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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 2021

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 2021, the Group's revenue amounted to approximately HK\$25.5 million, representing an increase of approximately HK\$9.4 million or 58.7% as compared to the corresponding period in 2020.
- The Group's gross profit margin was approximately 15.6% for the three months ended 31 March 2021 and approximately 16.0% for the three months ended 31 March 2020.
- Loss for the period for the three months ended 31 March 2021 amounted to approximately HK\$0.4 million and approximately HK\$1.5 million for the three months ended 31 March 2020.
- Basic loss per share for the three months ended 31 March 2020 and 2021 were approximately 0.19 HK cents and 0.05 HK cents respectively.
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2021. During the three months ended 31 March 2020, 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 2021 together with the comparative unaudited figures for the corresponding period in 2020 as follows:

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

For the three months ended 31 March 2021

		For the three months ended 31 March	
		2021	2020
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue	3	25,530	16,085
Cost of sales		(21,543)	(13,507)
Gross profit		3,987	2,578
Other income		357	365
Other gains and losses		(45)	26
Selling and distribution costs		(950)	(703)
Administrative expenses		(3,394)	(3,556)
Finance costs		(56)	(125)
Loss before taxation		(101)	(1,415)
Income tax expense	4	(275)	(106)
Loss for the period		(376)	(1,521)
Other comprehensive expense for the period			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations, net of nil tax		(284)	(682)
Total comprehensive expense for the period		(660)	(2,203)
Loss per share — basic and diluted (<i>Hong Kong cents</i>)	6	(0.05)	(0.19)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended 31 March 2021

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000 (note i)	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2020 (audited)	8,000	69,172	10,000	(3,775)	9,853	93,250
Loss for the period	—	—	—	—	(1,521)	(1,521)
Exchange differences arising on translation of foreign operations	—	—	—	(682)	—	(682)
Total comprehensive expense for the period	—	—	—	(682)	(1,521)	(2,203)
At 31 March 2020 (unaudited)	<u>8,000</u>	<u>69,172</u>	<u>10,000</u>	<u>(4,457)</u>	<u>8,332</u>	<u>91,047</u>
At 1 January 2021 (audited)	8,000	67,572	10,000	1,128	10,657	97,357
Loss for the period	—	—	—	—	(376)	(376)
Exchange differences arising on translation of foreign operations	—	—	—	(284)	—	(284)
Total comprehensive expense for the period	—	—	—	(284)	(376)	(660)
Issue of new shares by placing	1,600	6,560	—	—	—	8,160
Cost of issuance of new shares	—	(409)	—	—	—	(409)
At 31 March 2021 (unaudited)	<u>9,600</u>	<u>73,723</u>	<u>10,000</u>	<u>844</u>	<u>10,281</u>	<u>104,448</u>

Note i: Amount represents statutory reserve of the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, the subsidiaries in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

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 of the Company is Vertical Technology Investment Limited (“**Vertical Investment**”), a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Boon Ho Yin Henry, 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 statements for the three months ended 31 March 2021 (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 judgements, 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 judgements 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 2020.

The Financial Statements have not been audited by the Company’s auditor, but have been reviewed by the audit committee of the Company.

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 2021.

An analysis of the Group's revenue for the three months ended 31 March 2021 is as follows:

	Three months ended 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Sale of manufactured aluminum electrolytic capacitors	20,430	12,701
Trading of electronic components	5,100	3,384
	<u>25,530</u>	<u>16,085</u>

4. INCOME TAX EXPENSE

	Three months ended 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Current tax:		
The People's Republic of China (the "PRC")		
Enterprise Income Tax	<u>275</u>	<u>106</u>

No provision for taxation in Hong Kong has been made for both periods as the Company and its subsidiaries incorporated in Hong Kong has no assessable profits 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% since 2016.

5. DIVIDEND

No dividend has been paid or declared by the Company for both periods.

6. LOSS PER SHARE

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

	Three months ended 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Loss:		
Loss for the purpose of calculating basic loss per share (loss for the period)	<u>(376)</u>	<u>(1,521)</u>
	Three months ended 31 March	
	2021	2020
	<i>Number</i>	<i>Number</i>
	<i>of shares</i>	<i>of shares</i>
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>803,555,556</u>	<u>800,000,000</u>

On 30 March 2021, 160,000,000 placing shares of the Company have been successfully placed by Kingsway Financial Services Group Limited. Details are set out in the Company's announcement dated 30 March 2021.

No diluted loss per share was presented as there were no dilutive 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, including semiconductor devices and passive components.

The prolonged outbreak of the coronavirus disease 2019 (COVID-19) continues to bring uncertainties to the market. The business environment remains difficult and challenging.

For three months ended 31 March 2021, the revenue of the Group increased by approximately 58.7% to approximately HK\$25.5 million from approximately HK\$16.1 million for the three months ended 31 March 2020. The gross profit of the Group increased by approximately 54.7% to approximately HK\$4.0 million for the three months ended 31 March 2021 from approximately HK\$2.6 million for the three months ended 31 March 2020.

Despite short-term pressure on customer's demand due to the overall declining economy, the Group's ability to provide a cost-effective and more flexible supply chain and shorten the production cycle is helping it to build up more long-lasting customer relationships in the medium term which remains the key to the Group's growth momentum. Revenue from sales of the Group's self-manufactured aluminum electrolytic capacitor, increased substantially from approximately HK\$12.7 million for the three months ended 31 March 2020 to approximately HK\$20.4 million for the three months ended 31 March 2021.

PROSPECTS

Given the dynamic circumstances and uncertainties of the COVID-19 situation, global economic growth may further slow down. Although this may pose a new challenge to the Group's business, the Group remains 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.

The current economic uncertainty is expected to continue. To cope with the challenging business environment, the Group will continuously review its business approach.

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK\$25.5 million for the three months ended 31 March 2021 from approximately HK\$16.1 million for the corresponding period in 2020, representing an increase of approximately 58.7%. Such increase in the Group's revenue was mainly attributable to the Group's aggressive pricing strategy to increase its market share in order to neutralize the impact of global economic uncertainty.

The revenue for the sales of manufactured aluminum electrolytic capacitors increased by approximately 60.9%, from approximately HK\$12.7 million for the three months ended 31 March 2020 to approximately HK\$20.4 million for the three months ended 31 March 2021. The revenue derived from sales of trading electronic components increased to approximately HK\$5.1 million for the three months ended 31 March 2021 from approximately HK\$3.4 million for the three months ended 31 March 2020.

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\$21.5 million for the three months ended 31 March 2021 from approximately HK\$13.5 million for the three months ended 31 March 2020, representing an increase of approximately 59.5%. The Group's cost of sales increased along with the growth in revenue for the three months ended 31 March 2021.

Gross profit and gross profit margin

The Group's gross profit increased to approximately HK\$4.0 million for the three months ended 31 March 2021 from approximately HK\$2.6 million for the three months ended 31 March 2020, representing an increase of approximately 54.7%. The Group's gross profit margin remained steady at approximately 15.6% for the three months ended 31 March 2021 and approximately 16.0% for the three months ended 31 March 2020.

Selling and distribution costs

The Group's selling and distribution costs increased to approximately HK\$1.0 million for the three months ended 31 March 2021 from approximately HK\$0.7 million for the three months ended 31 March 2020, representing an increase of approximately HK\$0.3 million. This increase was mainly due to increase in sales commission paid.

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 decreased to approximately HK\$3.4 million for the three months ended 31 March 2021 from approximately HK\$3.6 million for the three months ended 31 March 2020, representing a decrease of approximately HK\$0.2 million. Such decrease was mainly due to the decrease in professional fee.

Income tax expense

Income tax expenses increased by approximately HK\$0.2 million, from approximately HK\$0.1 million for the three months ended 31 March 2020 to approximately HK\$0.3 million for the three months ended 31 March 2021.

Loss for the period

As a result of the cumulative factors discussed above, the Group recorded a loss for the period of approximately HK\$0.4 million for the three months ended 31 March 2021, as compared with the loss for the period for the three months ended 31 March 2020 of approximately HK\$1.5 million, representing a reduced loss of approximately HK\$1.1 million.

Basic loss per share

The basic loss per share for the three months ended 31 March 2021 was approximately 0.05 HK cents, whereas basic loss per share for the three months ended 31 March 2020 was approximately 0.19 HK cents, representing a decrease of approximately 0.14 HK cents.

RESERVES

Movements in the reserves of the Group for the three months ended 31 March 2021 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 2021 (for the three months ended 31 March 2020: HK\$Nil).

CAPITAL COMMITMENTS

As at 31 March 2021, the Group did not have any significant capital commitments (31 March 2020: HK\$Nil).

MATERIAL ACQUISITIONS OR DISPOSALS

The Group did not have any material acquisition or disposal during the three months ended 31 March 2021.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 31 March 2021 and 2020.

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 2021, 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 (Chapter 571 of the Laws of Hong Kong) (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 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)	62.5%

(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 2021, none of the Directors or chief executive of the Company had 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 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 2021, 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)	62.5%
Ms. Sun Koon Kwan ("Ms. Sun") (Note 3)	Interest of spouse	600,000,000 (L)	62.5%

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 2021, 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 2021.

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 2021, 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 2021, 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 any of the Company's listed securities during the three months ended 31 March 2021.

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 of the Company for the three months ended 31 March 2021.

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

Hong Kong, 7 May 2021

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 Listed Company Information” 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.