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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 2018

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

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

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

*This 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$100.4 million for the year ended 31 December 2018, representing a decrease of approximately HK$9.3 million or 8.5% as compared to approximately HK$109.7 million for the year ended 31 December 2017.

— The Group's gross profit margin remained steady at approximately 22.6% for the year ended 31 December 2018 and approximately 22.1% for the year ended 31 December 2017.

— Excluding the non-recurring listing expenses, profit for the year of the Company for the year ended 31 December 2018 would decrease approximately by HK$8.0 million, as compared with the year ended 31 December 2017.

— Basic earnings per share increased to earnings per share of approximately 0.64 HK cents for the year ended 31 December 2018 from loss per share of approximately 0.10 HK cents for the year ended 31 December 2017.

— The Board does not recommend the payment of any dividend for the year ended 31 December 2018 (31 December 2017: Nil).

The board of the Directors (the "**Board**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 together with the comparative audited figures for the corresponding period in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018	2017
	NOTES	***HK$'000***	*HK$'000*
Revenue	3	**100,373**	109,677
Cost of sales		**(77,728)**	(85,448)
Gross profit		**22,645**	24,229
Other income		**1,041**	1,145
Other gains and losses		**(326)**	(352)
Selling and distribution costs		**(3,950)**	(2,551)
Administrative expenses		**(12,064)**	(7,937)
Finance costs		**(161)**	(246)
Listing expenses		**—**	(13,722)
Profit before taxation		**7,185**	566
Income tax expense	4	**(2,052)**	(1,173)
Profit (loss) for the year		**5,133**	(607)
Other comprehensive (expense) income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(3,583)**	3,277
Total comprehensive income for the year		**1,550**	2,670
Earnings (loss) per share — basic *(Hong Kong cents)*	6	**0.64**	(0.10)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Aa at 31 December 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
Non-current assets			
Property, plant and equipment		**42,229**	29,237
Deposits for acquisition of property, plant and equipment		**1,452**	2,793
		43,681	32,030
Current assets			
Inventories		**16,760**	14,753
Trade and bills receivables	7	**21,825**	33,888
Bills receivables at fair value through other comprehensive income	8	**3,312**	—
Deposits, prepayments and other receivables		**1,785**	1,324
Bank balances and cash		**38,158**	45,002
		81,840	94,967
Current liabilities			
Trade and bills payables	9	**11,910**	20,902
Other payables and accruals		**9,152**	8,447
Tax payable		**1,404**	2,133
Bank borrowings		**9,873**	3,829
		32,339	35,311
Net current assets		**49,501**	59,656
Total assets less current liabilities		**93,182**	91,686
Non-current liability			
Deferred tax liabilities		**39**	93
		93,143	91,593
Capital and reserves			
Share capital		**8,000**	8,000
Reserves		**85,143**	83,593
		93,143	91,593

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Vertical International Holdings Limited (the "**Company**") is a public limited company incorporated in the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The immediate and ultimate holding company is Vertical Technology Investment Limited ("**Vertical Investment**"), a company incorporated in the British Virgin Islands ("**BVI**"). Its ultimate controlling party is Mr. Boon Ho Yin Henry ("**Mr. Boon**" or the "**Controlling Shareholder**"), who is also the Chairman and chief executive officer of the Company. The addresses of the registered office and principal place of business of the Company are 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 is an investment holding company. The Company and its subsidiaries (collectively referred as a "**Group**") are principally engaged in the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components.

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

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

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

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

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

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

HKFRS 15 "*Revenue from Contracts with Customers*"

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

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

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

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

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

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

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

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

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

Summary of effects arising from initial application of HKFRS 9

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

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

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

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

From loans and receivables to financial assets at amortised cost

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

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

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

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

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

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 services delivered or provided. Specifically, the Group's reportable and operating segments under HKFRS 8 Operating Segments are as follows:

— **Sales of manufactured aluminum electrolytic capacitors**

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

— **Trading of electronic components**

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

Segment revenues and results

For the year ended 31 December 2018

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

For the year ended 31 December 2017

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

There were no inter-segment sales in both years.

Segment results represents the profit earned by each segment without allocation of unallocated expenses (including administrative expenses and selling and distribution costs), other income, certain other gains and losses, finance costs, listing expenses and income tax. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

Geographical information

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

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

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

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

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

4. INCOME TAX EXPENSE

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

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

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

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

5. DIVIDEND

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

6. EARNINGS (LOSS) PER SHARE

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

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

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

7. TRADE AND BILLS RECEIVABLES

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

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

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

Trade receivables that are neither past due nor impaired relates to a wide range of customers for whom there was no history of default.

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

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

8. BILLS RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

9. TRADE AND BILLS PAYABLES

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

PROSPECTS

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

In the future, the Group will endeavour to meet the requirements for specific customised products, so as to gradually develop the front-end demand in the market and customised products across various areas, promote the own-branded capacitors in various sectors in the market, and to expand the market share of its capacitor products.

The Group will continue to further set up additional production line and prepare for further expansion of its production facilities with a view to achieving a further growth for the Group through increasing its production capacity and offering new products to capture a wider customer base in the market.

FINANCIAL REVIEW

Revenue

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

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

Cost of sales

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

Gross profit and gross profit margin

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

Selling and distribution costs

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

Administrative expenses

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

Income tax expenses

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

Profit (loss) for the year

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

Basic earnings (loss) per share

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

DIVIDEND

No dividend was paid, proposed or declared for the ordinary shareholders of the Company for the year ended 31 December 2018 (for the year ended 31 December 2017: Nil).

CAPITAL COMMITMENTS

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

MATERIAL ACQUISITIONS OR DISPOSALS

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

CONTINGENT LIABILITIES

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

CHARGES ON GROUP'S ASSETS

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

EMPLOYEE INFORMATION

As at 31 December 2018, the Group had 129 full-time employees (31 December 2017: 154 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2018 was HK$20.6 million (2017: HK$15.6 million). To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

FOREIGN EXCHANGE EXPOSURE

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

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

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

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

SIGNIFICANT INVESTMENTS

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

USE OF PROCEEDS

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

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

Throughout the year ended 31 December 2018, the Company has complied with the code provisions as set out in the CG Code except for the deviation from code provision A.2.1 which 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.

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 2018.

EVENTS AFTER THE REPORTING DATE

As from 31 December 2018 to the date of this announcement, no significant events have occurred.

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 2018 and up to the date of this announcement.

ANNUAL GENERAL MEETING (THE "AGM")

The forthcoming AGM of the Company will be held on Tuesday, 7 May 2019 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 Thursday, 2 May 2019 to Tuesday, 7 May 2019, 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 and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 30 April 2019.

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 2018.

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

Hong Kong, 20 March 2019

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 Company Announcements" 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.