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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2023, revenue of the Group was approximately HK\$37.7 million, representing a decrease of approximately 16.8% as compared to the corresponding period in 2022.
- The Group's gross profit margin was approximately 3.7% for the six months ended 30 June 2023 and approximately 6.4% for the six months ended 30 June 2022.
- Loss for the period of the Group for the six months ended 30 June 2023 amounted to approximately HK\$5.5 million, representing a decrease of loss of approximately HK\$0.8 million as compared to the loss for the period of approximately HK\$6.3 million for the corresponding period in 2022.
- The Company recorded basic loss per share for the six months ended 30 June 2023 of approximately 1.89 HK cents and basic loss per share for the six months ended 30 June 2022 of approximately 2.34 HK cents.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: HK\$Nil).

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 2023 together with the comparative unaudited figures for the corresponding period in 2022 as follows:

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

For the six months ended 30 June 2023

	NOTES	For the three months ended 30 June		For the six months ended 30 June	
		2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Revenue	3	20,038	20,050	37,745	45,270
Cost of sales		<u>(18,913)</u>	<u>(20,011)</u>	<u>(36,352)</u>	<u>(42,370)</u>
Gross profit		1,125	39	1,393	2,900
Other income		56	386	119	528
Other gains and losses	4	(109)	(1,623)	1,424	(1,154)
Selling and distribution costs		(713)	(819)	(1,440)	(1,602)
Administrative expenses		(3,438)	(3,093)	(6,609)	(6,542)
Finance costs	5	<u>(109)</u>	<u>(127)</u>	<u>(330)</u>	<u>(256)</u>
Loss before taxation	6	(3,188)	(5,237)	(5,443)	(6,126)
Income tax expense	7	<u>(8)</u>	<u>(89)</u>	<u>(8)</u>	<u>(180)</u>
Loss for the period		<u>(3,196)</u>	<u>(5,326)</u>	<u>(5,451)</u>	<u>(6,306)</u>
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		<u>(4,472)</u>	<u>(3,166)</u>	<u>(3,257)</u>	<u>(4,039)</u>
Total comprehensive expense for the period		<u>(7,668)</u>	<u>(8,492)</u>	<u>(8,708)</u>	<u>(10,345)</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share					
– basic and diluted	9	<u>(1.11)</u>	<u>(1.85)</u>	<u>(1.89)</u>	<u>(2.34)</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	NOTES	As at 30 June 2023 HK\$'000 (unaudited)	As at 31 December 2022 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	43,815	44,959
Right-of-use assets		619	1,298
		<u>44,434</u>	<u>46,257</u>
Current assets			
Inventories		9,166	11,800
Trade and bills receivables	11	24,974	25,121
Bills receivables at fair value through other comprehensive income		3,615	3,585
Financial assets at fair value through profit or loss		4,671	1,935
Deposits, prepayments and other receivables		2,087	2,803
Bank balances and cash		25,081	42,162
		<u>69,594</u>	<u>87,406</u>
Current liabilities			
Trade payables	12	16,168	12,494
Other payables and accruals		6,507	5,336
Tax payable		160	83
Lease liabilities		652	1,271
Bank borrowings	13	8,202	13,315
		<u>31,689</u>	<u>32,499</u>
Net current assets		<u>37,905</u>	<u>54,907</u>
Total assets less current liabilities		<u>82,339</u>	<u>101,164</u>
Non-current liabilities			
Lease liabilities		5	42
NET ASSETS		<u>82,334</u>	<u>101,122</u>
Capital and reserves			
Share capital	14	14,400	14,400
Reserves		67,934	86,722
TOTAL EQUITY		<u>82,334</u>	<u>101,122</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	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 2022 (audited)	9,600	72,273	10,000	3,543	15,734	111,150
Loss for the period	–	–	–	–	(6,306)	(6,306)
Exchange differences arising on translation of foreign operations	–	–	–	(4,039)	–	(4,039)
Total comprehensive expense for the period	–	–	–	(4,039)	(6,306)	(10,345)
Issue of new shares upon rights issue	4,800	15,360	–	–	–	20,160
Cost of issuance of new shares	–	(1,559)	–	–	–	(1,559)
Dividends recognised as distribution	–	(2,880)	–	–	–	(2,880)
At 30 June 2022 (unaudited)	<u>14,400</u>	<u>83,194</u>	<u>10,000</u>	<u>(496)</u>	<u>9,428</u>	<u>116,526</u>
At 1 January 2023 (audited)	14,400	83,194	10,000	(3,660)	(2,812)	101,122
Loss for the period	–	–	–	–	(5,451)	(5,451)
Exchange differences arising on translation of foreign operations	–	–	–	(3,257)	–	(3,257)
Total comprehensive expense for the period	–	–	–	(3,257)	(5,451)	(8,708)
Dividends recognised as distribution	–	(10,080)	–	–	–	(10,080)
At 30 June 2023 (unaudited)	<u>14,400</u>	<u>73,114</u>	<u>10,000</u>	<u>(6,917)</u>	<u>(8,263)</u>	<u>82,334</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 2023

	For the six months ended	
	30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	<u>4,428</u>	<u>(3,714)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,515)	(468)
Deposit paid for acquisition of property, plant and equipment	–	(3,461)
Purchase of financial assets at fair value through profit or loss	–	(3,242)
Withdrawal of restricted bank deposits	3,027	–
Interest received	<u>90</u>	<u>135</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,398)</u>	<u>(7,036)</u>
FINANCING ACTIVITIES		
Repayment of bank borrowings	(5,113)	(3,709)
Repayment of lease liabilities	(626)	(840)
Interest paid	(330)	(256)
Dividends paid	(10,080)	(2,880)
Issue of new shares upon rights issue	–	20,160
Cost of issuance of new shares	<u>–</u>	<u>(1,559)</u>
NET CASH (USED IN)/ GENERATED FROM FINANCING ACTIVITIES	<u>(16,149)</u>	<u>10,916</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(13,119)	166
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	39,136	43,981
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(936)</u>	<u>(1,053)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD REPRESENTED BY BANK BALANCES AND CASH	<u><u>25,081</u></u>	<u><u>43,094</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 except for certain financial instruments, which are measured at fair value as appropriate.

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 HKFRS and HKAS issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the Group’s condensed consolidated financial statements.

HKFRS 17	<i>Insurance contract</i>
Amendments to HKAS 1, <i>Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies</i>	
Amendments to HKAS 8	<i>Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates</i>
Amendments to HKAS 12	<i>Income taxes: Deferred tax related to assets and liabilities arising from a single transaction</i>
Amendments to HKAS 12	<i>Income taxes: International tax reform – Pillar Two model rules</i>

The application of the new and amendments to HKFRSs and HKAS in the current interim period has had no material impact on the Group’s financial positions and performance 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 2023

	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>29,661</u>	<u>8,084</u>	<u>37,745</u>
RESULTS			
Segment profit	<u>913</u>	<u>480</u>	1,393
Unallocated expenses			(8,049)
Other income			119
Other gains and losses			1,424
Finance costs			<u>(330)</u>
Loss before taxation			<u>(5,443)</u>

For the six months ended 30 June 2022

	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>34,695</u>	<u>10,575</u>	<u>45,270</u>
RESULTS			
Segment profit	<u>1,615</u>	<u>1,285</u>	2,900
Unallocated expenses			(8,144)
Other income			528
Other gains and losses			(1,154)
Finance costs			<u>(256)</u>
Loss before taxation			<u>(6,126)</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	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC	32,727	36,333
Hong Kong	216	561
Other Asian regions (<i>Note</i>)	4,802	8,376
	<u>37,745</u>	<u>45,270</u>

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		Six months ended	
	30 June		30 June	
	2023	2022	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net foreign exchange gain and loss	(146)	(19)	(94)	(72)
Written off on inventories	(384)	–	(384)	–
Written off on property, plant and equipment	(833)	–	(833)	–
Gain/(loss) from change in fair value of financial assets designated as at FVTPL	1,254	(1,604)	2,735	(1,082)
	<u>(109)</u>	<u>(1,623)</u>	<u>1,424</u>	<u>(1,154)</u>

5. FINANCE COSTS

	Three months ended		Six months ended	
	30 June		30 June	
	2023	2022	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest on:				
– Bank borrowings	99	111	307	219
– Lease liabilities	10	16	23	37
	<u>109</u>	<u>127</u>	<u>330</u>	<u>256</u>

6. LOSS BEFORE TAXATION

	Three months ended		Six months ended	
	30 June		30 June	
	2023	2022	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Loss before taxation has been arrived at after charging:				
Amortisation of intangible assets	–	33	–	66
Depreciation:				
Property, plant and equipment	1,706	1,674	3,424	3,295
Right-of-use assets	321	431	651	917
Depreciation capitalised in inventories	(1,492)	(1,718)	(3,036)	(3,438)
Depreciation	<u>535</u>	<u>420</u>	<u>1,039</u>	<u>840</u>
Cost of inventories recognised as expense	<u>17,783</u>	<u>20,869</u>	<u>34,359</u>	<u>39,556</u>

7. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June		30 June	
	2023	2022	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
The charge comprises:				
Current tax				
The People's Republic of China (“PRC”)				
Enterprise Income Tax (the “EIT”)	8	89	8	180
	<u>8</u>	<u>89</u>	<u>8</u>	<u>180</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 9 November 2022, the Board recommended the payment of a special dividend of 3.5 HK cents per ordinary share, amounting to HK\$10,080,000, in respect of the nine months ended 30 September 2022. This special dividend had been approved by the shareholders in the extraordinary general meeting on 5 January 2023 and was paid to the shareholders of the Company on 9 February 2023.

9. LOSS PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Loss:				
Loss for the purpose of calculating basic loss per share	<u>(3,196)</u>	<u>(5,326)</u>	<u>(5,451)</u>	<u>(6,306)</u>
	Three months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022
	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>Number of Shares</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Number of shares:				
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>288,000,000</u>	<u>288,000,000</u>	<u>288,000,000</u>	<u>269,938,181</u>

On 10 January 2022, an ordinary resolution was passed by the shareholders at the extraordinary general meeting of the Company to consolidate every five issued and unissued shares of HK\$0.01 each into one consolidated share of HK\$0.05 each (the “**Share Consolidation**”). Following the Share Consolidation which became effective on 12 January 2022, 960,000,000 shares in the issued share capital of the Company were consolidated into 192,000,000 consolidated shares. Details of the Share Consolidation are set out in the Company’s announcement dated 26 November 2021, 15 December 2021 and 10 January 2022, and the Company’s Circular dated 22 December 2021.

On 21 February 2022, the Company issued 96,000,000 ordinary shares of HK\$0.05 each at a subscription price of HK\$0.21 per ordinary share, in connection with the rights issue on the basis of one rights share for every two existing shares held (the “**Rights Issue**”), resulting in net proceeds of HK\$18.6 million. Accordingly, the number of issued shares of the Company increased from 192,000,000 shares to 288,000,000 shares. Details of the Rights Issue are set out in the Company’s prospectus dated 24 January 2022 and the Company’s announcement dated 18 February 2022.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for both periods have taken into account the share consolidation and bonus elements of the right issue which were completed during the year ended 31 December 2022.

No diluted loss per share were 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\$4,515,000 (six months ended 30 June 2022: HK\$468,000).

During the current period, there was a write-off of certain property, plant and equipment of approximately HK\$833,000 (six months ended 30 June 2022: HK\$Nil).

11. TRADE AND BILLS RECEIVABLES

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Trade receivables	25,202	22,906
Less: Allowance for credit losses	(228)	(239)
	<u>24,974</u>	<u>22,667</u>
Bills receivables	–	2,454
	<u>24,974</u>	<u>25,121</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 and bills 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 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
0 to 30 days	8,406	7,545
31 to 60 days	5,271	7,108
61 to 90 days	6,013	4,464
91 to 180 days	5,054	4,504
181 days to 1 year	230	1,500
Over 1 year	—	—
	<u>24,974</u>	<u>25,121</u>

12. TRADE PAYABLES

	At 30 June 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
Trade payables	<u>16,168</u>	<u>12,494</u>

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

	At 30 June 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
0 to 30 days	8,942	3,040
31 to 60 days	3,336	3,441
61 to 90 days	2,237	3,769
91 to 180 days	1,100	1,743
181 days to 1 year	77	1
Over 1 year	476	500
	<u>16,168</u>	<u>12,494</u>

13. BANK BORROWINGS

During the current period, the Group did not raise any bank borrowings (six months ended 30 June 2022: HK\$Nil), and repaid bank borrowings of approximately HK\$5.1 million (six months ended 30 June 2022: HK\$3.7 million) 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 2.92% to 7.97% (31 December 2022: 2.59% to 5.63%).

14. SHARE CAPITAL

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

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 January 2023 and 30 June 2023	1,000,000	50,000
Issued and fully paid:		
At 1 January 2023 and 30 June 2023 (unaudited)	288,000	14,400

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	
	2023	2022
	HK\$'000	HK\$'000
Short-term benefits	1,990	2,095
Post-employment benefits	36	37
	<u>2,026</u>	<u>2,132</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group continued to focus on its key markets including manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components, including semiconductor devices and passive components.

The flat demand on traditional electronic components weakened both local and global consumption market and posed a negative impact on the sales of the Group. The revenue of the Group for the six months ended 30 June 2023 decreased by approximately 16.8% to approximately HK\$37.7 million from approximately HK\$45.3 million for the six months ended 30 June 2022 as the Group adopted a more aggressive pricing approach in order to maintain market share. Revenue from sales of the Group's self-manufactured aluminum electrolytic capacitors decreased to approximately HK\$29.7 million for the six months ended 30 June 2023 from approximately HK\$34.7 million for the six months ended 30 June 2022.

The gross profit of the Group decreased by approximately HK\$1.5 million to approximately HK\$1.4 million for the six months ended 30 June 2023 from approximately HK\$2.9 million for the six months ended 30 June 2022 as a result of fierce price competition and higher operating costs. The Group will continue to carefully and extensively review the current situation in relation to costs and resources deployment, and will consider to tighten its control over the operating costs.

PROSPECTS

We expect the cost of operating will continue to maintain at a high level which will become more challenging for us. The Group will remain conservative towards the overall business environment for the coming periods and to take steps to respond to the environment, including diversifying the procurement routes and/or to relocate the manufacturing activities to another low-cost city or province to reduce costs. Moving forward, the Group will continue to take steps to strengthen the production and sales capabilities in the markets and will take advantage of stepping up development of highly competitive products.

FINANCIAL REVIEW

Revenue

The Group's revenue was approximately HK\$37.7 million for the six months ended 30 June 2023 and approximately HK\$45.3 million for the corresponding period in 2022, representing a decrease of approximately HK\$7.6 million. The main reason for the decrease was attributable to flat demand on traditional electronic components and excess supply caused fierce price competition and higher raw material and operating costs. The Group adopted a more aggressive pricing approach and sacrificed short-term gross profit margin to maintain market share.

The revenue for the sales of manufactured aluminum electrolytic capacitors decreased by approximately HK\$5.0 million, from approximately HK\$34.7 million for the six months ended 30 June 2022 to approximately HK\$29.7 million for the six months ended 30 June 2023. The revenue derived from trading of electronic components decreased to approximately HK\$8.1 million for the six months ended 30 June 2023 from approximately HK\$10.6 million for the six months ended 30 June 2022.

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\$36.4 million for the six months ended 30 June 2023 from approximately HK\$42.4 million for the six months ended 30 June 2022, representing a decrease of approximately 14.2%. The Group's cost of sales decreased along with the decline in revenue for the six months ended 30 June 2023.

Gross profit and gross profit margin

The Group's gross profit decreased to approximately HK\$1.4 million for the six months ended 30 June 2023 from approximately HK\$2.9 million for the six months ended 30 June 2022, representing a decrease of approximately HK\$1.5 million. The Group's gross profit margin dropped from approximately 6.4% for the six months ended 30 June 2022 to approximately 3.7% for the six months ended 30 June 2023.

Other gains and losses

The net amount increased from loss of approximately HK\$1.2 million for the six months ended 30 June 2022 to gain of approximately HK\$1.4 million for the six months ended 30 June 2023. It mainly represented effect from the fair value gain on the equity investments at fair value through profit or loss which increased from loss of approximately HK\$1.1 million for the six months ended 30 June 2022 to gain of approximately HK\$2.7 million for the six months ended 30 June 2023.

Selling and distribution costs

The Group's selling and distribution costs decreased to approximately HK\$1.4 million for the six months ended 30 June 2023 from approximately HK\$1.6 million for the six months ended 30 June 2022, representing a decrease of approximately 12.5%, mainly due to decrease in staff salaries 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\$6.6 million for the six months ended 30 June 2023 from approximately HK\$6.5 million for the six months ended 30 June 2022, representing an increase of approximately HK\$0.1 million. Such increase was mainly due to the increase in depreciation of property, plant and equipment and legal and professional fees.

Income tax expenses

Income tax expenses decreased by approximately HK\$172,000, from approximately HK\$180,000 for the six months ended 30 June 2022 to approximately HK\$8,000 for the six months ended 30 June 2023.

Loss for the period

The Group recorded a loss for the period of approximately HK\$5.5 million for the six months ended 30 June 2023, as compared with the loss for the six months ended 30 June 2022 of approximately HK\$6.3 million. Such decrease was mainly due to an increase in fair value gain through profit or loss of approximately HK\$3.8 million for the six months ended 30 June 2023 as compared to the corresponding period in 2022.

Basic loss per share

The Company recorded basic loss per share for the six months ended 30 June 2023 of approximately 1.89 HK cents as compared with basic loss per share of approximately 2.34 HK cents for the six months ended 30 June 2022.

RESERVES

Movements in the reserves of the Group for the six months ended 30 June 2023 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 2023 (for the six months ended 30 June 2022: HK\$Nil).

On 9 November 2022, the Board recommended the payment of a special dividend of 3.5 HK cents per ordinary share, amounting to HK\$10,080,000, in respect of the nine months ended 30 September 2022. This special dividend had been approved by the shareholders in the extraordinary general meeting on 5 January 2023 and was paid to the shareholders of the Company on 9 February 2023.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2023, the Group has total assets of approximately HK\$114.0 million (31 December 2022: HK\$133.7 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserve) of approximately HK\$31.7 million (31 December 2022: HK\$32.5 million) and approximately HK\$82.3 million (31 December 2022: HK\$101.1 million) respectively. The current ratio as at 30 June 2023 of the Group was approximately 2.2 times (31 December 2022: approximately 2.7 times).

As at 30 June 2023, the Group had cash and cash equivalents of approximately HK\$25.1 million (31 December 2022: HK\$42.2 million).

The total interest-bearing bank borrowing of the Group as at 30 June 2023 was approximately HK\$8.2 million (31 December 2022: HK\$13.3 million). The gearing ratio (calculated based on lease liabilities, interest bearing bank borrowings, bills discounted with recourse and margin financing and divided by total equity) of the Group as of 30 June 2023 was 0.11 times (31 December 2022: 0.14 times).

CHARGES ON GROUP'S ASSETS

As at 30 June 2023, the leasehold land and building with the carrying value of approximately HK\$4.3 million (31 December 2022: HK\$4.4 million) is pledged to a bank to secure banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2023, the Group did not have any significant capital commitments (31 December 2022: HK\$Nil).

MATERIAL ACQUISITIONS OR DISPOSALS

The Group did not have any material acquisition or disposal during the six months ended 30 June 2023.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 30 June 2023 and 2022.

EMPLOYEE INFORMATION

As at 30 June 2023 and 2022, the Group had 149 and 163 full-time employees respectively, including the Directors. Total remuneration for the six months ended 30 June 2023 and 2022 was approximately HK\$9.1 million and HK\$11.6 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 2023 HK\$'000	As at 31 December 2022 HK\$'000	As at 30 June 2023 HK\$'000	As at 31 December 2022 HK\$'000
HK\$	—	—	1,275	111
JPY	—	—	1,869	2,000
US\$	3,003	3,287	27,498	12,689
RMB	—	—	46	49
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 2023, the Group did not hold any significant investments (31 December 2022: HK\$Nil).

EVENTS AFTER THE REPORTING PERIOD

As from 30 June 2023 to the date of this announcement, no significant event has occurred.

USE OF PROCEEDS FROM RIGHTS ISSUE

On 21 February 2022, the Company issued 96,000,000 ordinary shares of HK\$0.05 each at a subscription price of HK\$0.21 per ordinary share, in connection with the rights issue on the basis of one rights share for every two existing shares held (the “**Rights Issue**”), resulting in net proceeds of approximately HK\$18.6 million. Details of the Rights Issue are set out in the Company’s prospectus dated 24 January 2022 and the Company’s announcement dated 18 February 2022.

The net proceeds from the Rights Issue from 21 February 2022 to 30 June 2023 were used as follows:

	Planned use of net proceeds (adjusted on a pro rata basis on the actual net proceeds) as described in the prospectus dated 24 January 2022	Actual use of net proceeds up to 30 June 2023	Unutilized proceeds as at 30 June 2023	Expected timeline for fully utilizing the unutilized proceeds
Use of proceeds from the Rights Issue	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	
To upgrade equipment and machines	9.6	7.8	1.8	by 31 December 2023
To repay the bank borrowings	3.8	3.8	–	N/A
General working capital	5.2	5.2	–	N/A
	<u>18.6</u>	<u>16.8</u>	<u>1.8</u>	

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 2023, 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	Beneficial owner	7,610,000 (L)	2.64%
(“Mr. Boon”) (Note 2)	Interest in a controlled corporation	180,000,000 (L)	62.50%

(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 180,000,000 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. Mr. Boon also directly held 7,610,000 Shares of the Company.

Save as disclosed above, as at 30 June 2023, 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 2023, 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 <i>(Note 1)</i>	Percentage of shareholding in the Company
Vertical Investment <i>(Note 2)</i>	Beneficial owner	180,000,000 (L)	62.50%
Ms. Sun Koon Kwan (" Ms. Sun ") <i>(Note 3)</i>	Interest of spouse	187,610,000 (L)	65.14%

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 2023, 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 2023.

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 2023, 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.

The Company has in place a corporate governance framework and has established a set of policies and procedures based on the CG code. Such policies and procedures provide the infrastructure for enhancing the Board’s ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

During the six months ended 30 June 2023, the Company has complied with the code provisions as set out in the CG Code except for the deviation from code provision C.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 C.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 2023.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIAL PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

On 7 March 2022, Vertical Technology Company Limited ("**Vertical Technology**"), a wholly-owned subsidiary of the Company, as borrower; Bank of China (Hong Kong) Limited, as lender; and each of the Company and Mr. Boon, the chairman of the Board, the chief executive officer, an executive Director and a controlling shareholder of the Company, as guarantor, entered into a banking facility letter ("**Facility Letter**") in relation to the general banking facilities granted under the SME Financing Guarantee Scheme ("**Scheme**") guaranteed by the HKMC Insurance Limited ("**HKMCI**"). The Facility Letter is comprised of a revolving loan facility and an overdraft facility of up to HK\$18,000,000 (with the aggregate outstanding amount of the overdraft facility not exceeding HK\$8,000,000), which will be made available by the Lender to Vertical Technology on the terms and conditions therein contained subject to, among others, the fulfillment of certain conditions precedent.

According to the terms of the Facility Letter, all amounts borrowed under the revolving loan facility shall be repaid or reborrowed at the end of the relevant drawdown period and the principal shall be repaid every twelve (12) months after the date of each drawdown. In addition, the purpose of entering into the Facility Letter is to finance the acquisition of assets or general working capital of Vertical Technology so as to facilitate its business operations. Furthermore, the revolving loan facility and the overdraft facility under the Facility Letter shall be cancelled and ceased to be operated after the guarantee period as stated in the relevant guarantee issued by HKMCI pursuant to the Scheme.

Pursuant to the Facility Letter, certain specific performance obligations are imposed on Mr. Boon, under which Mr. Boon agrees and undertakes to the Lender that (i) he shall remain directly or indirectly as the largest shareholder of the Company; and (ii) he shall remain as the chairman or executive Director of the Company.

As at the date of this announcement, Mr. Boon directly or indirectly holds 65.14% of the issued share capital of the Company.

Please refer to the announcement of the Company dated 7 March 2022 for more details.

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 D.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 2023.

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

Hong Kong, 8 August 2023

As at the date of this announcement, the executive directors of the Company are Mr. Boon Ho Yin Henry and Ms. Chow Cheung Chu; and the independent non-executive directors of the Company 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 the Stock Exchange at www.hkexnews.hk for at least 7 days from the date of its publication and on the website of the Company at www.verticaltech.com.cn.