

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



2022
INTERIM
REPORT

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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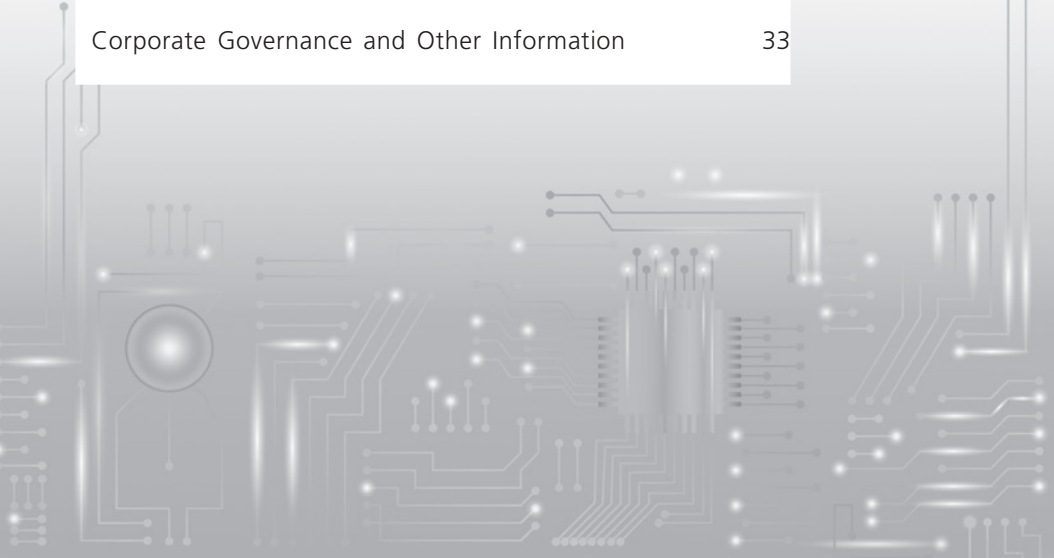
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*This report, for which the directors (the "**Directors**") of Vertical International Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the 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 report 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 report misleading.*



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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

2nd Floor, Foyer

625 King's Road

North Point

Hong Kong



**REGISTERED OFFICE IN
THE CAYMAN ISLANDS**

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong
(which will be relocated to 17/F,
Far East Finance Centre,
16 Harcourt Road, Hong Kong
with effect from 15 August 2022)

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 2022, revenue of the Group was approximately HK\$45.3 million, representing a decrease of approximately 31.3% as compared to the corresponding period in 2021.
- The Group's gross profit margin was approximately 6.4% for the six months ended 30 June 2022 and approximately 18.5% for the six months ended 30 June 2021.
- Loss for the period of the Group for the six months ended 30 June 2022 amounted to approximately HK\$6.3 million, representing a decrease of profit of approximately HK\$9.0 million as compared to the profit for the period of approximately HK\$2.7 million for the corresponding period in 2021.
- The Company recorded basic loss per share for the six months ended 30 June 2022 of approximately 2.34 HK cents and basic earnings per share for the six months ended 30 June 2021 of approximately 1.43 HK cents (restated).
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2022. On 22 March 2022, the Board recommended the payment of a final dividend of 1.00 HK cents per ordinary share, amounting to HK\$2.88 million, in respect of the year ended 31 December 2021 (for the year ended 31 December 2020: 0.15 HK cents per ordinary share). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 6 May 2022 and was paid to the shareholders of the Company on 8 June 2022.



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 2022 together with the comparative unaudited figures for the corresponding period in 2021 as follows:

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

For the six months ended 30 June 2022

	NOTES	For the three months ended 30 June		For the six months ended 30 June	
		2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Revenue	3	20,050	40,362	45,270	65,892
Cost of sales		(20,011)	(32,155)	(42,370)	(53,698)
Gross profit		39	8,207	2,900	12,194
Other income		386	52	528	409
Other gains and losses	4	(1,623)	(54)	(1,154)	(99)
Selling and distribution costs		(819)	(1,051)	(1,602)	(2,001)
Administrative expenses		(3,093)	(3,144)	(6,542)	(6,538)
Finance costs	5	(127)	(133)	(256)	(189)
(Loss) profits before taxation	6	(5,237)	3,877	(6,126)	3,776
Income tax expense	7	(89)	(792)	(180)	(1,067)
(Loss) profits for the period		(5,326)	3,085	(6,306)	2,709
Other comprehensive (expense)/income 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		(3,166)	1,128	(4,039)	844
Total comprehensive (expense)/income for the period		(8,492)	4,213	(10,345)	3,553
		<i>HK cents</i>	<i>HK cents (restated)</i>	<i>HK cents</i>	<i>HK cents (restated)</i>
(Loss) earnings per share — basic and diluted	9	(1.85)	1.61	(2.34)	1.43

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	NOTES	As at 30 June 2022 HK\$'000 (unaudited)	As at 31 December 2021 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	43,641	48,229
Right-of-use assets		1,073	1,990
Intangible assets		1,744	1,811
Deposits for acquisition of property, plant and equipment		5,194	1,910
		51,652	53,940
Current assets			
Inventories		17,935	17,207
Trade and bills receivables	11	26,595	34,040
Bills receivables at fair value through other comprehensive income		2,023	1,287
Financial assets at fair value through profit or loss		2,980	822
Deposits, prepayments and other receivables		4,880	6,032
Bank balances and cash		43,094	43,981
		97,507	103,369
Current liabilities			
Trade and bills payables	12	15,756	21,899
Other payables and accruals		4,285	7,001
Tax payable		460	525
Lease liabilities		974	1,723
Bank borrowings	13	11,095	14,805
		32,570	45,953
Net current assets		64,937	57,416
Total assets less current liabilities		116,589	111,356

	<i>NOTES</i>	As at 30 June 2022 HK\$'000 (unaudited)	As at 31 December 2021 HK\$'000 (audited)
Non-current liabilities			
Lease liabilities		63	206
NET ASSETS		116,526	111,150
Capital and reserves			
Share capital	14	14,400	9,600
Reserves		102,126	101,550
TOTAL EQUITY		116,526	111,150



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company					
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000 (note i)	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 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
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 income 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)	14,400	83,194	10,000	(496)	9,428	116,526

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 2022

	For the six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
NET CASH GENERATED (USED IN)/FROM OPERATING ACTIVITIES	(3,714)	1,702
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(468)	(2,256)
Deposit paid for acquisition of property, plant and equipment	(3,461)	—
Purchase of financial assets at fair value through profit or loss	(3,242)	—
Interest received	135	103
NET CASH USED IN INVESTING ACTIVITIES	(7,036)	(2,153)
FINANCING ACTIVITIES		
New borrowings raised	—	10,000
Repayment of bank borrowings	(3,709)	(1,154)
Repayment of lease liabilities	(840)	(471)
Interest paid	(256)	(189)
Dividends paid	(2,880)	(1,440)
Issue of new shares upon rights issue	20,160	8,160
Cost of issuance of new shares	(1,559)	(419)
NET CASH GENERATED FROM FINANCING ACTIVITIES	10,916	14,487
NET INCREASE IN CASH AND CASH EQUIVALENTS	166	14,036
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	43,981	31,923
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,053)	283
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD REPRESENTED BY BANK BALANCES AND CASH	43,094	46,242

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

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 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	34,695	10,575	45,270
RESULTS			
Segment profit	1,615	1,285	2,900
Unallocated expenses			(8,144)
Other income			528
Other gains and losses			(1,154)
Finance costs			(256)
Loss before taxation			(6,126)

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

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	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
PRC	36,333	56,652
Hong Kong	561	1,809
Other Asian regions (<i>Note</i>)	8,376	7,431
	45,270	65,892

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	
	2022 <i>HK\$'000</i> (unaudited)	2021 <i>HK\$'000</i> (unaudited)	2022 <i>HK\$'000</i> (unaudited)	2021 <i>HK\$'000</i> (unaudited)
Net foreign exchange gain and loss	(19)	(54)	(72)	(99)
Loss from change in fair value of financial assets designated as at FVTPL	(1,604)	—	(1,082)	—
	(1,623)	(54)	(1,154)	(99)

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2022 <i>HK\$'000</i> (unaudited)	2021 <i>HK\$'000</i> (unaudited)	2022 <i>HK\$'000</i> (unaudited)	2021 <i>HK\$'000</i> (unaudited)
Interest on:				
— Bank borrowings	111	130	219	169
— Lease liabilities	16	3	37	20
	127	133	256	189

6. (LOSS) PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
(Loss) profit before taxation has been arrived at after charging:				
Amortisation of intangible assets	33	—	66	—
Depreciation:				
Property, plant and equipment	1,674	1,263	3,295	2,534
Right-of-use assets	431	220	917	451
Depreciation capitalised in inventories	(1,718)	(1,320)	(3,438)	(2,638)
Depreciation	420	163	840	347
Cost of inventories recognised as expense	20,869	30,213	39,556	50,115

7. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
The charge comprises:				
Current tax				
The People's Republic of China ("PRC") Enterprise Income Tax (the "EIT")	89	792	180	1,067

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 22 March 2022, the Board recommended the payment of a final dividend of 1.00 HK cents per ordinary share, amounting to HK\$2.88 million, in respect of the year ended 31 December 2021 (for the year ended 31 December 2020: 0.15 HK cents per ordinary share, amounting to HK\$1.44 million). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 6 May 2022 and was paid to the shareholders of the Company on 8 June 2022.

9. (LOSS) EARNINGS PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
(Loss) earnings:				
(Loss) earnings for the purpose of calculating basic (loss) earnings per share	(5,326)	3,085	(6,306)	2,709

	Three months ended 30 June		Six months ended 30 June	
	2022 <i>Number of Shares</i> (unaudited)	2021 <i>Number of Shares</i> (unaudited) (restated)	2022 <i>Number of Shares</i> (unaudited)	2021 <i>Number of Shares</i> (unaudited) (restated)
Number of shares: Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	288,000,000	192,000,000	269,938,181	189,555,921

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/earnings per share for the period ended 30 June 2021 has been retrospectively adjusted to reflect the said share consolidation and the bonus element of the rights issue.

No diluted loss/earnings 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\$468,000 (six months ended 30 June 2021: HK\$2,256,000).

During the current period, the Group did not dispose any of property, plant and equipment (six months ended 30 June 2021: HK\$8,800).

11. TRADE AND BILLS RECEIVABLES

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Trade receivables	26,921	33,073
Less: Allowance for credit losses	(326)	(340)
	26,595	32,733
Bills receivables	—	1,307
	26,595	34,040

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 2022 HK\$'000	At 31 December 2021 HK\$'000
0 to 30 days	9,187	11,538
31 to 60 days	6,482	11,693
61 to 90 days	5,807	6,421
91 to 180 days	4,889	3,891
181 days to 1 year	79	497
Over 1 year	151	—
	26,595	34,040

12. TRADE AND BILLS PAYABLES

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
Trade payables	14,417	20,549
Bills payables	1,339	1,350
	15,756	21,899

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

	At 30 June 2022 HK\$'000	At 31 December 2021 HK\$'000
0 to 30 days	7,683	5,000
31 to 60 days	4,347	6,855
61 to 90 days	1,526	5,249
91 to 180 days	1,436	3,907
181 days to 1 year	271	408
Over 1 year	493	480
	15,756	21,899

13. BANK BORROWINGS

During the current period, the Group did not raise any bank borrowings (six months ended 30 June 2021: HK\$10.0 million), and repaid bank borrowings of approximately HK\$3.7 million (six months ended 30 June 2021: HK\$1.2 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 2.38% to 5.25% (31 December 2021: 2.30% to 5.75%).



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 2021,		
31 December 2021	5,000,000	50,000
Share consolidation (<i>Note (a)</i>)	(4,000,000)	—
At 30 June 2022	1,000,000	50,000
Issued and fully paid:		
At 1 January 2021,		
31 December 2021 (audited)	960,000	9,600
Share consolidation (<i>Note (a)</i>)	(768,000)	—
Issue of shares on rights issue (<i>Note (b)</i>)	96,000	4,800
At 30 June 2022 (unaudited)	288,000	14,400

Notes:

- (a) 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.

- (b) 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.

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	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Short-term benefits	2,095	2,014
Post-employment benefits	37	36
	2,132	2,050



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 persistent outbreak of the COVID-19 pandemic severely weakened both local and global consumption market and also the sales of the Group. For the six months ended 30 June 2022, the revenue of the Group decreased by approximately 31.3% to approximately HK\$45.3 million from approximately HK\$65.9 million for the six months ended 30 June 2021. Revenue from sales of the Group's self-manufactured aluminum electrolytic capacitors decreased to approximately HK\$34.7 million for the six months ended 30 June 2022 from approximately HK\$52.7 million for the six months ended 30 June 2021. The border closure and lockdowns also posed an adverse impact on domestic and global supply chains resulted in higher production costs of the Group and the cost of raw material continued to increase. The gross profit of the Group decreased by approximately HK\$9.3 million to approximately HK\$2.9 million for the six months ended 30 June 2022 from approximately HK\$12.2 million for the six months ended 30 June 2021.

The Group will continue to flexibly respond to any changes in the business environment and will continue to monitor trends and take a variety of countermeasures to guarantee its business performance.

PROSPECTS

The current economic uncertainty is expected to continue. The Group is dedicated to developing high quality products to satisfy the market needs, closely observes the future development direction of the market to research and develop products continuously in order to satisfy the needs for future development in the industry and implementing multiple cost-saving initiatives to reduce operating costs. The Group will continuously evaluate and monitor the financial impact on the Group's operational and financial performance from the ever challenging business environment.



FINANCIAL REVIEW

Revenue

The Group's revenue decreased to approximately HK\$45.3 million for the six months ended 30 June 2022 from approximately HK\$65.9 million for the corresponding period in 2021, representing a decrease of approximately 31.3%. Such decrease in the Group's revenue was mainly attributable to the persistent outbreak of the COVID-19 pandemic which has severely weakened both local and global consumption market and also the sales of the Group.

The revenue for the sales of manufactured aluminum electrolytic capacitors decreased by approximately HK\$18.0 million, from approximately HK\$52.7 million for the six months ended 30 June 2021 to approximately HK\$34.7 million for the six months ended 30 June 2022. The revenue derived from sales of trading electronic components decreased to approximately HK\$10.1 million for the six months ended 30 June 2022 from approximately HK\$13.1 million for the six months ended 30 June 2021.

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\$42.4 million for the six months ended 30 June 2022 from approximately HK\$53.7 million for the six months ended 30 June 2021, representing a decrease of approximately 21.1%. The Group's cost of sales decreased along with the decline in revenue for the six months ended 30 June 2022.

Gross profit and gross profit margin

The Group's gross profit decreased to approximately HK\$2.9 million for the six months ended 30 June 2022 from approximately HK\$12.2 million for the six months ended 30 June 2021, representing a decrease of approximately HK\$9.3 million. The Group's gross profit margin dropped from approximately 18.5% for the six months ended 30 June 2021 to approximately 6.4% for the six months ended 30 June 2022.



Selling and distribution costs

The Group's selling and distribution costs decreased to approximately HK\$1.6 million for the six months ended 30 June 2022 from approximately HK\$2.0 million for the six months ended 30 June 2021, representing a decrease of approximately 19.9%, mainly due to decrease in 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 remained at approximately HK\$6.5 million for the six months ended 30 June 2022 and 2021.

Income tax expenses

Income tax expenses decreased by approximately HK\$0.9 million, from approximately HK\$1.1 million for the six months ended 30 June 2021 to approximately HK\$0.2 million for the six months ended 30 June 2022.

(Loss) profit for the period

The Group recorded a loss for the period of approximately HK\$6.3 million for the six months ended 30 June 2022, as compared with the profit for the six months ended 30 June 2021 of approximately HK\$2.7 million. Such decrease was mainly due to a decrease in revenue and gross profit of approximately HK\$20.6 million and HK\$9.3 million for the six months ended 30 June 2022 as compared to the corresponding period in 2021.

Basic (loss) earnings per share

The Company recorded basic loss per share for the six months ended 30 June 2022 of approximately 2.34 HK cents as compared with basic earnings per share of approximately 1.43 HK cents (restated) for the six months ended 30 June 2021.



RESERVES

Movements in the reserves of the Group for the six months ended 30 June 2022 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 2022 (for the six months ended 30 June 2021: HK\$Nil).

On 22 March 2022, the Board recommended the payment of a final dividend of 1.00 HK cents per ordinary share, amounting to HK\$2.88 million, in respect of the year ended 31 December 2021 (for the year ended 31 December 2020: 0.15 HK cents per ordinary share, amounting to HK\$1.44 million). Such final dividend had been approved by the shareholders of the Company at the annual general meeting held on 6 May 2022 and was paid to the shareholders of the Company on 8 June 2022.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2022, the Group has total assets of approximately HK\$149.2 million (31 December 2021: HK\$157.3 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserve) of approximately HK\$32.6 million (31 December 2021: HK\$46.1 million) and approximately HK\$116.5 million (31 December 2021: HK\$111.2 million) respectively. The current ratio as at 30 June 2022 of the Group was approximately 3.0 times (31 December 2021: approximately 2.2 times).

As at 30 June 2022, the Group had cash and cash equivalents and restricted bank deposit of approximately HK\$43.1 million (31 December 2021: HK\$44.0 million).



The total interest-bearing bank borrowing of the Group as at 30 June 2022 was approximately HK\$11.1 million (31 December 2021: HK\$14.8 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 2022 was 0.11 times (31 December 2021: 0.15 times).

CHARGES ON GROUP'S ASSETS

As at 30 June 2022, the leasehold land and building with the carrying value of approximately HK\$4.5 million (31 December 2021: HK\$4.5 million) is pledged to a bank to secure banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments contracted for but not provided in the unaudited condensed consolidated financial statements amounting to approximately HK\$1.5 million (31 December 2021: HK\$1.9 million). Such commitments primarily related to purchases of equipment and machineries for the expansion of the Group's production capacity.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group did not have any material acquisition or disposal during the six months ended 30 June 2022.

CONTINGENT LIABILITIES

The Group did not have material contingent liabilities as at 30 June 2022 and 2021.

EMPLOYEE INFORMATION

As at 30 June 2022 and 2021, the Group had 163 and 186 full-time employees respectively, including the Directors. Total remuneration for the six months ended 30 June 2022 and 2021 was approximately HK\$11.6 million and HK\$13.4 million (restated) 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 2022 HK\$'000	As at 31 December 2021 HK\$'000	As at 30 June 2022 HK\$'000	As at 31 December 2021 HK\$'000
HK\$	—	—	—	6
JPY	—	—	2,000	—
US\$	3,587	7,636	12,177	6,627
RMB	—	—	51	49

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 2022, the Group did not hold any significant investments (31 December 2021: HK\$Nil).

EVENTS AFTER THE REPORTING DATE

As from 30 June 2022 to the date of this report, no significant event has occurred.



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\$7.7 million. The net proceeds from the Placing from 30 March 2021 to 30 June 2022 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 <i>HK\$ million</i>	Amount of proceeds unutilized as at 1 January 2022 <i>HK\$ million</i>	Amount of proceeds utilized during the period ended 30 June 2022 <i>HK\$ million</i>	Unutilized proceeds as at 30 June 2022 <i>HK\$ million</i>
To finance the addition of production equipment	4.3	—	—	—
To expand the existing production plant	1.8	1.8	(1.8)	—
General working capital	1.6	—	—	—
	7.7	1.8	(1.8)	—

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 2022 were used as follows:

Use of proceeds from the Rights Issue	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 2022	Unutilized proceeds as at 30 June 2022	Expected timeline for fully utilizing the unutilized proceeds
	HK\$ million	HK\$ million	HK\$ million	
To upgrade equipment and machines	9.6	1.6	8.0	by 31 December 2023
To repay the bank borrowings	3.8	1.9	1.9	by 31 December 2022
General working capital	5.2	5.2	—	N/A
	18.6	8.7	9.9	

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 2022, 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	180,000,000 (L)	62.5%

(b) Long position in the shares of the associated corporation of the Company

Name of Director	Nature of interest	Name of associated corporation	Number of shares interested (Note 1)	Percentage of shareholding in the associated corporation
Mr. Boon	Beneficial owner	Vertical Technology Investment Limited ("Vertical Investment")	1 (L)	100%

Notes:

- (1) The letter "L" denotes long position in the relevant share interests.
- (2) Vertical Investment held direct interests of 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.

Save as disclosed above, as at 30 June 2022, 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 2022, 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	180,000,000 (L)	62.5%
Ms. Sun Koon Kwan ("Ms. Sun") (Note 3)	Interest of spouse	180,000,000 (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 2022, 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 2022.

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 2022, 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.

In December 2021, the Stock Exchange has announced amendments to the CG code. The requirement under the new CG code will apply to corporate governance report of listed issuers for the financial year commencing on or after 1 January 2022.

During the six months ended 30 June 2022, 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 2022.

SHARE CONSOLIDATION

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.

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. 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.



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 report, Mr. Boon indirectly holds 62.5% 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 2022.

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

Hong Kong, 8 August 2022

