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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)

ANNOUNCEMENT OF THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

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

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange 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.

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 three months and nine months ended 30 September 2017 together with the comparative unaudited figures for the corresponding period in 2016 are set out as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2017

	NOTES	For the three months ended 30 September		For the nine months ended 30 September	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	4	25,447	23,705	71,903	61,911
Cost of sales		<u>(18,690)</u>	<u>(18,305)</u>	<u>(54,635)</u>	<u>(48,842)</u>
Gross profit		6,757	5,400	17,268	13,069
Other income		56	13	78	36
Other gains and losses		(10)	(8)	(66)	41
Selling and distribution costs		(736)	(635)	(1,826)	(1,551)
Administrative expenses		(1,632)	(1,762)	(4,634)	(4,124)
Finance costs		(56)	(73)	(208)	(210)
Listing expenses		<u>(1,702)</u>	<u>—</u>	<u>(12,459)</u>	<u>—</u>
Profit (loss) before taxation		2,677	2,935	(1,847)	7,261
Income tax expenses	5	<u>(679)</u>	<u>(589)</u>	<u>(1,248)</u>	<u>(1,309)</u>
Profit (loss) for the period		1,998	2,346	(3,095)	5,952
Other comprehensive (expense) income for the period					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of foreign operations		<u>(1,092)</u>	<u>4</u>	<u>(485)</u>	<u>(522)</u>
Total comprehensive income (expense) for the period		<u>906</u>	<u>2,350</u>	<u>(3,580)</u>	<u>5,430</u>
Earnings (loss) per share					
— basic (Hong Kong cents)	7	<u>0.33</u>	<u>0.39</u>	<u>(0.52)</u>	<u>0.99</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2017

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2016 (audited)	—+	—	20,000	576	(132)	4,203	24,647
Profit for the period	—	—	—	—	—	5,952	5,952
Exchange differences arising on translation of foreign operations	—	—	—	—	(522)	—	(522)
Total comprehensive income for the period	—	—	—	—	(522)	5,952	5,430
At 30 September 2016 (unaudited)	—+	—	20,000	576	(654)	10,155	30,077
At 1 January 2017 (audited)	—+	—	20,000	1,764	(2,154)	12,141	31,751
Loss for the period	—	—	—	—	—	(3,095)	(3,095)
Exchange differences arising on translation of foreign operations	—	—	—	—	(485)	—	(485)
Total comprehensive expense for the period	—	—	—	—	(485)	(3,095)	(3,580)
Deemed contribution	—	—	6,486	—	—	—	6,486
Effect of the reorganisation (Note 2(d) & (e))	—	26,486	(26,486)	—	—	—	—
At 30 September 2017 (unaudited)	—+	26,486	—	1,764	(2,639)	9,046	34,657

+ Less than HK\$1,000

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Vertical International Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 3 January 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company (the “**Shares**”) have been listed on the GEM of the Stock Exchange since 13 November 2017 (the “**Listing Date**”).

The address of the registered office and the principal place of business of the Company is Cricket Square, Hutchins Drive, PO 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 aluminium electrolytic capacitors and trading of electronic components.

The immediate and ultimate holding company is Vertical Technology Investment Limited (“**Vertical Investment**”), a company incorporated in the British Virgin Islands (“**BVI**”) and wholly-owned by Mr. Boon Ho Yin Henry (“**Mr. Boon**” or the “**Controlling Shareholder**”).

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

2. REORGANISATION AND BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

In preparing for the initial listing of the Shares on the GEM of the Stock Exchange, the companies comprising the Group underwent a group reorganisation as described below (the “**Reorganisation**”). Prior to the Reorganisation, Vertical Technology Company Limited (“**Vertical Technology**”) and its subsidiaries, the operating subsidiaries of the Group, were controlled by Mr. Boon Ho Yin Henry (“**Mr. Boon**”). As part of the Reorganisation, investment holding companies, Vertical Technology (B.V.I.) Limited (“**Vertical (BVI)**”) and the Company, were incorporated and interspersed between Vertical Technology and the Controlling Shareholder. Since then, the Company became the holding company of the Group on 17 March 2017. The Group comprising the Company, Vertical (BVI) and Vertical Technology, resulting from the Reorganisation has always been under the common control of the Controlling Shareholder since their respective date of incorporation and before and after the Reorganisation.

The principle steps of the Reorganisation are as follows:

- a) On 9 December 2015, 19,990,000 shares of Vertical Technology were allotted and issued for cash and fully paid at HK\$1 each to Mr. Boon.
- b) On 23 December 2015, Vertical (BVI) was incorporated in the BVI with limited liability. Upon the incorporation, the authorised share capital of Vertical (BVI) was US\$50,000 divided into 50,000 shares of US\$1.00 each and one share was allotted and issued as fully paid at par to Mr. Boon upon incorporation.
- c) On 30 December 2015, Mr. Boon and Vertical (BVI) entered into a sale and purchase agreement pursuant to which Mr. Boon transferred 20,000,000 shares of Vertical Technology to Vertical (BVI) at HK\$20,000,000, which was capitalised as deemed contribution on the date of transfer. Vertical Technology became a wholly-owned subsidiary of Vertical (BVI) thereafter.
- d) On 3 January 2017, the Company was incorporated with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, of which one subscriber share was allotted and issued as fully paid to the first subscriber, an independent third party, which was subsequently transferred to Vertical Investment on the same date at par.
- e) On 17 March 2017, the Company acquired the entire issued share capital of Vertical (BVI) from Mr. Boon. In consideration thereof and at the instruction of Mr. Boon, the Company allotted and issued as fully paid 99 Shares to Vertical Investment. The said transfer was properly and legally completed and settled on the same date. After such transfer, Vertical (BVI) became a direct wholly-owned subsidiary of the Company

and Vertical Technology, and its subsidiaries, namely, 韶關弘峰電子有限公司 (Shaoguan Hongfeng Electronics Limited), 東莞首科電子科技有限公司 (Dongguan Shouke Electronics Technology Limited) and Vertical Engineering Company Limited, became indirect wholly-owned subsidiaries of the Company.

The consolidated financial information of the companies comprising the Group has been prepared as if the Company had always been the holding company of the Group.

3. BASIS OF PREPARATION

This unaudited condensed consolidated financial statement for the nine months ended 30 September 2017 (the “**Financial Statements**”) have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Companies Ordinance (Cap.622 of the Laws of Hong Kong). Besides, the Financial Statements include applicable disclosures required by the GEM Listing Rules. The Financial Statements have been prepared under the historical cost convention and are presented in HK\$ and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of the Financial Statements requires the Company’s management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income and expenses. Actual results may differ from these estimates.

In preparing the Financial Statements, the significant judgments made by the Company’s management in applying the Group’s accounting policies and the key sources of estimation uncertainty are the same as those that applied to the Group’s audited consolidated financial statements for each of the two years ended 31 December 2016 and for the four-month period ended 30 April 2017.

4. REVENUE

Revenue represents revenue arising on sales of manufactured aluminum electrolytic capacitors and trading of electronic components for the nine months ended 30 September 2017.

An analysis of the Group’s revenue for the three months and nine months ended 30 September 2017 are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2017 HK\$’000 (unaudited)	2016 HK\$’000 (unaudited)	2017 HK\$’000 (unaudited)	2016 HK\$’000 (unaudited)
Sales of manufactured aluminum electrolytic capacitors	18,922	17,863	51,681	39,518
Trading of electronic components	6,525	5,842	20,222	22,393
	<u>25,447</u>	<u>23,705</u>	<u>71,903</u>	<u>61,911</u>

5. INCOME TAX EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Current Tax:				
The People's Republic of China ("PRC") Enterprise Income Tax ("EIT")	679	589	1,600	1,247
(Over) Under provision in prior Year:				
PRC EIT	—	—	(332)	(14)
Deferred tax (Credit) charge	—	—	(20)	48
	<u>679</u>	<u>589</u>	<u>1,248</u>	<u>1,281</u>

Hong Kong Profits Tax is calculated at 16.5% on 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 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.

6. DIVIDEND

No dividend was paid, proposed or declared for the ordinary shareholders of the Company for the nine months ended 30 September 2017 (For the nine months ended 30 September 2016: Nil).

7. EARNINGS (LOSS) PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Earnings (loss):				
Earnings (loss) for the purpose of calculating basic earnings (loss) per share (profit (loss) for the period)	<u>1,998</u>	<u>2,346</u>	<u>(3,095)</u>	<u>5,952</u>
	'000	'000	'000	'000
Number of shares:				
Number of ordinary shares for the purpose of calculating basic earnings (loss) per share	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>

The number of ordinary shares for the purpose of calculating basic earnings (loss) per share has been determined on the assumption that the Reorganisation and the capitalisation issue had been effective since 1 January 2016.

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

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 nine months ended 30 September 2017 was derived from the manufacturing and trading of aluminium electrolytic capacitors and trading of electronic components.

Manufacturing and trading of aluminium electrolytic capacitors

For the nine months ended 30 September 2017, the Group recorded increases in revenue of approximately 16.1% and gross profit of approximately 32.1% as compared with those for the corresponding period in 2016. 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\$12.2 million or 30.8% from approximately HK\$39.5 million for the nine months ended 30 September 2016 to approximately HK\$51.7 million for the nine months ended 30 September 2017. To cope with the challenging business environment, while the Group continuously secured more orders from our customers for our manufactured products, which was approximately two times more, in terms of the number of aluminum electrolytic capacitors pieces ordered, it also enhances business exposure and maintain a growth in revenue.

On 13 November 2017, the Shares were successfully listed on GEM by way of public offer and placing (the “**Share Offer**”). After deducting all the relevant commission and expenses borne by the Company, there are approximately HK\$34.2 million of net proceeds from the Share Offer. The Group will utilise such net proceeds in accordance with the business strategies as set out in the Company's prospectus (the “**Prospectus**”) dated 31 October 2017.

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK\$71.9 million for the nine months ended 30 September 2017 from approximately HK\$61.9 million for the corresponding period in 2016, representing an increase of approximately 16.1%. Such increase in the Group's revenue was mainly attributable to the increase in sales orders from new customers and the increased demand of the Group's product from recurring customers.

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\$54.6 million for the nine months ended 30 September 2017 from approximately HK\$48.8 million for the nine months ended 30 September 2016, representing an increase of approximately 11.9%. The Group's cost of sales increased along with the growth in revenue for the nine months ended 30 September 2017.

Gross profit and gross profit margin

The Group's gross profit increased to approximately HK\$17.3 million for the nine months ended 30 September 2017 from approximately HK\$13.1 million for the nine months ended 30 September 2016, representing an increase of approximately 32.1%. The Group's gross profit margin was approximately 24.0% for the nine months ended 30 September 2017 and approximately 21.1% for

the nine months ended 30 September 2016. The increase in gross profit margin was mainly attributable to increase utilisation rate of our Group's production lines and decrease in raw material cost for the nine months ended 30 September 2017.

Selling and distribution expenses

The Group's selling and distribution expenses increased to approximately HK\$1.8 million for the nine months ended 30 September 2017 from approximately HK\$1.6 million for the nine months ended 30 September 2016, representing an increase of approximately 17.7%. The increase in the Group's selling and distribution expenses was in line with the increase of revenue for the nine months ended 30 September 2017.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, operating lease rentals mainly for office, entertainment and travelling expenses, depreciation of property, plant and equipment, legal and professional fees and other miscellaneous general and administrative expenses. Administrative expenses increased to approximately HK\$4.6 million for the nine months ended 30 September 2017 from approximately HK\$4.1 million for the nine months ended 30 September 2016, representing an increase of approximately 12.4%. Such increase was mainly due to the increase in rental expenses, salaries and employee benefit expenses of managerial and staff cost.

Total comprehensive (expense) income for the period

Total comprehensive (expense) income for the period decreased to a total comprehensive expense for the nine months ended 30 September 2017 of approximately HK\$3.6 million from a total comprehensive income for the nine months ended 30 September 2016 of approximately HK\$5.4 million. Such decrease of approximately HK\$12.5 million was mainly attributable to recognition of non-recurring listing expenses in the current period compared to those in the corresponding period of last year.

Basic (loss) earnings per share

The Company's basic earnings per share decreased to losses per share of approximately 0.52 HK cents for the nine months ended 30 September 2017 from earnings per share of approximately 0.99 HK cents for the nine months ended 30 September 2016, representing a decrease of approximately 1.51 HK cents. Such decrease is in line with the decrease in the profit and total comprehensive income attributable to owners of the Company during the nine months ended 30 September 2017.

RESERVES

Movements in the reserves of the Group for the nine months ended 30 September 2017 are set out above in the unaudited condensed consolidated statement of changes in equity.

DIVIDEND

No dividend was paid, proposed or declared for the ordinary shareholders of the Company for the nine months ended 30 September 2017 (For the nine months ended 30 September 2016: Nil).

CAPITAL COMMITMENTS

As at 30 September 2016 and 2017, the Group did not have any significant capital commitments.

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 September 2017, 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 September 2016 and 2017.

FUTURE PROSPECTS

The Shares were successfully listed on GEM on the Listing Date. The Board considers that such public listing status on the Stock Exchange allows the Company to access the capital market for corporate finance exercise which assists the Company in the future business development, enhances the Group's corporate profile and recognition and strengthens the Group's competitiveness.

As our manufactured products, namely aluminum electrolytic capacitors, are generic products and are readily available from other suppliers, selling price is an important factor for our customers in making procurement decision. As price of aluminum electrolytic capacitor is expected to continue to fall, the Group faces strong pressure to reduce cost and increase production efficiency to maintain price competitiveness.

Although the number of competitors has been increasing in the PRC along with the excess capacity and intense competition in the industry, the demand for our Group's products remained strong.

Our high utilisation rate of existing plant for chip type aluminum electrolytic capacitors means that we cannot achieve a higher economy of scale unless we expand our production capacity. Our plan to expand our production capacity is therefore an integral step for us to achieve our short term business strategy of maintaining our competitiveness in terms of product pricing.

The Group's expansion plan also allows us the room to grow our market share and consolidate our position in the PRC. This will in turn enable us to increase brand awareness, increase resources for our research and development effort, and hence help maintain our ability to compete with other market players on reputation and product quality which are the cores of our long term business strategy.

We plan to identify a suitable premise in Dongguan, Guangdong Province, the PRC to relocate the existing production lines of the radial lead type aluminum electrolytic capacitors to the new production plant, so that the existing Dongguan production plant has the necessary space to install new machinery for the expansion of the production of chip type aluminum electrolytic capacitors.

Our Group also intends to maintain our research and development effort by recruiting more research and development staff to improve our production efficiency, reduce yield loss, and reduce the maintenance frequency of our production equipment.

We believe that in the long run, our branded products will have a higher gross profit margin when we build up our reputation as a reliable manufacturer over time. It is therefore important for us to promote our branded products through marketing events and to establish direct sales team.

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 the date of this announcement, 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) Interests 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) Interests 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 the date of this announcement, none of the Directors or chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV

of the SFO (including interests and short positions which were taken or deemed to have taken under the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

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

As at the date of this announcement, 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:

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 the long position in the share interest.
- (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 the date of this announcement, 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 from the Listing Date to the date of this announcement.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period under review, 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, 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.

Since the Listing Date up to the date of this announcement, the Company has complied with the CG Code except for the following deviation:

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Boon is the chairman and the chief executive officer of the Company. 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.

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 from the Listing Date to the date of this announcement.

INTERESTS OF THE COMPLIANCE ADVISER

As at the date of this announcement, 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 quarterly results for the nine months ended 30 September 2017.

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

Hong Kong, 14 November 2017

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