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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 2017

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\$109.7 million for the year ended 31 December 2017, representing an increase of approximately HK\$16.9 million or 18.2% as compared to approximately HK\$92.8 million for the year ended 31 December 2016.
- The Group's gross profit margin remained steady at approximately 22.1% for the year ended 31 December 2017 and approximately 22.8% for the year ended 31 December 2016.
- Excluding the non-recurring listing expenses, profit for the year of the Company for the year ended 31 December 2017 would have been approximately HK\$13.1 million, representing an increase of approximately HK\$1.8 million or 16.1% as compared with the year ended 31 December 2016.
- Basic earnings per share decreased to loss per share of approximately 0.10 HK cents for the year ended 31 December 2017 from earnings per share of approximately 1.52 HK cents for the year ended 31 December 2016.
- The Board does not recommend the payment of any dividend for the year ended 31 December 2017.

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 2017 together with the comparative audited figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>NOTES</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	4	109,677	92,774
Cost of sales		<u>(85,448)</u>	<u>(71,625)</u>
Gross profit		24,229	21,149
Other income		1,145	200
Other gains and losses		(352)	46
Selling and distribution costs		(2,551)	(2,308)
Administrative expenses		(7,937)	(5,199)
Finance costs		(246)	(284)
Listing expenses		<u>(13,722)</u>	<u>(2,171)</u>
Profit before taxation		566	11,433
Income tax expense	5	<u>(1,173)</u>	<u>(2,307)</u>
(Loss) profit for the year		(607)	9,126
Other comprehensive income (expense) for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>3,277</u>	<u>(2,022)</u>
Total comprehensive income for the year		<u>2,670</u>	<u>7,104</u>
(Loss) earnings per share — basic <i>(Hong Kong cents)</i>	7	<u>(0.10)</u>	<u>1.52</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Aa at 31 December 2017

	<i>NOTES</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		29,237	22,126
Deposit for acquisition of plant and equipment		2,793	—
		<u>32,030</u>	<u>22,126</u>
Current assets			
Inventories		14,753	7,844
Trade and bills receivables	8	33,888	36,592
Deposits, prepayments and other receivables		1,324	2,266
Bank balances and cash		45,002	7,927
		<u>94,967</u>	<u>54,629</u>
Current liabilities			
Trade payables	9	20,902	17,579
Other payables and accruals		8,447	11,506
Amount due to a shareholder		—	6,584
Tax payable		2,133	2,901
Bank borrowings		3,829	4,298
Bank overdraft		—	1,958
		<u>35,311</u>	<u>44,826</u>
Net current assets		<u>59,656</u>	<u>9,803</u>
Total assets less current liabilities		<u>91,686</u>	<u>31,929</u>
Non-current liability			
Deferred tax liabilities		93	178
		<u>91,593</u>	<u>31,751</u>
Capital and reserves			
Share capital		8,000	— ⁺
Reserves		83,593	31,751
		<u>91,593</u>	<u>31,751</u>

⁺ Less than HK\$1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands 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 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 and wholly-owned by Mr. Boon Ho Yin Henry (“**Mr. Boon**” or the “**Controlling Shareholder**”), who is also the Chairman and chief executive officer of the Company.

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

The Company is an investment holding company. The Group is principally engaged in the manufacturing and trading of aluminium electrolytic capacitors and trading of electronic components.

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

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared based on the accounting policies set out in note 3 which conform with Hong Kong Financial Reporting Standards (“**HKFRS**”) and the conventions applicable for group reorganisation.

In preparing for the initial listing of the Shares on GEM of the Stock Exchange, the companies comprising the Group underwent a group reorganisation as described below (the “**Reorganisation**”). Prior to the Reorganisation, Vertical Technology Company Limited (“**Vertical Technology**”) and its subsidiaries, the operating subsidiaries of the Group, were controlled by Mr. Boon. 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 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 a consideration of 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, 韶關弘峰電子科技有限公司 (Shaoguan Hongfeng Electronics Limited), 東莞首科電子科技有限公司 (Dongguan Shouke Electronics Limited) and Vertical Engineering Company Limited, became indirect wholly-owned subsidiaries of the Company.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has consistently adopted all HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for annual periods beginning on 1 January 2017 for both current and prior years.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

4. 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 aluminium electrolytic capacitors

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

— Trading of electronic components

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

Segment revenues and results

For the year ended 31 December 2017

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

For the year ended 31 December 2016

	Sales of manufactured aluminium electrolytic capacitors <i>HK\$'000</i>	Trading of electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	<u>57,199</u>	<u>35,575</u>	<u>92,774</u>
RESULTS			
Segment profit	<u><u>16,889</u></u>	<u><u>4,260</u></u>	21,149
Unallocated expenses			(7,507)
Other income			200
Other gains and losses			46
Finance costs			(284)
Listing expenses			<u>(2,171)</u>
Profit before taxation			<u><u>11,433</u></u>

There were no inter-segment sales in both years.

The accounting policies of the operating segments are the same as the Group's accounting policies. 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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Hong Kong	26,584	24,741
PRC	72,278	50,160
Malaysia	661	10,407
Other Asian regions (<i>Note</i>)	<u>10,154</u>	<u>7,466</u>
	<u><u>109,677</u></u>	<u><u>92,774</u></u>

Note: Revenue generated from other Asian regions, other than Hong Kong, 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 (property, plant and equipment), analysed by the geographical area in which the assets are located:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Hong Kong	6,021	6,544
PRC	<u>23,216</u>	<u>15,582</u>
	<u><u>29,237</u></u>	<u><u>22,126</u></u>

5. INCOME TAX EXPENSE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax:		
Hong Kong	13	161
PRC Enterprise Income Tax (the “EIT”)	<u>2,667</u>	<u>2,121</u>
	<u>2,680</u>	<u>2,282</u>
(Over) under provision in prior year		
Hong Kong	(148)	—
PRC EIT	<u>(1,274)</u>	<u>14</u>
	(1,422)	14
Deferred tax (credit) charge	<u>(85)</u>	<u>11</u>
	<u>1,173</u>	<u>2,307</u>

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

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 has been paid or declared by the Company during both years.

7. (LOSS) EARNINGS PER SHARE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Earnings:		
(Loss) earnings for the purpose of calculating basic (loss) earnings per share ((loss) profit for the year)	<u>(607)</u>	<u>9,126</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	<u>626,849,315</u>	<u>600,000,000</u>

The number of ordinary shares for the purpose of calculating basic (loss) earnings per share has been determined on the assumption that the Reorganisation as detailed in note 2 and the capitalisation issue had been effected on 1 January 2016.

No diluted (loss) earnings per share was presented as there were no potential ordinary shares in issue during the years ended 31 December 2017 and 31 December 2016.

The number of ordinary shares for the purpose of calculating basic (loss) earnings per share for the year ended 31 December 2016 and 2017 has been determined on the assumption that the Group Reorganisation had been effective on 1 January 2016.

8. TRADE AND BILLS RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	32,957	36,852
Allowance for doubtful debts	<u>(86)</u>	<u>(260)</u>
	32,871	36,592
Bills receivables	<u>1,017</u>	<u>—</u>
	<u><u>33,888</u></u>	<u><u>36,592</u></u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 to 30 days	14,483	16,151
31 to 60 days	11,266	9,156
61 to 90 days	3,606	4,644
91 to 180 days	3,336	5,728
181 days to 1 year	149	913
Over 1 year	<u>31</u>	<u>—</u>
	<u><u>32,871</u></u>	<u><u>36,592</u></u>

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

Included in the Group's trade receivables balance are debtors with aggregate carrying amounts of HK\$6,159,000 (2016: HK\$6,740,000) which are past due at the end of the year for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

9. TRADE PAYABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade payables	<u>20,902</u>	<u>17,579</u>

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.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 to 30 days	12,085	10,410
31 to 60 days	6,006	4,162
61 to 90 days	1,579	1,986
91 to 180 days	1,232	446
181 days to 1 year	—	284
Over 1 year	—	291
	<u>20,902</u>	<u>17,579</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

The Group's advanced technology portfolio in the capacitors market, coupled with the management team's technical know-how and proven track record in operations, technology development and customer service, has positioned the Group well for long term growth. The past year was a milestone year for the Group in many aspects, in particular the Group has successfully listed on GEM last year through public offering and placing. This offering enabled the Group to have an additional funding of HK\$34.8 million for the implementation of its expansion plans as stated in the prospectus of the Company. The proceeds are planned to be used to enhance the production capacity of the Group's chip type aluminum electrolytic capacitors; to expand its product plant and production lines; to recruit additional research and development staff, and also to be used on brand promotion and marketing activities.

Among other things, the Group generated record revenue of HK\$109.7 million, the highest in the Group's past years history. Such increase was mainly due to the increased demand for the Group's chip type and radial lead type aluminum electrolytic capacitor products, in which the segment revenue for the sales of manufactured aluminium electrolytic capacitors recorded an increase of approximately HK\$21.2 million or 37.0% from approximately HK\$57.2 million for the year ended 31 December 2016 to approximately HK\$78.4 million for the year ended 31 December 2017.

Continued research and technology development in capacitors manufacturing process resulted the Group to have a total of 13 utility model patents registered in China and 3 utility model patents and 1 invention patent are being applied for registration in China. The Group also expanded its production lines leading the Group's monthly production capacity increased from 50 million units to 70 million units.

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

The Group intends to maintain and continue to build their knowledge base of designs and engineering solutions to expand the range of value-added services and strengthen the quality of products they deliver. To achieve this goal, the Group continued its research and development effort on manufacturing process improvement by expanding its research and development team in the PRC to enhance technology and development capabilities so that it can develop and introduce new designs and products that would meet its customer's need. The Group also continued to invest in the development of its patented manufacturing methods with the aim to achieve lower production cost and to overcome the barrier of production scale.

In the future, the Group will endeavour to meet the requirements for specific customized products, so as to gradually develop the front-end demand in the market and customized 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 achieve further growth for the Group through increasing its production capacity, and offering new products to capture a wider customer base in the markets.

Notwithstanding the encouraging result the Group has achieved in 2017, the Group continued to adopt a prudent approach in implementing its expansion plans and will closely monitor the market with a view to reacting to market changes with appropriate countermeasures in the interests of the Company and its shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK\$109.7 million for the year ended 31 December 2017 from approximately HK\$92.8 million for the corresponding period in 2016, representing an increase of approximately 18.2%. Such increase in the Group's revenue was mainly attributable to the increase in sales orders from new customers and the increased demand for the Group's product from recurring customers. The turnover derived from sales of self-manufacturing products demonstrated a growth of approximately 37.0% during the year as compared to the same period in last year.

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\$85.4 million for the year ended 31 December 2017 from approximately HK\$71.6 million for the year ended 31 December 2016, representing an increase of approximately 19.3%. The Group's cost of sales increased along with the growth in revenue for the year ended 31 December 2017.

Gross profit and gross profit margin

The Group's gross profit increased to approximately HK\$24.2 million for the year ended 31 December 2017 from approximately HK\$21.1 million for the year ended 31 December 2016, representing an increase of approximately 14.6%. The Group's gross profit margin remained steady at approximately 22.1% for the year ended 31 December 2017 and approximately 22.8% for the year ended 31 December 2016.

Selling and distribution expenses

The Group's selling and distribution expenses increased to approximately HK\$2.6 million for the year ended 31 December 2017 from approximately HK\$2.3 million for the year ended 31 December 2016, representing an increase of approximately 10.5%, mainly due to an increase in the warehouse charges and transportation expenses as a result of the Group's increase in the scale of business.

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\$7.9 million for the year ended 31 December 2017 from approximately HK\$5.2 million for the year ended 31 December 2016, representing an increase of approximately 52.7%. Such increase was mainly due to the increase in insurance, professional fee, rental expenses, salaries and employee benefit expenses of managerial and staff cost.

Income tax expenses

Income tax expense decreased by approximately HK\$1.1 million, or 49.2%, from approximately HK\$2.3 million for the year ended 31 December 2016 to approximately HK\$1.2 million for the year ended 31 December 2017. The decrease was primarily attributable to the decrease in the applicable tax rate as one of the major subsidiary is granted tax incentives as a High and New Technology Enterprise and is entitled to a preferential tax rate of 15%.

Total comprehensive income for the year

Total comprehensive income for the year changed from a total comprehensive income for the year ended 31 December 2016 of approximately HK\$7.1 million to a total comprehensive income of approximately HK\$2.7 million for the year ended 31 December 2017. Such a decrease was mainly because of the recognition of non-recurring listing expenses in the year.

Basic (loss) earnings per share

The Company's basic earnings per share decreased to loss per share of approximately 0.10 HK cents for the year ended 31 December 2017 from earnings per share of approximately 1.52 HK cents for the year ended 31 December 2016, representing a decrease of approximately 1.62 HK cents. Such a decrease was mainly due to the listing expenses recognised during the year as discussed above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the Group has total assets of approximately HK\$127.0 million (2016: HK\$76.8 million), which is financed by total liabilities, shareholders' equity (comprising share capital and reserve) of approximately HK\$35.0 million (2016: HK\$45.0 million), approximately HK\$91.6 million (2016: HK\$31.8 million) respectively. The current ratio as at 31 December 2017 of the Group was approximately 2.7 times (2016: approximately 1.2 times).

During the year ended 31 December 2017, the Group raised net proceeds from public offering and placing ("**Placing**") of approximately HK\$34.8 million. The net cash used in operating activities of approximately HK\$3.7 million included listing expenses paid of approximately HK\$9.3 million.

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK\$45.0 million (2016: HK\$7.9 million).

The total interest-bearing bank borrowing of the Group as at 31 December 2017 was approximately HK\$3.8 million (2016: HK\$6.3 million). The gearing ratio (calculated based on interest bearing bank borrowings, divided by total equity) of the Group as of 31 December 2017 was 0.04 times (2016: 0.2 times).

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2017 are set out above in the consolidated statement of changes in equity.

DIVIDEND

No dividend was paid, proposed or declared for the ordinary shareholders of the Company for the year ended 31 December 2017 (for the year ended 31 December 2016: Nil).

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately HK\$2.8 million (31 December 2016: Nil). Such commitments primarily related to purchases of equipment and machineries for the expansion of the Group's production capacity.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 17 March 2017, the Group completed the reorganisation steps, details of which are set out in the prospectus. Subsequent to the completion of the reorganisation steps and up to 31 December 2017, the Group did not have any acquisition or disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 December 2016 and 2017.

CHARGES ON GROUP'S ASSETS

As at 31 December 2017, the leasehold land and building with the carrying value of approximately HK\$5.2 million (2016: HK\$5.4 million) is pledged to a bank to secure banking facilities granted to the Group.

EMPLOYEE INFORMATION

As at 31 December 2017, the Group had 154 full-time employees (31 December 2016: 140 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2017 was HK\$15.6 million (2016: HK\$12.0 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	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
US\$	—	(2,268)	1,561	3,042
RMB	(223)	(206)	30	60

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.

USE OF PROCEEDS FROM THE PLACING

The net proceeds from Placing amounted to approximately HK\$34.8 million. As at 31 December 2017, approximately HK\$12.5 million from the net proceeds raised from the Placing has been applied towards the purchase of equipment for the expansion of the production line of the Group's chip-type aluminium electrolytic capacitors. Approximately HK\$97,000 has been applied towards the Group's brand promotion and marketing expenses. The unused proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong.

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.

Since the Listing Date up to the date of this announcement, the Company has complied with the applicable code provisions as set out in the CG Code except for the deviation from code provision A.2.1 which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Boon is the Chairman and the Chief Executive Officer of the Company and is responsible for the Group's major decision-making, overall strategic planning, determining corporate policies and daily operation and management of the Group. In 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

From the Listing Date to 31 December 2017, 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 from the Listing Date to the date of this announcement.

EVENTS AFTER THE REPORTING DATE

As from 31 December 2017 to the date of this announcement, no significant events have occurred.

SUFFICIENCY OF PUBLIC FLOAT

Based on 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 since the Listing Date and up to the date of this announcement.

ANNUAL GENERAL MEETING (THE "AGM")

The forthcoming AGM of the Company will be held on Monday, 7 May 2018 at 10:30 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, 2 May 2018 to Monday, 7 May 2018, 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 Monday, 30 April 2018.

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 2017.

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

Hong Kong, 19 March 2018

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.