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: 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 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
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 (31 December 2019: 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 announcements dated 12 and 14 March 2021.

Save as disclosed in the above and note 5 in this annual results announcement, 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) <i>HK\$ million</i>	Planned use of net proceeds up to 31 December 2020 (adjusted on a pro rata basis based on the actual net proceeds) <i>HK\$ million</i>	Actual use of net proceeds up to 31 December 2020 <i>HK\$ million</i>	Unutilized proceeds as at 31 December 2020 <i>HK\$ million</i>	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 (<i>Note</i>)
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
	<u>34.8</u>	<u>34.8</u>	<u>31.7</u>	<u>3.1</u>	

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.

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 the 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.

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 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 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 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 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.

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 LISTED SECURITIES OF THE COMPANY

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.

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 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.

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 shares were 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 announcement.

ANNUAL GENERAL MEETING (THE "AGM")

The forthcoming AGM of the Company will be held on Monday, 31 May 2021 at 11:30 a.m. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For attending and voting at the AGM

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 before 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.

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 audited final results of the Company for the year ended 31 December 2020.

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

Hong Kong, 19 March 2021

As at the date of this announcement, the executive Directors are Mr. Boon Ho Yin Henry and Ms. Chow Cheung Chu, and the independent non-executive Directors are Mr. Liu Kwan, Mr. Chik Kin Man Paul and Mr. Wong Wai Leung.

This announcement will remain on the “Latest Listed Company Information” page of the website of GEM (www.hkgem.com) for at least seven days from its date of publication. This announcement will also be published on the website of the Company at www.verticaltech.com.cn.