

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

FIRST
QUARTERLY REPORT
2018

The background features a complex geometric design. It consists of several overlapping triangles in shades of orange, yellow, and brown. A prominent diagonal line runs from the bottom left towards the top right. To the right of this line, there is a yellow rectangular area with a fine grid pattern. A white line graph with several data points is overlaid on this grid. The overall aesthetic is modern and corporate.

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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.

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*This report, for which the directors (the “**Directors**”) of Vertical International Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



CONTENTS

Corporate Information	3
Financial Highlights	5
Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Unaudited Condensed Consolidated Statement of Changes in Equity	7
Notes to Unaudited Condensed Consolidated Financial Statements	8
Management Discussion and Analysis	14
Corporate Governance and Other Information	19

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Boon Ho Yin Henry (*Chairman and Chief Executive Officer*)

Ms. Chow Cheung Chu

Independent Non-executive Directors

Mr. Liu Kwan

Mr. Chik Kin Man Paul

Mr. Wong Wai Leung

BOARD COMMITTEES

Audit Committee

Mr. Wong Wai Leung (*Chairman*)

Mr. Liu Kwan

Mr. Chik Kin Man Paul

Remuneration Committee

Mr. Chik Kin Man Paul (*Chairman*)

Mr. Liu Kwan

Mr. Boon Ho Yin Henry

Nomination Committee

Mr. Boon Ho Yin Henry (*Chairman*)

Mr. Liu Kwan

Mr. Chik Kin Man Paul

COMPLIANCE OFFICER

Mr. Boon Ho Yin Henry

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 9, 27/F

W50

50 Wong Chuk Hang Road

Hong Kong

COMPANY SECRETARY

Ms. Cheung Yuet Fan

AUTHORISED REPRESENTATIVES

Mr. Boon Ho Yin Henry

Ms. Cheung Yuet Fan

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

35/F, One Pacific Place

88 Queensway

Hong Kong

COMPLIANCE ADVISER

Vinco Capital Limited

Units 4909–4910, 49/F

The Center

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Hong Kong

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**HONG KONG BRANCH SHARE
REGISTRAR AND TRANSFER
OFFICE**

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANK

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

COMPANY WEBSITE ADDRESS

www.verticaltech.com.cn

STOCK CODE

8375

FINANCIAL HIGHLIGHTS

For the three months ended 31 March 2018, turnover of the Group was approximately HK\$27.3 million, representing an increase of approximate 9.6% as compared to the corresponding period in 2017.

The Group's gross profit margin at approximately 22.2% for the three months ended 31 March 2018 and approximately 19.4% for the three months ended 31 March 2017.

Profit of the Group for the three months ended 31 March 2018 amounted to approximately HK\$1.2 million, while the Group recorded a loss of approximately HK\$1.9 million for the three months ended 31 March 2017 as non-recurring listing expenses of approximately HK\$3.5 million was incurred in the result for the three months ended 31 March 2017.

Basic earnings per share for the three months ended 31 March 2018 was approximately 0.15 HK cents, and basic loss per share for the three months ended 31 March 2017 was approximately 0.32 HK cents.

The Board does not recommend the payment of any dividend for the three months ended 31 March 2018. During the three months ended 31 March 2017, no dividend was paid or declared.

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 ended 31 March 2018 together with the comparative unaudited figures for the corresponding period in 2017 are set out as follows:

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

For the three months ended 31 March 2018

		For the three months ended 31 March	
	<i>NOTES</i>	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	4	27,257	24,878
Cost of sales		(21,201)	(20,041)
Gross profit		6,056	4,837
Other income		121	59
Other gains and losses, net		(399)	7
Selling and distribution expenses		(1,176)	(626)
Administrative expenses		(3,088)	(2,407)
Finance costs		(35)	(60)
Listing expenses		—	(3,464)
Profit (loss) before taxation		1,479	(1,654)
Income tax expenses	5	(272)	(279)
Profit (loss) for the period		1,207	(1,933)
Other comprehensive income for the period			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		1,490	544
Total comprehensive income (expense) for the period		2,697	(1,389)
Earnings (loss) per share — basic (Hong Kong cents)	7	0.15	(0.32)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2018

	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 2017 (audited)	— ⁺	—	20,000	1,764	(2,154)	12,141	31,751
Loss for the period	—	—	—	—	—	(1,933)	(1,933)
Exchange differences arising on translation of foreign operations	—	—	—	—	544	—	544
Total comprehensive expense for the period	—	—	—	—	544	(1,933)	(1,389)
Effect of the reorganisation (note 2)	—	20,000	(20,000)	—	—	—	—
At 31 March 2017 (unaudited)	— ⁺	20,000	—	1,764	(1,610)	10,208	30,362
At 1 January 2018 (audited)	8,000	69,172	—	3,265	1,123	10,033	91,593
Profit for the period	—	—	—	—	—	1,207	1,207
Exchange differences arising on translation of foreign operations	—	—	—	—	1,490	—	1,490
Total comprehensive income for the period	—	—	—	—	1,490	1,207	2,697
At 31 March 2018 (unaudited)	8,000	69,172	—	3,265	2,613	11,240	94,290

+ Less than HK\$1,000

NOTES TO UNAUDITED CONDENSED 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 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 aluminum electrolytic capacitors and trading of electronic components.

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

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

In preparing for the initial listing of the shares of the Company 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 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.

The unaudited condensed consolidated financial information for the three months ended 31 March 2018 and 2017 of the companies comprising the Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the three months ended 31 March 2018 and 2017, or since their respective dates of incorporation, where this is a shorter period.

3. BASIS OF PREPARATION

This unaudited condensed consolidated financial statement for the three months ended 31 March 2018 (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 Hong Kong dollars 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 the year ended 31 December 2017.

The unaudited condensed consolidated financial statements have not been audited by the Company's auditor, but have been reviewed by the audit committee of the Company (the "**Audit Committee**").

4. REVENUE

Revenue represents revenue arising on sales of manufactured aluminum electrolytic capacitors and trading of electronic components for the three months ended 31 March 2018.

An analysis of the Group's revenue for the three months ended 31 March 2018 is as follows:

	Three months ended 31 March	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Sale of manufactured aluminum electrolytic capacitors	19,965	16,129
Trading of electronic components	7,292	8,749
	27,257	24,878

5. INCOME TAX EXPENSES

	Three months ended 31 March	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Current Tax:		
The People's Republic of China ("PRC")		
Enterprise Income Tax ("EIT")	412	279
	412	279
Deferred tax credit	(140)	—
	272	279

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 three months ended 31 March 2018 (For the three months ended 31 March 2017: Nil).

7. EARNINGS (LOSS) PER SHARE

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

	Three months ended 31 March	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Earnings (loss):		
Earnings (loss) for the purpose of calculating basic earnings (loss) per share (profit (loss) for the period)	1,207	(1,933)
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	800,000	600,000

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 effected on 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.

The number of ordinary shares for the purposes of calculating basic earnings (loss) per share for the three months ended 31 March 2018 and 2017 has been determined on the assumption that the Group Reorganisation had been effective throughout both periods.

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 three months ended 31 March 2018 was derived from the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components.

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

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

For the three months ended 31 March 2018, the Group recorded increases in revenue of approximately 9.6% and gross profit of approximately 25.2% as compared with those for the corresponding period in 2017. Such increases were mainly due to the increased demand for our Group's chip type and radial lead type aluminum electrolytic capacitor products, in which the revenue for the sales of manufactured aluminum electrolytic capacitors recorded an increase of approximately HK\$3.8 million or 23.8% from approximately HK\$16.1 million for the three months ended 31 March 2017 to approximately HK\$20.0 million for the three months ended 31 March 2018. To cope with the challenging business environment, while the Group continuously secured more orders from our customers for our manufactured products, it also enhances business exposure and maintain a growth in revenue.

PROSPECTS

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

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK\$27.3 million for the three months ended 31 March 2018 from approximately HK\$24.9 million for the corresponding period in 2017, representing an increase of approximately 9.6%. 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\$21.2 million for the three months ended 31 March 2018 from approximately HK\$20.0 million for the three months ended 31 March 2017, representing an increase of approximately 5.8%. The Group's cost of sales increased along with the growth in revenue for the three months ended 31 March 2018.

Gross profit and gross profit margin

The Group's gross profit increased to approximately HK\$6.1 million for the three months ended 31 March 2018 from approximately HK\$4.8 million for the three months ended 31 March 2017, representing an increase of approximately 25.2%. The Group's gross profit margin was approximately 22.2% for the three months ended 31 March 2018 and approximately 19.4% for the three months ended 31 March 2017. 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 three months ended 31 March 2018.

Selling and distribution expenses

The Group's selling and distribution expenses increased to approximately HK\$1.2 million for the three months ended 31 March 2018 from approximately HK\$0.6 million for the three months ended 31 March 2017, mainly due to an increase in the warehouse charges and salaries as a result of the Group's increase in the scale of its business.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, operating lease rentals mainly for office, entertainment, depreciation of property, plant and equipment, legal and professional fees and other miscellaneous general and administrative expenses. Administrative expenses increased to approximately HK\$3.1 million for the three months ended 31 March 2018 from approximately HK\$2.4 million for the three months ended 31 March 2017, representing an increase of approximately 28.3%. Such increase was mainly due to the increase in professional fee, salaries and employee benefit expenses of managerial and staff cost.

Total comprehensive income (expense) for the period

Total comprehensive income (expense) for the period changed from a total comprehensive expense for the three months ended 31 March 2017 of approximately HK\$1.4 million to a total comprehensive income of approximately HK\$2.7 million for the three months ended 31 March 2018. The result turned from loss to profit is mainly due to the Company's incurrence of the non-recurring listing expenses of approximately HK\$3.5 million for the three months ended 31 March 2017 which was no longer incurred during the current period.

Earnings (loss) per share

The Company's basic earnings (loss) per share increased to earnings per share of approximately 0.15 HK cents for the three months ended 31 March 2018 from loss per share of approximately 0.32 HK cents for the three months ended 31 March 2017, representing an increase of approximately 0.47 HK cents. Such increase was mainly because of the non-recurring listing expenses of approximately HK\$3.5 million for the three months ended 31 March 2017 was no longer incurred during the current period.

RESERVES

Movements in the reserves of the Group for the three months ended 31 March 2018 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 three months ended 31 March 2018 (For the three months ended 31 March 2017: Nil).

CAPITAL COMMITMENTS

As at 31 March 2018, the Group had capital commitments contracted for but not provided in the unaudited condensed consolidated financial statements amounting to approximately HK\$8.9 million (31 March 2017: 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 March 2018, the Group did not have any acquisitions or disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

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

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

(a) Long position in the Shares of the Company

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

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

Name of Director	Nature of interest	Name of associated corporation	Number of shares interested <i>(Note 1)</i>	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 31 March 2018, 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 31 March 2018, the following persons (not being a Director or chief executive of the Company) had or were deemed or taken to have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under section 336 of the SFO who, are directly or indirectly interested in 5% or more of the Shares:

Long positions in the Shares of the Company

Name of Shareholder	Nature of interest	Number of Shares held (Note 1)	Percentage of shareholding in the Company
Vertical Investment (Note 2)	Beneficial owner	600,000,000 (L)	75%
Ms. Sun Koon Kwan ("Ms. Sun") (Note 3)	Interest of spouse	600,000,000 (L)	75%

Notes:

- (1) The letter "L" denotes long position in the share interests.
- (2) Vertical Investment is wholly and beneficially owned by Mr. Boon. He is deemed to be interested in all the Shares held by Vertical Investment under the SFO.
- (3) Ms. Sun is the spouse of Mr. Boon. Ms. Sun is deemed to be interested in the same number of Shares in which Mr. Boon is interested by virtue of the SFO.

Save as disclosed above, as at 31 March 2018, none of the Directors is aware of any other person who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under Section 336 of the SFO, who are directly or indirectly interested in 5% or more of the Shares.

SHARE OPTION SCHEME

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Required Standard of Dealings as the code for securities transactions by the Directors on the guidelines as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Further, the Company had made specific enquiry with all Directors and each of them has confirmed his/her compliance with the Required Standard of Dealings during the three months ended 31 March 2018.

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

DIRECTORS’ INTEREST IN COMPETING BUSINESS

During the three months ended 31 March 2018, none of the Directors or the controlling shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to achieving good corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders of the Company, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

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

During the three months ended 31 March 2018, the Company has complied with the applicable code provisions as set out in the CG Code except for the deviation from code provision A.2.1 which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Boon is the Chairman and the Chief Executive Officer of the Company and is responsible for the Group’s major decision-making, overall strategic planning, determining corporate policies and daily operation and management of the Group. In the view that Mr. Boon is one of the founders of the Group and he has been operating and managing the Group since its establishment, the Board believes that it is in the best interest of the Group to have Mr. Boon taking up both roles for effective management and business development of the Group. Therefore, the Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed the Company’s listed securities during the three months ended 31 March 2018.

INTERESTS OF THE COMPLIANCE ADVISER

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

AUDIT COMMITTEE

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

The primary duties of the Audit Committee are to assist the Board in providing an independent review of the effectiveness of the Group’s internal audit function, financial reporting process, internal control and risk management systems, and to oversee the audit process. The Audit Committee had reviewed the unaudited quarterly results for the three months ended 31 March 2018.

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

Hong Kong, 7 May 2018