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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 six months ended 30 June 2020, revenue of the Group was approximately HK\$37.6 million, representing a decrease of approximately 9.0% as compared to the corresponding period in 2019.
- The Group's gross profit margin was approximately 14.6% for the six months ended 30 June 2020 and approximately 17.9% for the six months ended 30 June 2019.
- Loss for the period of the Group for the six months ended 30 June 2020 amounted to approximately HK\$1.5 million and approximately HK\$1.1 million for the six months ended 30 June 2019.
- Basic loss per share for the six months ended 30 June 2020 was approximately 0.18 HK cents and approximately 0.13 HK cents for the six months ended 30 June 2019.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2020. On 20 March 2020, the Board recommended the payment of a final dividend of 0.2 HK cents per Share, amounting to HK\$1.6 million, in respect of the year ended 31 December 2019 (2018: Nil). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 7 May 2020 and was paid to the shareholders of the Company on 8 June 2020.

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 six months ended 30 June 2020 together with the comparative unaudited figures for the corresponding period in 2019 as follows:

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

For the six months ended 30 June 2020

		For the three months ended 30 June		For the six months ended 30 June	
		2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (unaudited)	2019 <i>HK\$'000</i> (unaudited)
	<i>NOTES</i>				
Revenue	3	21,500	22,415	37,585	41,322
Cost of sales		(18,577)	(18,435)	(32,084)	(33,917)
Gross profit		2,923	3,980	5,501	7,405
Other income		502	311	867	518
Other gains and losses	4	141	72	167	20
Selling and distribution cost		(526)	(840)	(1,229)	(1,709)
Administrative expenses		(2,672)	(3,399)	(6,228)	(6,446)
Finance costs	5	(94)	(175)	(219)	(371)
(Loss) profit before taxation	6	274	(51)	(1,141)	(583)
Income tax expense	7	(208)	(442)	(314)	(479)
(Loss) profit for the period		66	(493)	(1,455)	(1,062)
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		(294)	(2,014)	(976)	(633)
Total comprehensive expense for the period		(228)	(2,507)	(2,431)	(1,695)
(Loss) earnings per share — basic and diluted (<i>Hong Kong cents</i>)	9	0.01	(0.06)	(0.18)	(0.13)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		As at 30 June 2020 <i>HK\$'000</i> (unaudited)	As at 31 December 2019 <i>HK\$'000</i> (audited)
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment	10	41,657	42,335
Right-of-use assets		2,272	3,439
		<u>43,929</u>	<u>45,774</u>
Current assets			
Inventories		10,078	9,365
Trade and bills receivables	11	26,738	25,072
Bills receivables at fair value through other comprehensive income		1,997	447
Deposits, prepayments and other receivables		4,942	2,930
Bank balances and cash		27,335	38,919
		<u>71,090</u>	<u>76,733</u>
Current liabilities			
Trade and bills payables	12	14,464	10,058
Other payables and accruals		1,452	3,616
Tax payable		1,340	1,380
Lease liabilities		1,909	2,453
Bank borrowings	13	6,232	10,646
		<u>25,397</u>	<u>28,153</u>
Net current assets		<u>45,693</u>	<u>48,580</u>

		As at 30 June 2020 <i>NOTES</i> <i>HK\$'000</i> (unaudited)	As at 31 December 2019 <i>HK\$'000</i> (audited)
Total assets less current liabilities		89,622	94,354
Non-current liabilities			
Lease liabilities		403	1,104
		403	1,104
NET ASSETS		89,219	93,250
Capital and reserves			
Share capital	14	8,000	8,000
Reserves		81,219	85,250
TOTAL EQUITY		89,219	93,250

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company					
	Share capital	Share premium	Statutory reserve	Exchange reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000 (note i)	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019 (audited)	8,000	69,172	10,000	(2,460)	8,431	93,143
Adjustment on application of HKFRS 16	—	—	—	—	(124)	(124)
Adjusted balance of 1 January 2019	8,000	69,172	10,000	(2,460)	8,307	93,019
Loss for the period	—	—	—	—	(1,062)	(1,062)
Exchange differences arising on translation of foreign operations	—	—	—	(633)	—	(633)
Total comprehensive expense for the period	—	—	—	(633)	(1,062)	(1,695)
At 30 June 2019 (unaudited)	<u>8,000</u>	<u>69,172</u>	<u>10,000</u>	<u>(3,093)</u>	<u>7,245</u>	<u>91,324</u>
At 1 January 2020 (audited)	8,000	69,172	10,000	(3,775)	9,853	93,250
Loss for the period	—	—	—	—	(1,455)	(1,455)
Exchange differences arising on translation of foreign operations	—	—	—	(976)	—	(976)
Dividends recognised as distribution	—	—	—	—	(1,600)	(1,600)
Total comprehensive expense for the period	—	—	—	(976)	(3,055)	(4,031)
At 30 June 2020 (unaudited)	<u>8,000</u>	<u>69,172</u>	<u>10,000</u>	<u>(4,751)</u>	<u>6,798</u>	<u>89,219</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.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,455)</u>	<u>(2,557)</u>
INVESTING ACTIVITIES		
Placement of time deposits	(23,213)	(8,211)
Withdrawal of time deposits	23,213	5,200
Interest received	124	114
Purchase of property, plant and equipment	(2,116)	(715)
Proceeds from disposal of property, plant and equipment	<u>—</u>	<u>130</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,992)</u>	<u>(3,482)</u>
FINANCING ACTIVITIES		
New borrowings raised	704	3,962
Repayment of bank borrowings	(5,118)	(2,408)
Repayment of lease liabilities	(1,245)	(1,215)
Interest paid	(371)	(223)
Dividends paid	<u>(1,600)</u>	<u>—</u>
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	<u>(7,630)</u>	<u>116</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,077)	(5,923)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	38,919	38,158
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(507)</u>	<u>(520)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD REPRESENTED BY BANK BALANCES AND CASH	<u><u>27,335</u></u>	<u><u>31,715</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 Company has its registered office and the principal place of business at 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 acts as 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. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis.

Application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRS”)

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendment to HKFRS 16	COVID-19-Related Rent Concessions

The application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components. All of the Group's revenue is recognised when the control of goods is transferred, being when the goods are delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customer's premises as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers.

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 aluminum electrolytic capacitors**

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

— **Trading of electronic components**

Trading of electronic components represents trading of a wider range of lighting products and electronic components including integrated circuits and semi-conductors such as diodes and transistors.

The Group derives its revenue from the transfer of goods at a point in time in its major revenue stream (i) sales of manufactured aluminum electrolytic capacitors and (ii) trading of electronic components. This is consistent with the revenue information that is disclosed for each reportable segment under HKFRS 8.

For the six months ended 30 June 2020

	Sales of manufactured aluminum electrolytic capacitors <i>HK\$'000</i>	Trading of electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	<u>27,090</u>	<u>10,495</u>	<u>37,585</u>
RESULTS			
Segment profit	<u>3,918</u>	<u>1,583</u>	5,501
Unallocated expenses			(7,457)
Other income			867
Other gains and losses			167
Finance costs			<u>(219)</u>
Loss before taxation			<u>(1,141)</u>

For the six months ended 30 June 2019

	Sales of manufactured aluminum electrolytic capacitors <i>HK\$'000</i>	Trading of electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE			
External sales	<u>31,591</u>	<u>9,731</u>	<u>41,322</u>
RESULTS			
Segment profit	<u>5,845</u>	<u>1,560</u>	7,405
Unallocated expenses			(8,155)
Other income			518
Other gains and losses			20
Finance costs			<u>(371)</u>
Loss before taxation			<u>(583)</u>

There were no inter-segment sales in both periods.

Segment results represents the profit earned by each segment without allocation of unallocated expenses (including administrative expenses and selling and distribution costs), other income, other gains and losses, finance costs 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:

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
PRC	30,946	29,703
Hong Kong	2,607	4,594
Other Asian regions (<i>Note</i>)	4,032	7,025
	<u>37,585</u>	<u>41,322</u>

Note: Revenue generated from other Asian regions, other than Hong Kong and the PRC mainly derived from sales to Japan, Singapore and Macau based customers.

4. OTHER GAINS AND LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Net foreign exchange gain	142	57	168	5
Reversal of impairment loss recognised on trade receivables	—	(115)	—	(115)
Gain (loss) on write off/disposal of property, plant and equipment	<u>(1)</u>	<u>130</u>	<u>(1)</u>	<u>130</u>
	<u>141</u>	<u>72</u>	<u>167</u>	<u>20</u>

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:				
— Bank borrowings	62	104	148	223
— Lease liabilities	32	71	71	148
	<u>94</u>	<u>175</u>	<u>219</u>	<u>371</u>

6. (LOSS) PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit before taxation has been arrived at after charging:				
Depreciation:				
Property, plant and equipment	1,219	1,164	2,450	2,310
Right-of-use assets	547	574	1,167	1,149
Depreciation capitalised in inventories	<u>(1,540)</u>	<u>(1,443)</u>	<u>(3,166)</u>	<u>(2,948)</u>
Depreciation	<u>226</u>	<u>295</u>	<u>451</u>	<u>511</u>
Cost of inventories recognised as expense	<u>17,331</u>	<u>17,452</u>	<u>29,885</u>	<u>31,943</u>

7. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:				
Current tax				
The People's Republic of China				
("PRC") Enterprise Income Tax				
(the "EIT")	(208)	(442)	(314)	(479)
	<u>(208)</u>	<u>(442)</u>	<u>(314)</u>	<u>(479)</u>

No provision for taxation in Hong Kong has been made for both periods as the Company and its subsidiaries incorporated in Hong Kong have 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 the 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.

8. DIVIDENDS

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

On 20 March 2020, the Board recommended the payment of a final dividend of 0.2 HK cents per Share, amounting to HK\$1.6 million, in respect of the year ended 31 December 2019 (2018: Nil). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 7 May 2020 and was paid to the shareholders of the Company on 8 June 2020.

9. (LOSS) EARNINGS PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) earnings:				
(Loss) earnings for the purpose of calculating basic (loss) earnings per share	<u>66</u>	<u>(493)</u>	<u>(1,455)</u>	<u>(1,062)</u>
Number of shares:				
Number of ordinary shares for the purpose of calculating basic (loss) earnings per share	<u>800,000,000</u>	<u>800,000,000</u>	<u>800,000,000</u>	<u>800,000,000</u>

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

10. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired certain property, plant and equipment amounting to approximately HK\$2,116,000 (six months ended 30 June 2019: HK\$1,997,000).

During the current period, the Group disposed of property, plant and equipment with aggregate carrying amount of approximately HK\$6,600 (six months ended 30 June 2019: HK\$525,000).

11. TRADE AND BILLS RECEIVABLES

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Trade receivables	27,063	23,811
Less: Allowance for credit losses	<u>(325)</u>	<u>(170)</u>
	26,738	23,641
Bills receivables	<u>—</u>	<u>1,431</u>
	<u>26,738</u>	<u>25,072</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 credit losses at the end of each reporting period:

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
0 to 30 days	12,984	7,196
31 to 60 days	5,769	6,132
61 to 90 days	1,551	5,060
91 to 180 days	5,896	4,780
181 days to 1 year	538	473
	<u>26,738</u>	<u>23,641</u>

Bills receivables are those bills not yet due at the end of the reporting period and the management considers the default rate is low as the Group did not encounter any default on bills receivables based on the past experience. All bills received by the Group are with a maturity period of less than one year.

12. TRADE AND BILLS PAYABLES

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Trade payables	13,216	7,779
Bills payables	1,248	2,279
	<u>14,464</u>	<u>10,058</u>

The following is an aged analysis of trade payables based on the invoice dates.

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
0 to 30 days	8,223	3,877
31 to 60 days	3,313	2,570
61 to 90 days	712	893
91 to 180 days	968	284
181 days to 1 year	—	155
	<u>13,216</u>	<u>7,779</u>

13. BANK BORROWINGS

During the current period, the Group raised bank borrowings of approximately HK\$704,000 (six months ended 30 June 2019: HK\$3,962,000), and repaid bank borrowings of approximately HK\$5,118,000 (six months ended 30 June 2019: HK\$2,408,000) respectively.

The bank borrowings carry interest at best lending rate plus/minus certain basis points. The average of effective interest rates (which are also equal to contracted interest rates) ranged from 2.40% to 5.35% (31 December 2019: 2.40% to 5.28%).

14. SHARE CAPITAL

Details of movements of authorised and issued capital of the Company are as follow:

	Number of shares	Share capital HK\$
Authorised:		
At 1 January 2019, 31 December 2019 and 30 June 2020	<u>5,000,000,000</u>	<u>50,000,000</u>
Issued and fully paid:		
At 1 January 2019, 31 December 2019 (audited) and 30 June 2020 (unaudited)	<u>800,000,000</u>	<u>8,000,000</u>

15. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors and other members of senior management during the period is as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Short-term benefits	1,669	1,743
Post-employment benefits	<u>24</u>	<u>35</u>
	<u>1,693</u>	<u>1,778</u>

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 global economy in the year 2020 faces numerous issues, including the intensification of the spread of the coronavirus disease 2019 (COVID-19), the declining China economy and its impact on global market.

The revenue of the Group decreased by 9.0% to approximately HK\$37.6 million for the six months ended 30 June 2020 from approximately HK\$41.3 million for the six months ended 30 June 2019. The drop was mainly driven by the delayed factory resuming after Chinese Lunar New Year under the threat of COVID-19. The gross profit of the Group decreased by 25.7% to approximately HK\$5.5 million for the six months ended 30 June 2020 from approximately HK\$7.4 million for the six months ended 30 June 2019.

PROSPECTS

Due to the impact of the intensification of the spread of COVID-19, ongoing concerns and uncertainties, 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 decreased to approximately HK\$37.6 million for the six months ended 30 June 2020 from approximately HK\$41.3 million for the corresponding period in 2019, representing a decrease of approximately 9.0%. Such decrease in the Group's revenue was mainly due to the intensification of the spread of COVID-19 and its impact on China and the global market.

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\$32.1 million for the six months ended 30 June 2020 from approximately HK\$33.9 million for the six months ended 30 June 2019, representing a decrease of approximately 5.4%. The Group's cost of sales decreased along with the decline in revenue for the six months ended 30 June 2020.

Gross profit and gross profit margin

The Group's gross profit decreased to approximately HK\$5.5 million for the six months ended 30 June 2020 from approximately HK\$7.4 million for the six months ended 30 June 2019, representing a decrease of approximately 25.7%. The Group's gross profit margin decreased to approximately 14.6% for the six months ended 30 June 2020 from approximately 17.9% for the six months ended 30 June 2019. Such decrease was mainly due to revenue declined by approximately HK\$3.7 million while the fixed manufacturing cost were not decreased in line with the revenue for the six months ended 30 June 2020.

Selling and distribution expenses

The Group's selling and distribution expenses decreased to approximately HK\$1.2 million for the six months ended 30 June 2020 from approximately HK\$1.7 million for the six months ended 30 June 2019, representing a decrease of approximately 28.1%, mainly due to decrease in salaries and 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\$6.2 million for the six months ended 30 June 2020 from approximately HK\$6.4 million for the six months ended 30 June 2019.

Income tax expenses

Income tax expenses decreased by approximately HK\$0.2 million or 34.4%, from approximately HK\$0.5 million for the six months ended 30 June 2019 to approximately HK\$0.3 million for the six months ended 30 June 2020.

(Loss) profit for the period

The Group recorded a loss for the period of HK\$1.5 million for the six months ended 30 June 2020, as compared with the loss for the period for the six months ended 30 June 2019 of approximately HK\$1.1 million. Such decrease was mainly because of the decrease in revenue and gross profit of approximately HK\$3.7 million and HK\$1.9 million respectively for the six months ended 30 June 2020 as compared to the corresponding period in 2019.

Basic (loss) earnings per share

The Group recorded loss per share of approximately 0.18 HK cents for the six months ended 30 June 2020 as compared with loss per share of approximately 0.13 HK cents for the six months ended 30 June 2019, representing an increase of loss of approximately 0.05 HK cents. It was mainly due to the increase of loss for the period for the six months ended 30 June 2020.

RESERVES

Movements in the reserves of the Group for the six months ended 30 June 2020 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 six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

On 20 March 2020, the Board recommended the payment of a final dividend of 0.2 HK cents per Share, amounting to HK\$1.6 million, in respect of the year ended 31 December 2019 (2018: Nil). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 7 May 2020 and was paid to the shareholders of the Company on 8 June 2020.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group did not have any significant capital commitments (31 December 2019: Nil).

MATERIAL ACQUISITIONS OR DISPOSALS

The Group did not have any material acquisitions or disposals during the six months ended 30 June 2020.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 30 June 2020 and 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020 and 31 December 2019, the Group has total assets of approximately HK\$115.0 million and HK\$122.5 million respectively, which is financed by total liabilities, shareholders' equity (comprising share capital and reserves) of approximately HK\$25.8 million (31 December 2019: HK\$29.3 million) and approximately HK\$89.2 million (31 December 2019: HK\$93.2 million) respectively. The current ratio as at 30 June 2020 of the Group was approximately 2.8 times (31 December 2019: approximately 2.7 times).

As at 30 June 2020 and 31 December 2019, the Group had cash and cash equivalents of approximately HK\$27.3 million and HK\$38.9 million respectively.

The total interest-bearing bank borrowing and lease liabilities of the Group as at 30 June 2020 was approximately HK\$8.5 million (31 December 2019: HK\$14.2 million). The gearing ratio (calculated based on interest bearing bank borrowings and lease liabilities divided by total equity) of the Group as of 30 June 2020 was 0.10 times (31 December 2019: 0.15 times).

CHARGES ON GROUP'S ASSETS

As at 30 June 2020, the leasehold land and building with the carrying value of approximately HK\$4.8 million (31 December 2019: HK\$4.9 million) is pledged to a bank to secure banking facilities granted to the Group.

EMPLOYEE INFORMATION

As at 30 June 2020 and 2019, the Group had 155 and 144 full-time employees respectively, including the Directors. Total remuneration for the six months ended 30 June 2020 and 2019 was HK\$8.8 million and HK\$8.3 million respectively. 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 Group 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	
	As at 30 June 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>	As at 30 June 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
HK\$	—	5	—	—
US\$	2,515	3,677	2,503	2,124
RMB	209	26	—	55

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.

SIGNIFICANT INVESTMENTS

As at 30 June 2020, the Group did not hold any significant investments (31 December 2019: Nil).

EVENTS AFTER THE REPORTING DATE

As from 30 June 2020 to the date of this announcement, no significant event has occurred.

USE OF PROCEEDS

The net proceeds from public offering and placing (“**Share Offer**”) amounted to approximately HK\$34.8 million. These proceeds were and will be used in accordance with the business strategies as set out in the Company’s prospectus dated 31 October 2017 (the “**Prospectus**”). The unused proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong.

The net proceeds from the Share Offer from the 13 November 2017 (the “**Listing Date**”) to 30 June 2020 were used as follows:

Use of proceeds	Planned use of net proceeds (adjusted on a pro rata basis based on the actual net proceeds) <i>HK\$ million</i>	Planned use of net proceeds up to 30 June 2020 (adjusted on a pro rata basis based on the actual net proceeds) <i>HK\$ million</i>	Actual use of net proceeds up to 30 June 2020 <i>HK\$ million</i>	Unutilized proceeds as at 30 June 2020 <i>HK\$ million</i>	Expected timeline for fully utilizing the unutilized proceeds
To increase the production capacity of the Group’s chip type aluminum electrolytic capacitors	21.5	21.5	21.5	—	N/A
To establish the second production plant in Dongguan, Guangdong Province, the PRC	6.6	6.6	2.7	3.9	By 31 December 2021
To continue research and development effort	2.5	2.5	2.5	—	N/A
To promote the Group’s branded products	2.3	2.3	2.3	—	N/A
General working capital	1.9	1.9	1.9	—	N/A
	<u>34.8</u>	<u>34.8</u>	<u>30.9</u>	<u>3.9</u>	

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress from Listing Date to 30 June 2020 ("Review Period") is set out below:

Business objectives	Actual business progress during the Review Period
— To increase the production capacity of our Group's chip-type aluminum electrolytic capacitors	— The Group has fully utilized the amount for acquiring necessary machinery and equipment.
— To establish the second production plant in Dongguan, Guangdong Province, the PRC	— As at 30 June 2020, the proceeds of HK\$2.7 million were utilized to pay rental and fitting out expenses for the Group's second production plant in Dongguan. The unutilized proceeds will be used to pay the rental of the second production plant which is expected to be fully utilized by 31 December 2021. The expected timeline for fully utilizing the proceeds have been extended as compared to the initial plan as there was a delay in the rental of the second production plant and the actual rental and renovation costs were lower than anticipated.
— To continue research and development effort	— The Group has fully utilized the amount for recruiting and retaining additional staff, and investing time and resource into research and development department.
— To promote our branded products	— The Group has fully utilized the amount for recruiting additional sales staffs and issued booklets for marketing events.

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 30 June 2020, 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 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 30 June 2020, 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 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 30 June 2020, 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 30 June 2020, 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 six months ended 30 June 2020.

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 six months ended 30 June 2020, 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 six months ended 30 June 2020, 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 six months ended 30 June 2020.

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 interim results of the Company for the six months ended 30 June 2020.

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

Hong Kong, 7 August 2020

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.