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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 FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2019

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

- For the three months ended 31 March 2019, turnover of the Group was approximately HK\$18.9 million, representing a decrease of approximate 30.6% as compared to the corresponding period in 2018.
- The Group's gross profit margin at approximately 18.1% for the three months ended 31 March 2019 and approximately 22.2% for the three months ended 31 March 2018.
- Loss of the Group for the three months ended 31 March 2019 amounted to approximately HK\$0.5 million, while the Group recorded a profit of approximately HK\$1.2 million for the three months ended 31 March 2018.
- Basic loss per share for the three months ended 31 March 2019 was approximately 0.06 HK cents, and basic earnings per share for the three months ended 31 March 2018 was approximately 0.15 HK cents.
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2019. During the three months ended 31 March 2018, 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 2019 together with the comparative unaudited figures for the corresponding period in 2018 are set out as follows:

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

For the three months ended 31 March 2019

		For the three months ended 31 March	
		2019	2018
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue	3	18,907	27,257
Cost of sales		(15,482)	(21,201)
Gross profit		3,425	6,056
Other income		207	121
Other gains and losses, net		(52)	(399)
Selling and distribution expenses		(869)	(1,176)
Administrative expenses		(3,047)	(3,088)
Finance costs		(121)	(35)
(Loss) profit before taxation		(457)	1,479
Income tax expenses	4	(37)	(272)
(Loss) profit for the period		(494)	1,207
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		1,381	1,490
Total comprehensive income for the period		887	2,697
(Loss) earnings per share — basic (Hong Kong cents)	6	(0.06)	0.15

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended 31 March 2019

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)	<u>8,000</u>	<u>69,172</u>	<u>3,265</u>	<u>2,613</u>	<u>11,240</u>	<u>94,290</u>
At 1 January 2019 (audited)	8,000	69,172	10,000	(2,460)	8,431	93,143
Loss for the period	—	—	—	—	(494)	(494)
Exchange differences arising on translation of foreign operations	—	—	—	1,381	—	1,381
Total comprehensive income for the period	—	—	—	1,381	(494)	887
At 31 March 2019 (unaudited)	<u>8,000</u>	<u>69,172</u>	<u>10,000</u>	<u>(1,079)</u>	<u>7,937</u>	<u>94,030</u>

NOTES TO THE 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 addresses 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 2212, 22/F, Global Gateway Tower, 63 Wing Hong Street, Cheung Sha Wan, Hong Kong respectively. The Company is an investment holding company. The Company and its subsidiaries (collectively referred 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. BASIS OF PREPARATION

This unaudited condensed consolidated financial statement for the three months ended 31 March 2019 (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 2018.

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**”).

3. REVENUE

Revenue represents revenue arising on sales of manufactured aluminum electrolytic capacitors and trading of electronic components for the three months ended 31 March 2019.

An analysis of the Group's revenue for the three months ended 31 March 2019 is as follows:

	Three months ended 31 March 2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Sale of manufactured aluminum electrolytic capacitors	13,596	19,965
Trading of electronic components	5,311	7,292
	<u>18,907</u>	<u>27,257</u>

4. INCOME TAX EXPENSES

	Three months ended 31 March 2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Current Tax:		
The People's Republic of China ("PRC")		
Enterprise Income Tax ("EIT")	247	412
	247	412
Deferred tax credit	(210)	(140)
	<u>37</u>	<u>272</u>

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. Accordingly, for the three months ended 31 March 2018 and 2019, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK\$2 million.

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

5. DIVIDEND

No dividend was paid, proposed or declared for the ordinary shareholders of the Company for the three months ended 31 March 2019 (for the three months ended 31 March 2018: Nil).

6. (LOSS) EARNINGS PER SHARE

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

	Three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) earnings:		
(Loss) profit for the period	<u>(494)</u>	<u>1,207</u>
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	<u>800,000</u>	<u>800,000</u>
Basic (loss) earnings per share (<i>Hong Kong cents</i>)	<u>(0.06)</u>	<u>0.15</u>

No diluted (loss) earnings 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 aluminum electrolytic capacitors and trading of electronic components. The revenue for the three months ended 31 March 2019 was derived from the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components.

The business environment is changing recently due to the trade war and tariff dispute between China and the United State of America, especially for the financial performance in the first quarter of 2019 and forward could be adversely affected. The revenue and gross profit of the Group for the three months ended 31 March 2019 decreased by 30.6% and 43.4% respectively to as compared with that of the three months ended 31 March 2018 as the revenue of sales of our products decreased due to the weakening demand in the customer market under uncertain global business environment.

The current economic uncertainty which is expected to continue during the rest of 2019 affected the Group's revenue led to a corresponding significant decrease in gross profit. To cope with the challenging business environment, while the Group continuously review the business approach and will actively seek for potential business opportunities worldwide.

PROSPECTS

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

FINANCIAL REVIEW

Revenue

The Group's revenue decreased to approximately HK\$18.9 million for the three months ended 31 March 2019 from approximately HK\$27.3 million for the corresponding period in 2018, representing a decrease of approximately 30.6%. Such decrease in the Group's revenue was mainly attributable to weakening demand in the consumer market under the uncertain global business environment as a result of the trade war and tariff dispute between China and the United States of America.

Cost of sales

The Group's cost of sales primarily consists of cost of goods sold and other direct costs. The cost of sales decreased to approximately HK\$15.5 million for the three months ended 31 March 2019 from approximately HK\$21.2 million for the three months ended 31 March 2018, representing a decrease of approximately 27.0%. The Group's cost of sales decreased along with the decline in revenue for the three months ended 31 March 2019.

Gross profit and gross profit margin

The Group's gross profit decreased to approximately HK\$3.4 million for the three months ended 31 March 2019 from approximately HK\$6.1 million for the three months ended 31 March 2018, representing a decrease of approximately 43.4%. The Group's gross profit margin decreased to approximately 18.1% for the three months ended 31 March 2019 from approximately 22.2% for the three months ended 31 March 2018. Such decrease was mainly due to revenue declined approximately HK\$8.4 million while the fixed manufacturing cost were not decreased in line with the revenue for the three months ended 31 March 2019.

Selling and distribution expenses

The Group's selling and distribution expenses decreased to approximately HK\$0.9 million for the three months ended 31 March 2019 from approximately HK\$1.2 million for the three months ended 31 March 2018, representing a decrease of approximately 26.1%, mainly due to decrease in the warehouse and transportation expenses.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, office supplies, depreciation of property, plant and equipment, legal and professional fees and other miscellaneous general and administrative expenses. Administrative expenses remained steady at approximately HK\$3.0 million for the three months ended 31 March 2019 and approximately HK\$3.1 million for the three months ended 31 March 2018.

Income tax expenses

Income tax expenses decreased by approximately HK\$0.2 million or 86.4%, from approximately HK\$0.3 million for the three months ended 31 March 2018 to approximately HK\$37,000 for the three months ended 31 March 2019.

(Loss) profit for the period

The Group recorded a loss for the period of HK\$0.5 million for the three months ended 31 March 2019, as compared with the profit for the period for the three months ended 31 March 2018 of approximately HK\$1.2 million. This was mainly because of the decrease in revenue and gross profit as discussed above.

Basic (loss) earnings per share

The Company recorded loss per share of approximately 0.06 HK cents for the three months ended 31 March 2019 as compared with earnings per share of approximately 0.15 HK cents for the three months ended 31 March 2018, representing a decrease of approximately 0.21 HK cents. Such decrease was mainly due to the decrease of profit for the period for the three months ended 31 March 2019.

RESERVES

Movements in the reserves of the Group for the three months ended 31 March 2019 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 2019 (for the three months ended 31 March 2018: Nil).

CAPITAL COMMITMENTS

As at 31 March 2019, the Group had capital commitments contracted for but not provided for in the unaudited condensed consolidated financial statements amounting to approximately HK\$0.9 million (31 March 2018: HK\$8.9 million). Such commitments primarily related to purchases of equipment and machineries for the expansion of the Group's production capacity.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group did not have any material acquisition or disposal during the three months ended 31 March 2019.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 March 2019 and 2018.

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 2019, the interests and short positions in the shares (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 (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) 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 (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 31 March 2019, 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 2019, 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 2019, 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 2019.

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 2019, 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 2019, the Company has complied with the code provisions as set out in the CG Code except for the deviation from code provision A.2.1 which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Boon 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 2019.

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 three months ended 31 March 2019.

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

Hong Kong, 7 May 2019

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

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