



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

INTERIM REPORT 2021

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CONTENTS

| | |
|---|----|
| Corporate Information | 3 |
| Financial Highlights | 5 |
| Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 6 |
| Unaudited Condensed Consolidated Statement of Financial Position | 7 |
| Unaudited Condensed Consolidated Statement of Changes in Equity | 9 |
| Unaudited Condensed Consolidated Statement of Cash Flows | 10 |
| Notes to the Unaudited Condensed Consolidated Financial Statements | 11 |
| Management Discussion and Analysis | 23 |
| Corporate Governance and Other Information | 32 |



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Ms. Chow Cheung Chu

Independent Non-executive Directors

Mr. Liu Kwan

Mr. Chik Kin Man Paul

Mr. Wong Wai Leung

BOARD COMMITTEES

Audit Committee

Mr. Wong Wai Leung (*Chairman*)

Mr. Liu Kwan

Mr. Chik Kin Man Paul

Remuneration Committee

Mr. Chik Kin Man Paul (*Chairman*)

Mr. Liu Kwan

Mr. Boon Ho Yin Henry

Nomination Committee

Mr. Boon Ho Yin Henry (*Chairman*)

Mr. Liu Kwan

Mr. Chik Kin Man Paul

COMPLIANCE OFFICER

Mr. Boon Ho Yin Henry

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2212, 22/F

Global Gateway Tower

63 Wing Hong Street

Cheung Sha Wan

Hong Kong

COMPANY SECRETARY

Ms. Cheung Yuet Fan

AUTHORISED REPRESENTATIVES

Mr. Boon Ho Yin Henry

Ms. Cheung Yuet Fan

AUDITORS

Baker Tilly Hong Kong Limited

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625 King's Road

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Hong Kong

**REGISTERED OFFICE IN
THE CAYMAN ISLANDS**

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

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANK

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

COMPANY WEBSITE

www.verticaltech.com.cn

STOCK CODE

8375

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2021, revenue of the Group was approximately HK\$65.9 million, representing an increase of approximately 75.3% as compared to the corresponding period in 2020.
- The Group's gross profit margin was approximately 18.5% for the six months ended 30 June 2021 and approximately 14.6% for the six months ended 30 June 2020.
- Profit for the period of the Group for the six months ended 30 June 2021 amounted to approximately HK\$2.7 million, representing an increase of profit of approximately HK\$4.2 million as compared to the loss for the period of approximately HK\$1.5 million for the corresponding period in 2020.
- Basic earnings per share for the six months ended 30 June 2021 was approximately 0.31 HK cents and basic loss per share for the six months ended 30 June 2020 was approximately 0.18 HK cents.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2021. On 19 March 2021, the Board recommended the payment of a final dividend of 0.15 HK cents per Share, amounting to HK\$1.44 million, in respect of the year ended 31 December 2020 (for the year ended 31 December 2019: 0.2 HK cents per Share). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 31 May 2021 and was paid to the shareholders of the Company on 2 July 2021.

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 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 six months ended 30 June 2021

| | NOTES | For the three months ended 30 June | | For the six months ended 30 June | |
|---|-------|---------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Revenue | 3 | 40,362 | 21,500 | 65,892 | 37,585 |
| Cost of sales | | (32,155) | (18,577) | (53,698) | (32,084) |
| Gross profit | | 8,207 | 2,923 | 12,194 | 5,501 |
| Other income | | 52 | 502 | 409 | 867 |
| Other gains and losses | 4 | (54) | 141 | (99) | 167 |
| Selling and distribution costs | | (1,051) | (526) | (2,001) | (1,229) |
| Administrative expenses | | (3,144) | (2,672) | (6,538) | (6,228) |
| Finance costs | 5 | (133) | (94) | (189) | (219) |
| Profit (loss) before taxation | 6 | 3,877 | 274 | 3,776 | (1,141) |
| Income tax expense | 7 | (792) | (208) | (1,067) | (314) |
| Profit (loss) for the period | | 3,085 | 66 | 2,709 | (1,455) |
| Other comprehensive income/ (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 | | 1,128 | (294) | 844 | (976) |
| Total comprehensive income/ (expense) for the period | | 4,213 | (228) | 3,553 | (2,431) |
| Earnings (loss) per share — basic and diluted (Hong Kong cents) | 9 | 0.32 | 0.01 | 0.31 | (0.18) |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

| | <i>NOTES</i> | As at 30 June 2021 HK\$'000 (unaudited) | As at 31 December 2020 HK\$'000 (audited) |
|--|--------------|--|---|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 44,780 | 43,283 |
| Right-of-use assets | | 770 | 1,220 |
| Intangible assets | | 2,000 | 2,000 |
| | | 47,550 | 46,503 |
| Current assets | | | |
| Inventories | | 13,851 | 10,460 |
| Trade receivables | 11 | 41,182 | 38,307 |
| Bills receivables at fair value through other comprehensive income | | 590 | 1,168 |
| Deposits, prepayments and other receivables | | 5,897 | 4,416 |
| Bank balances and cash | | 46,242 | 31,923 |
| | | 107,762 | 86,274 |
| Current liabilities | | | |
| Trade and bills payables | 12 | 24,875 | 21,576 |
| Other payables and accruals | | 6,498 | 5,303 |
| Tax payable | | 1,616 | 1,811 |
| Lease liabilities | | 693 | 952 |
| Bank borrowings | 13 | 14,419 | 5,573 |
| | | 48,101 | 35,215 |
| Net current assets | | 59,661 | 51,059 |
| Total assets less current liabilities | | 107,211 | 97,562 |

| | | As at 30 June 2021 HK\$'000 (unaudited) | As at 31 December 2020 HK\$'000 (audited) |
|--------------------------------|--------------|--|---|
| | <i>NOTES</i> | | |
| Non-current liabilities | | | |
| Lease liabilities | | — | 205 |
| NET ASSETS | | — | 97,357 |
| Capital and reserves | | | |
| Share capital | 14 | 9,600 | 8,000 |
| Reserves | | 97,611 | 89,357 |
| TOTAL EQUITY | | 107,211 | 97,357 |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

| | Attributable to owners of the Company | | | | | Total HK\$'000 |
|--|---------------------------------------|------------------------------|--|---------------------------------|---------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Statutory reserve HK\$'000 (note i) | Exchange reserve HK\$'000 | Retained profits HK\$'000 | |
| 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) |
| Total comprehensive expense for the period | — | — | — | (976) | (1,455) | (2,431) |
| Dividends recognised as distribution | — | (1,600) | — | — | — | (1,600) |
| At 30 June 2020 (unaudited) | 8,000 | 67,572 | 10,000 | (4,751) | 8,398 | 89,219 |
| At 1 January 2021 (audited) | 8,000 | 67,572 | 10,000 | 1,128 | 10,657 | 97,357 |
| Profit for the period | — | — | — | — | 2,709 | 2,709 |
| Exchange differences arising on translation of foreign operations | — | — | — | 844 | — | 844 |
| Total comprehensive income for the period | — | — | — | 844 | 2,709 | 3,553 |
| Issue of new shares by placing | 1,600 | 6,560 | — | — | — | 8,160 |
| Cost of issuance of new shares | — | (419) | — | — | — | (419) |
| Dividends recognised as distribution | — | (1,440) | — | — | — | (1,440) |
| At 30 June 2021 (unaudited) | 9,600 | 72,273 | 10,000 | 1,972 | 13,366 | 107,211 |

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 2021

| | For the six months ended 30 June | |
|--|-------------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES | 1,702 | (1,455) |
| INVESTING ACTIVITIES | | |
| Placement of time deposits | — | (23,213) |
| Withdrawal of time deposits | — | 23,213 |
| Interest received | 103 | 124 |
| Purchase of property, plant and equipment | (2,256) | (2,116) |
| NET CASH USED IN INVESTING ACTIVITIES | (2,153) | (1,992) |
| FINANCING ACTIVITIES | | |
| New borrowings raised | 10,000 | 704 |
| Repayment of bank borrowings | (1,154) | (5,118) |
| Repayment of lease liabilities | (471) | (1,245) |
| Interest paid | (189) | (371) |
| Dividends paid | (1,440) | (1,600) |
| Issue of new shares by placing | 8,160 | — |
| Cost of issuance of new shares | (419) | — |
| NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES | 14,487 | (7,630) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 14,036 | (11,077) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 31,923 | 38,919 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 283 | (507) |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD REPRESENTED BY BANK BALANCES AND CASH | 46,242 | 27,335 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 2021 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform — Phase 2 |
| 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 goods delivered. 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 in Hong Kong and the PRC.

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 2021

| | 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 | 52,745 | 13,148 | 65,892 |
| RESULTS | | | |
| Segment profit | 10,468 | 1,726 | 12,194 |
| Unallocated expenses | | | (8,539) |
| Other income | | | 409 |
| Other gains and losses | | | (99) |
| Finance costs | | | (189) |
| Profit before taxation | | | 3,776 |

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 | 27,090 | 10,495 | 37,585 |
| RESULTS | | | |
| Segment profit | 3,918 | 1,583 | 5,501 |
| Unallocated expenses | | | (7,457) |
| Other income | | | 867 |
| Other gains and losses | | | 167 |
| Finance costs | | | (219) |
| Loss before taxation | | | (1,141) |

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 | |
|-------------------------------------|---------------------------------|-------------------------|
| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
| PRC | 56,652 | 30,946 |
| Hong Kong | 1,809 | 2,607 |
| Other Asian regions (<i>Note</i>) | 7,431 | 4,032 |
| | 65,892 | 37,585 |

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

4. OTHER GAINS AND LOSSES

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|--|---|--|
| | 2021 <i>HK\$'000</i> (unaudited) | 2020 <i>HK\$'000</i> (unaudited) | 2021 <i>HK\$'000</i> (unaudited) | 2020 <i>HK\$'000</i> (unaudited) |
| Net foreign exchange gain and loss | (54) | 142 | (99) | 168 |
| Gain (loss) on write off/ disposal of property, plant and equipment | — | (1) | — | (1) |
| | (54) | 141 | (99) | 167 |

5. FINANCE COSTS

| | Three months ended 30 June | | Six months ended 30 June | |
|---------------------|---|--|---|--|
| | 2021 <i>HK\$'000</i> (unaudited) | 2020 <i>HK\$'000</i> (unaudited) | 2021 <i>HK\$'000</i> (unaudited) | 2020 <i>HK\$'000</i> (unaudited) |
| Interest on: | | | | |
| — Bank borrowings | 130 | 62 | 169 | 148 |
| — Lease liabilities | 3 | 32 | 20 | 71 |
| | 133 | 94 | 189 | 219 |

6. PROFIT (LOSS) BEFORE TAXATION

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|--|---|--|
| | 2021 <i>HK\$'000</i> (unaudited) | 2020 <i>HK\$'000</i> (unaudited) | 2021 <i>HK\$'000</i> (unaudited) | 2020 <i>HK\$'000</i> (unaudited) |
| Profit (loss) before taxation has been arrived at after charging: | | | | |
| Depreciation: | | | | |
| Property, plant and equipment | 1,263 | 1,219 | 2,534 | 2,450 |
| Right-of-use assets | 220 | 547 | 451 | 1,167 |
| Depreciation capitalised in inventories | (1,320) | (1,540) | (2,638) | (3,166) |
| Depreciation | 163 | 226 | 347 | 451 |
| Cost of inventories recognised as expense | 30,213 | 17,331 | 50,115 | 29,885 |

7. INCOME TAX EXPENSE

| | Three months ended 30 June | | Six months ended 30 June | |
|--|---|--|---|--|
| | 2021 <i>HK\$'000</i> (unaudited) | 2020 <i>HK\$'000</i> (unaudited) | 2021 <i>HK\$'000</i> (unaudited) | 2020 <i>HK\$'000</i> (unaudited) |
| The charge comprises: | | | | |
| Current tax | | | | |
| The People's Republic of China ("PRC") Enterprise Income Tax (the "EIT") | 792 | 208 | 1,067 | 314 |

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 19 March 2021, the Board recommended the payment of a final dividend of 0.15 HK cents per Share, amounting to HK\$1.44 million, in respect of the year ended 31 December 2020 (for the year ended 31 December 2019: 0.2 HK cents per Share). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 31 May 2021 and was paid to the shareholders of the Company on 2 July 2021.

9. EARNINGS (LOSS) PER SHARE

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Earnings (loss): | | | | |
| Earnings (loss) for the purpose of calculating basic earnings (loss) per share | 3,085 | 66 | 2,709 | (1,455) |

| | Three months ended 30 June | | Six months ended 30 June | |
|--|--|--|--|--|
| | 2021 <i>Number of Shares</i> (unaudited) | 2020 <i>Number of Shares</i> (unaudited) | 2021 <i>Number of Shares</i> (unaudited) | 2020 <i>Number of Shares</i> (unaudited) |
| Number of shares: Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share | 960,000,000 | 800,000,000 | 882,209,945 | 800,000,000 |

On 30 March 2021, 160,000,000 placing shares of the Company have been successfully placed by Kingsway Financial Services Group Limited (the “**Placing Agent**”). Details are set out in the Company’s announcement dated 30 March 2021.

No diluted earnings (loss) 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\$2,256,000 (six months ended 30 June 2020: HK\$2,116,000).

During the current period, the Group disposed of property, plant and equipment with aggregate carrying amount of approximately HK\$8,800 (six months ended 30 June 2020: HK\$6,600).

11. TRADE RECEIVABLES

| | At 30 June 2021 <i>HK\$'000</i> | At 31 December 2020 <i>HK\$'000</i> |
|-----------------------------------|--|--|
| Trade receivables | 41,499 | 38,622 |
| Less: Allowance for credit losses | (317) | (315) |
| | 41,182 | 38,307 |

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 2021 <i>HK\$'000</i> | At 31 December 2020 <i>HK\$'000</i> |
|--------------------|--|--|
| 0 to 30 days | 16,625 | 11,738 |
| 31 to 60 days | 12,652 | 10,502 |
| 61 to 90 days | 6,103 | 7,487 |
| 91 to 180 days | 5,689 | 6,960 |
| 181 days to 1 year | 113 | 1,620 |
| | 41,182 | 38,307 |

12. TRADE AND BILLS PAYABLES

| | At 30 June 2021 <i>HK\$'000</i> | At 31 December 2020 <i>HK\$'000</i> |
|----------------|--|--|
| Trade payables | 23,698 | 20,320 |
| Bills payables | 1,177 | 1,256 |
| | 24,875 | 21,576 |

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

| | At 30 June 2021 <i>HK\$'000</i> | At 31 December 2020 <i>HK\$'000</i> |
|--------------------|--|--|
| 0 to 30 days | 14,948 | 5,807 |
| 31 to 60 days | 4,945 | 6,509 |
| 61 to 90 days | 2,454 | 5,123 |
| 91 to 180 days | 1,291 | 2,717 |
| 181 days to 1 year | 60 | 164 |
| | 23,698 | 20,320 |

13. BANK BORROWINGS

During the current period, the Group raised bank borrowings of approximately HK\$10.0 million (six months ended 30 June 2020: HK\$704,000), and repaid bank borrowings of approximately HK\$1.2 million (six months ended 30 June 2020: HK\$5,118,000) 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 2.30% to 5.75% (31 December 2020: 2.40% to 5.35%).

14. SHARE CAPITAL

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

| | Number of shares <i>'000</i> | Share capital <i>HK\$'000</i> |
|---|------------------------------------|-------------------------------------|
| Authorised: | | |
| At 1 January 2020, 31 December 2020 and 30 June 2021 | 5,000,000 | 50,000 |
| Issued and fully paid: | | |
| At 1 January 2020, 31 December 2020 (audited) | 800,000 | 8,000 |
| Add: Issue of new shares by placing (<i>Note</i>) | 160,000 | 1,600 |
| As at 30 June 2021 (unaudited) | 960,000 | 9,600 |

Note: On 30 March 2021, a total of 160,000,000 new shares have been successfully placed by the placing agent to not less than six independent third parties at the price of HK\$0.051 per share pursuant to the term and conditions of the placing agreement.

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 | |
|--------------------------|--------------------------|-------------------------|
| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> |
| Short-term benefits | 2,014 | 1,669 |
| Post-employment benefits | 36 | 24 |
| | 2,050 | 1,693 |

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 business environment and economy recovered gradually from the impact of the COVID-19 pandemic leads to the increase in the demand of the Group's products.

For the six months ended 30 June 2021, the revenue of the Group increased by approximately 75.3% to approximately HK\$65.9 million from approximately HK\$37.6 million for the six months ended 30 June 2020. The gross profit of the Group increased by approximately HK\$6.7 million to approximately HK\$12.2 million for the six months ended 30 June 2021 from approximately HK\$5.5 million for the six months ended 30 June 2020.

Revenue from sales of our self-manufactured aluminum electrolytic capacitor products increased substantially from approximately HK\$27.1 million for the six months ended 30 June 2020 to approximately HK\$52.7 million for the six months ended 30 June 2021. To cope with the challenging business environment, while the Group continuously secured more orders from its customers for its manufactured products, it also enhanced business exposure and maintained a growth in revenue.

PROSPECTS

The current economic uncertainty is expected to continue. The Group is closely monitoring the market development and continuously evaluating the financial impact of the challenging business environment on the Group's operational and financial performance.



FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK\$65.9 million for the six months ended 30 June 2021 from approximately HK\$37.6 million for the corresponding period in 2020, representing an increase of approximately 75.3%. Such increase in the Group's revenue was mainly attributable to the increase in the demand of the Group's products as economy recovered gradually from the impact of the COVID-19 pandemic.

The revenue for the sales of manufactured aluminum electrolytic capacitors increased by approximately HK\$25.6 million, from approximately HK\$27.1 million for the six months ended 30 June 2020 to approximately HK\$52.7 million for the six months ended 30 June 2021. The revenue derived from sales of trading electronic components increased to approximately HK\$13.1 million for the six months ended 30 June 2021 from approximately HK\$10.5 million for the six months ended 30 June 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\$53.7 million for the six months ended 30 June 2021 from approximately HK\$32.1 million for the six months ended 30 June 2020. The Group's cost of sales increased along with the growth in revenue for the six months ended 30 June 2021.

Gross profit and gross profit margin

The Group's gross profit increased to approximately HK\$12.2 million for the six months ended 30 June 2021 from approximately HK\$5.5 million for the six months ended 30 June 2020, representing an increase of approximately HK\$6.7 million. The Group's gross profit margin increased from approximately 14.6% for the six months ended 30 June 2020 to approximately 18.5% for the six months ended 30 June 2021. The increase was mainly due to the increase demand for our Group's self-manufactured products.

Selling and distribution costs

The Group's selling and distribution costs increased to approximately HK\$2.0 million for the six months ended 30 June 2021 from approximately HK\$1.2 million for the six months ended 30 June 2020, representing an increase of approximately HK\$0.8 million. The increase was mainly due to increase in salaries, sales commission paid 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 increased to approximately HK\$6.5 million for the six months ended 30 June 2021 from approximately HK\$6.2 million for the six months ended 30 June 2020, representing an increase of approximately HK\$0.3 million. Such increase was mainly due to the increase in advertising and promotion fee.

Income tax expense

Income tax expense increased by approximately HK\$0.8 million, from approximately HK\$0.3 million for the six months ended 30 June 2020 to approximately HK\$1.1 million for the six months ended 30 June 2021.

Profit (loss) for the period

The Group recorded a profit for the period of approximately HK\$2.7 million for the six months ended 30 June 2021, as compared with the loss for the period for the six months ended 30 June 2020 of approximately HK\$1.5 million. Such increase was mainly due to an increase in revenue and gross profit of approximately HK\$28.3 million and HK\$6.7 million respectively for the six months ended 30 June 2021 as compared to the corresponding period in 2020.

Basic earnings (loss) per share

The Group recorded basic earnings per share of approximately 0.31 HK cents for the six months ended 30 June 2021 as compared with basic loss per share of approximately 0.18 HK cents for the six months ended 30 June 2020, representing an increase of approximately 0.49 HK cents.

RESERVES

Movements in the reserves of the Group for the six months ended 30 June 2021 are set out 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 2021 (for the six months ended 30 June 2020: HK\$Nil).

On 19 March 2021, the Board recommended the payment of a final dividend of 0.15 HK cents per Share, amounting to HK\$1.44 million, in respect of the 31 December 2020 (for the year ended 31 December 2019: 0.2 HK cents per Share). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 31 May 2021 and was paid to the shareholders of the Company on 2 July 2021.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2021, the Group has total assets of approximately HK\$155.3 million (31 December 2020: HK\$132.8 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserve) of approximately HK\$48.1 million (31 December 2020: HK\$35.4 million) and approximately HK\$107.2 million (31 December 2020: HK\$97.4 million) respectively. The current ratio as at 30 June 2021 of the Group was approximately 2.2 times (31 December 2020: approximately 2.4 times).

As at 30 June 2021, the Group had cash and cash equivalents and restricted bank deposit of approximately HK\$46.2 million (31 December 2020: HK\$31.9 million).

The total interest-bearing bank borrowing of the Group as at 30 June 2021 was approximately HK\$14.4 million (31 December 2020: HK\$5.6 million). The gearing ratio (calculated based on lease liabilities and interest bearing bank borrowings, divided by total equity) of the Group as of 30 June 2021 was 0.14 times (31 December 2020: 0.07 times).

CHARGES ON GROUP'S ASSETS

As at 30 June 2021, the leasehold land and building with the carrying value of approximately HK\$4.6 million (31 December 2020: HK\$4.7 million) is pledged to a bank to secure banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2021, the Group had capital commitments contracted for but not provided in the unaudited condensed consolidated financial statements amounting to approximately HK\$2.5 million (31 December 2020: HK\$Nil). Such commitments primarily related to purchase 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 six months ended 30 June 2021.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2021 and 2020.

EMPLOYEE INFORMATION

As at 30 June 2021 and 2020, the Group had 186 and 155 full-time employees respectively, including the Directors. Total remuneration for the six months ended 30 June 2021 and 2020 was approximately HK\$10.0 million and HK\$8.8 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 Company is mainly operated in its local jurisdiction with most of the transactions settled in its functional currencies of the operations and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities other than the functional currencies of the relevant entities now comprising the Group are as follows.

| | Liabilities | | Assets | |
|------|---|---|---|---|
| | As at 30 June 2021 <i>HK\$'000</i> | As at 31 December 2020 <i>HK\$'000</i> | As at 30 June 2021 <i>HK\$'000</i> | As at 31 December 2020 <i>HK\$'000</i> |
| HK\$ | — | — | — | 6 |
| US\$ | 4,890 | 2,096 | 5,188 | 2,052 |
| RMB | 26 | 26 | 48 | 48 |

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 2021, the Group did not hold any significant investments (31 December 2020: HK\$Nil).

EVENTS AFTER THE REPORTING DATE

As from 30 June 2021 to the date of this report, 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 2021 were used as follows:

| Use of proceeds | Planned use of net proceeds (adjusted on a pro rata basis based on the actual net proceeds) | Planned use of net proceeds up to 30 June 2021 (adjusted on a pro rata basis based on the actual net proceeds) | Actual use of net proceeds up to 30 June 2021 | Unutilized proceeds as at 30 June 2021 | Expected timeline for fully utilizing the unutilized proceeds |
|---|---|--|---|--|---|
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million | |
| 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 | 4.5 | 2.1 | By 31 December 2021 ^(Note) |
| 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 |
| | 34.8 | 34.8 | 32.7 | 2.1 | |

Note: As at 30 June 2021, the proceeds of HK\$4.5 million were utilized to pay rental and fitting out expenses for the Group's second production plant in Dongguan. The unutilized proceeds of HK\$2.1 million as at 30 June 2021 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.

USE OF PROCEEDS FROM PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 12 March 2021, the Company entered into a placing agreement with Kingsway Financial Services Group Limited (the "**Placing Agent**"), pursuant to which the Placing Agent agreed, as agent of the Company, to procure, on a best effort basis, not less than six independent third parties to subscribe for up to 160,000,000 shares of HK\$0.01 each in the Company at the placing price of HK\$0.051 per share ("**Placing**"). Details of the Placing are set out in the Company's announcements dated 12 March 2021, 14 March 2021 and 30 March 2021.

160,000,000 new shares were placed to the placees on 30 March 2021 with actual net proceeds of approximately HK\$7.74 million. The net proceeds from the Placing from 30 March 2021 to 30 June 2021 were used as follow:

| Use of proceeds from the Placing | Planned use of net proceeds (adjusted on a pro rata basis based on the actual net proceeds) as described in the announcement dated 12 March 2021 | Actual use of net proceeds up to 30 June 2021 | Unutilized proceeds as at 30 June 2021 |
|---|--|---|--|
| | HK\$ million | HK\$ million | HK\$ million |
| To finance the addition of production equipment | 4.26 | 4.26 | — |
| To expand the existing production plant | 1.85 | — | 1.85 |
| General working capital | 1.63 | 1.63 | — |
| | 7.74 | 5.89 | 1.85 |

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 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 <i>(Note 1)</i> | Percentage of shareholding in the associated corporation |
|-------------------------|---------------------------|---|---|---|
| Mr. Boon | Beneficial owner | Vertical Technology Investment Limited ("Vertical Investment") | 1 (L) | 100% |

Notes:

- (1) The letter "L" denotes long position in the relevant share interests.
- (2) Vertical Investment held direct interests of 600,000,000 Shares. Vertical Investment is wholly and beneficially owned by Mr. Boon. Therefore, Mr. Boon is deemed to be interested in all the Shares held by Vertical Investment under the SFO.

Save as disclosed above, as at 30 June 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 30 June 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 30 June 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 six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 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.

CHANGES IN INFORMATION OF DIRECTORS

The changes in Director's information subsequent to the date of annual report for the year ended 31 December 2020, as required to be disclosed pursuant to Rules 17.50A(1) of the GEM Listing Rules are set out below: Mr. Wong Wai Leung, independent non-executive Director of the Company, has resigned as an independent non-executive director of Zhongchang International Holdings Group Limited (Stock Code: 859), a company listed on the Main Board of the Stock Exchange, with effect from 12 May 2021.

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 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 interim results of the Company for the six months ended 30 June 2021.

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

Hong Kong, 6 August 2021