

# VERTICAL

INTERNATIONAL HOLDINGS LIMITED

弘浩國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8375

Interim Report

2019



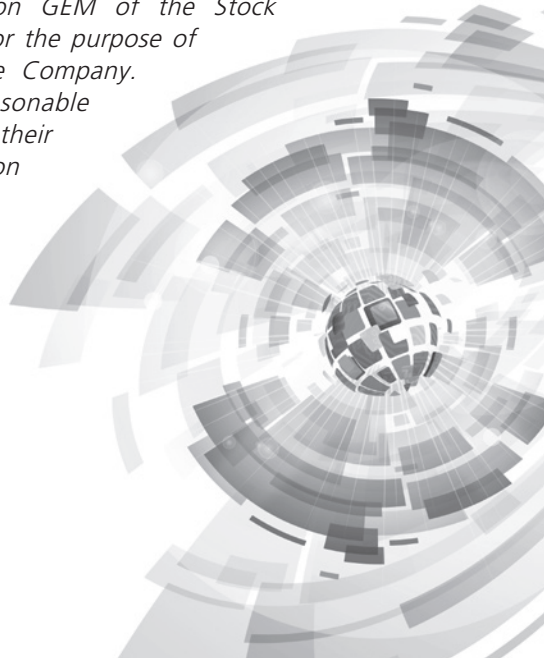
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## **CORPORATE INFORMATION**

### **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

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Hong Kong

### **COMPANY SECRETARY**

Ms. Cheung Yuet Fan

### **AUTHORISED REPRESENTATIVES**

Mr. Boon Ho Yin Henry

Ms. Cheung Yuet Fan

### **AUDITORS**

Deloitte Touche Tohmatsu

Certified Public Accountants

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Hong Kong

### **COMPLIANCE ADVISER**

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**PRINCIPAL BANK**

The Hongkong and Shanghai Banking  
Corporation Limited  
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**COMPANY WEBSITE ADDRESS**

[www.verticaltech.com.cn](http://www.verticaltech.com.cn)

**STOCK CODE**

8375

## FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2019, turnover of the Group was approximately HK\$41.3 million, representing a decrease of approximately 30.5% as compared to the corresponding period in 2018.
- The Group's gross profit margin at approximately 17.9% for the six months ended 30 June 2019 and approximately 23.0% for the six months ended 30 June 2018.
- Loss for the period of the Group for the six months ended 30 June 2019 amounted to approximately HK\$1.1 million, while the Group recorded a profit for the period of approximately HK\$4.2 million for the six months ended 30 June 2018.
- Basic loss per share for the six months ended 30 June 2019 was approximately 0.13 HK cents, and basic earnings per share for the six months ended 30 June 2018 was approximately 0.53 HK cents.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2019. During the six months ended 30 June 2018, no dividend was paid or declared.

The board of the Directors (the “**Board**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2019 together with the comparative unaudited figures for the corresponding period in 2018 are set out as follows:

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

For the six months ended 30 June 2019

|   | NOTES | Three months ended 30 June      |                                 | Six months ended 30 June        |                                 |
|---|-------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   |       | 2019<br>HK\$'000<br>(unaudited) | 2018<br>HK\$'000<br>(unaudited) | 2019<br>HK\$'000<br>(unaudited) | 2018<br>HK\$'000<br>(unaudited) |
| Revenue   | 3     | 22,415                          | 32,210                          | 41,322                          | 59,467                          |
| Cost of sales   |       | (18,435)                        | (24,597)                        | (33,917)                        | (45,798)                        |
| Gross profit  |       | 3,980                           | 7,613                           | 7,405                           | 13,669                          |
| Other income  |       | 311                             | 224                             | 518                             | 345                             |
| Other gains and losses  | 4     | 72                              | (37)                            | 20                              | (436)                           |
| Selling and distribution costs                                    |       | (840)                           | (905)                           | (1,709)                         | (2,081)                         |
| Administrative expenses   |       | (3,399)                         | (2,868)                         | (6,446)                         | (5,956)                         |
| Finance costs   | 5     | (175)                           | (44)                            | (371)                           | (79)                            |
| (Loss) profit before taxation                                     | 6     | (51)                            | 3,983                           | (583)                           | 5,462                           |
| Income tax expense  | 7     | (442)                           | (851)                           | (479)                           | (1,243)                         |
| (Loss) profit for the period                                      |       | (493)                           | 3,132                           | (1,062)                         | 4,219                           |
| <b>Other comprehensive expense:</b>                               |       |                                 |                                 |                                 |                                 |
| <i>Items that may be reclassified</i>                             |       |                                 |                                 |                                 |                                 |
| <i>subsequently to profit or loss:</i>                            |       |                                 |                                 |                                 |                                 |
| Exchange differences arising on translation of foreign operations |       | (2,014)                         | (2,237)                         | (633)                           | (747)                           |
| <b>Total comprehensive (expense) income for the period</b>        |       | <b>(2,507)</b>                  | 895                             | <b>(1,695)</b>                  | 3,472                           |
| (Loss) earnings per share, basic<br><i>(Hong Kong cents)</i>      | 9     | <b>(0.06)</b>                   | 0.39                            | <b>(0.13)</b>                   | 0.53                            |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

|  | NOTES | At<br>30 June<br>2019<br>HK\$'000<br>(unaudited) | At<br>31 December<br>2018<br>HK\$'000<br>(audited) |
|--|-------|--|--|
| <b>Non-current assets</b>  |       |  |  |
| Property, plant and equipment                                      | 10    | 42,022   | 42,229   |
| Right-of-use assets  |       | 4,396  | —  |
| Deposit for acquisition of property, plant and equipment           |       | —  | 1,452  |
|  |       | <b>46,418</b>                                    | 43,681   |
| <b>Current assets</b>  |       |  |  |
| Inventories  |       | 11,800   | 16,760   |
| Trade and bills receivables  | 11    | 24,673   | 21,825   |
| Bills receivables at fair value through other comprehensive income |       | —  | 3,312  |
| Deposits, prepayments and other receivables                        |       | 3,801  | 1,785  |
| Time deposit   |       | 3,011  | —  |
| Bank balances and cash   |       | 31,715   | 38,158   |
|  |       | <b>75,000</b>                                    | 81,840   |
| <b>Current liabilities</b>   |       |  |  |
| Trade and bills payables   | 12    | 6,866  | 11,910   |
| Other payables and accruals  |       | 6,068  | 9,152  |
| Tax payable  |       | 1,159  | 1,404  |
| Lease liabilities  |       | 2,311  | —  |
| Bank borrowings  | 13    | 11,427   | 9,873  |
|  |       | <b>27,831</b>                                    | 32,339   |
| <b>Net current assets</b>  |       | <b>47,169</b>                                    | 49,501   |
| <b>Total assets less current liabilities</b>                       |       | <b>93,587</b>                                    | 93,182   |



|                              | <i>NOTES</i> | <b>At<br/>30 June<br/>2019<br/>HK\$'000<br/>(unaudited)</b> | At<br>31 December<br>2018<br>HK\$'000<br>(audited) |
|------------------------------|--------------|---|--|
| <b>Non-current liability</b> |              |   |  |
| Lease liabilities            |              | <b>2,224</b>  | —  |
| Deferred tax liabilities     |              | <b>39</b>   | 39   |
|                              |              | <b>2,263</b>  | 39   |
|                              |              | <b>91,324</b>   | 93,143   |
| <b>Capital and reserves</b>  |              |   |  |
| Share capital                | 14           | <b>8,000</b>  | 8,000  |
| Reserves                     |              | <b>83,324</b>   | 85,143   |
|                              |              | <b>91,324</b>   | 93,143   |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

|  | Attributable to owners of the Company |                              |  |                                 |                                 | Total<br>HK\$'000 |
|--|---------------------------------------|------------------------------|--|---------------------------------|---------------------------------|-------------------|
|  | Share<br>capital<br>HK\$'000          | Share<br>premium<br>HK\$'000 | Statutory<br>reserve<br>HK\$'000<br>(note i) | Exchange<br>reserve<br>HK\$'000 | Retained<br>profits<br>HK\$'000 |                   |
| At 1 January 2018 (audited)  | 8,000                                 | 69,172                       | 3,265  | 1,123                           | 10,033                          | 91,593            |
| Profit for the period  | —                                     | —                            | —  | —                               | 4,219                           | 4,219             |
| Exchange differences arising on translation of foreign operations        | —                                     | —                            | —  | (747)                           | —                               | (747)             |
| Total comprehensive income for the period                                | —                                     | —                            | —  | (747)                           | 4,219                           | 3,472             |
| At 30 June 2018 (unaudited)  | 8,000                                 | 69,172                       | 3,265  | 376                             | 14,252                          | 95,065            |
| <b>At 1 January 2019 (audited)</b>                                       | <b>8,000</b>                          | <b>69,172</b>                | <b>10,000</b>                                | <b>(2,460)</b>                  | <b>8,431</b>                    | <b>93,143</b>     |
| <b>Adjustment on application of HKFRS 16 (Note 2.1)</b>                  | <b>—</b>                              | <b>—</b>                     | <b>—</b>                                     | <b>—</b>                        | <b>(124)</b>                    | <b>(124)</b>      |
| <b>As at 1 January 2019 (restated)</b>                                   | <b>8,000</b>                          | <b>69,172</b>                | <b>10,000</b>                                | <b>(2,460)</b>                  | <b>8,307</b>                    | <b>93,019</b>     |
| <b>Loss for the period</b>   | <b>—</b>                              | <b>—</b>                     | <b>—</b>                                     | <b>—</b>                        | <b>(1,062)</b>                  | <b>(1,062)</b>    |
| <b>Exchange differences arising on translation of foreign operations</b> | <b>—</b>                              | <b>—</b>                     | <b>—</b>                                     | <b>(633)</b>                    | <b>—</b>                        | <b>(633)</b>      |
| <b>Total comprehensive expense for the period</b>                        | <b>—</b>                              | <b>—</b>                     | <b>—</b>                                     | <b>(633)</b>                    | <b>(1,062)</b>                  | <b>(1,695)</b>    |
| <b>At 30 June 2019 (unaudited)</b>                                       | <b>8,000</b>                          | <b>69,172</b>                | <b>10,000</b>                                | <b>(3,093)</b>                  | <b>7,245</b>                    | <b>91,324</b>     |

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.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

|   | Six months ended 30 June        |                                 |
|---|---------------------------------|---------------------------------|
|   | 2019<br>HK\$'000<br>(unaudited) | 2018<br>HK\$'000<br>(unaudited) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES            | <b>(2,557)</b>                  | 2,666                           |
| INVESTING ACTIVITIES                                    |                                 |                                 |
| Placement of time deposits                              | <b>(8,211)</b>                  | —                               |
| Withdrawal of time deposits                             | <b>5,200</b>                    | —                               |
| Interest received                                       | <b>114</b>                      | 14                              |
| Purchase of property, plant and equipment               | <b>(715)</b>                    | (9,501)                         |
| Proceeds from disposal of property, plant and equipment | <b>130</b>                      | 946                             |
| NET CASH USED IN INVESTING ACTIVITIES                   | <b>(3,482)</b>                  | (8,541)                         |
| FINANCING ACTIVITIES                                    |                                 |                                 |
| New borrowings raised                                   | <b>3,962</b>                    | 2,049                           |
| Repayment of bank borrowings                            | <b>(2,408)</b>                  | (2,579)                         |
| Repayment of lease liabilities                          | <b>(1,215)</b>                  | —                               |
| Interest paid   | <b>(223)</b>                    | (79)                            |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES            | <b>116</b>                      | (609)                           |
| NET DECREASE IN CASH AND CASH EQUIVALENTS               | <b>(5,923)</b>                  | (6,484)                         |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD    | <b>38,158</b>                   | 45,002                          |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES                 | <b>(520)</b>                    | 339                             |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD          |                                 |                                 |
| represented by bank balances and cash                   | <b>31,715</b>                   | 38,857                          |
| Analysis of the balance of cash and cash equivalents    |                                 |                                 |
| Bank balance and cash                                   | <b>31,715</b>                   | 38,857                          |

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2019*

### 1. GENERAL

Vertical International Holdings Limited (the “**Company**”) is a public limited company incorporated in the Cayman Islands. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 13 November 2017.

The immediate and ultimate holding company is Vertical Technology Investment Limited (“**Vertical Investment**”), a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Boon Ho Yin Henry, who is also the Chairman and Chief Executive Officer of the Company.

The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Unit 2212, 22/F, Global Gateway Tower, 63 Wing Hong Street, Cheung Sha Wan, Hong Kong respectively.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components.

The functional currency of the Company is Hong Kong dollars (“**HK\$**”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The 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 2019 for the preparation of the Group’s condensed consolidated financial statements:

|                       |  |
|-----------------------|--|
| HKFRS 16              | Leases   |
| HK(IFRIC)-Int 23      | Uncertainty over Income Tax Treatments               |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation       |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement            |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs  | Annual Improvements to HKFRSs 2015–2017 Cycle        |

Except as described below, 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.

## **2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases**

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases (“**HKAS 17**”), and the related interpretations.

### ***2.1.1 Key changes in accounting policies resulting from application of HKFRS 16***

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

#### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### *As a lessee*

##### Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis over the lease term.

#### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

#### Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

#### Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and



- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

#### Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

#### Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

### ***2.1.2 Transition and summary of effects arising from initial application of HKFRS 16***

#### *Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease. Specifically, the Group assessed its contracts on sales of transportation and delivery contracts.

*As a lessee*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of factory and office premises in the People's Republic of China was determined on a portfolio basis.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$2,341,000 and right-of-use assets of HK\$2,217,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.65%.

|   | <b>At 1 January<br/>2019</b><br><i>HK\$'000</i> |
|---|---|
| Operating lease commitments disclosed<br>as at 31 December 2018         | 2,951   |
| Lease liabilities discounted at relevant<br>incremental borrowing rates | 2,742   |
| Less: Recognition exemption — short-<br>term leases                     | (401)   |
| <b>Lease liabilities as at 1 January 2019</b>                           | <b>2,341</b>                                    |
| Analysed as   |   |
| Current   | 737   |
| Non-current   | 1,604   |
|   | <b>2,341</b>                                    |

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

|  | <b>Right-of-use<br/>assets</b><br><i>HK\$'000</i> |
|--|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 2,217   |
| By class:  |   |
| Land and buildings   | 2,217   |

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

|                                  | <b>Carrying<br/>amounts<br/>previously<br/>reported at 31<br/>December<br/>2018</b><br><i>HK\$'000</i> | <b>Adjustment</b><br><i>HK\$'000</i> | <b>Carrying<br/>amounts<br/>under<br/>HKFRS 16 at 1<br/>January<br/>2019</b><br><i>HK\$'000</i> |
|----------------------------------|--|--------------------------------------|---|
| <b>Non-Current<br/>assets</b>    |  |                                      |   |
| Right-of-use assets              | —  | 2,217                                | 2,217   |
| <b>Current<br/>liability</b>     |  |                                      |   |
| Lease liabilities                | —  | 737                                  | 737   |
| <b>Non-Current<br/>liability</b> |  |                                      |   |
| Lease liabilities                | —  | 1,604                                | 1,604   |
| <b>Equity</b>                    |  |                                      |   |
| Reserve                          | 85,143   | (124)                                | 85,019  |

*Note:* For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

## **2.2 Significant changes in significant judgements and key sources of estimation uncertainty**

### ***Determination on lease term of contracts with renewal options***

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

## **3. REVENUE AND SEGMENT INFORMATION**

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

Information reported to the executive directors of the Group, being the chief operating decision maker ("**CODM**"), is organised into divisions for the purposes of resource allocation and performance assessment focusing on the types of services delivered or provided. Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* are as follows:

— **Sales of manufactured aluminum electrolytic capacitors**

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

— **Trading of electronic components**

Trading of electronic components represents trading of (i) a wider range of electronic components including integrated circuits and semi-conductors such as diodes and transistors and (ii) LED and LED lighting products 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 2019***

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

***For the six months ended 30 June 2018***

|                        | Sales of<br>manufactured<br>aluminum<br>electronic<br>capacitors<br><i>HK\$'000</i> | Trading of<br>electrolytic<br>components<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|------------------------|---|---|--------------------------|
| <b>SEGMENT REVENUE</b> |   |   |                          |
| External sales         | 47,932  | 11,535  | 59,467                   |
| <b>RESULTS</b>         |   |   |                          |
| Segment profit         | 12,179  | 1,490   | 13,669                   |
| Unallocated expenses   |   |   | (8,037)                  |
| Other income           |   |   | 345                      |
| Other gains and losses |   |   | (436)                    |
| Finance costs          |   |   | (79)                     |
| Profit before taxation |   |   | 5,462                    |

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 |                  |
|-------------------------------------|--------------------------|------------------|
|                                     | 2019<br>HK\$'000         | 2018<br>HK\$'000 |
| PRC                                 | 29,703                   | 45,352           |
| Hong Kong                           | 4,594                    | 10,960           |
| Other Asian regions ( <i>Note</i> ) | 7,025                    | 3,155            |
|                                     | <b>41,322</b>            | 59,467           |

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

## 4. OTHER GAINS AND LOSSES

|   | Three months ended 30 June |                  | Six months ended 30 June |                  |
|---|----------------------------|------------------|--------------------------|------------------|
|   | 2019<br>HK\$'000           | 2018<br>HK\$'000 | 2019<br>HK\$'000         | 2018<br>HK\$'000 |
| Net foreign exchange gain (loss)  | 57                         | (37)             | 5                        | (86)             |
| (Provision) reversal for impairment loss recognised on trade receivables, net of reversal | (115)                      | —                | (115)                    | 9                |
| Gain (loss) on write off/disposal of property, plant and equipment                        | 130                        | —                | 130                      | (359)            |
|   | <b>72</b>                  | (37)             | <b>20</b>                | (436)            |

## 5. FINANCE COSTS

|                     | Three months<br>ended 30 June |                         | Six months<br>ended 30 June |                         |
|---------------------|-------------------------------|-------------------------|-----------------------------|-------------------------|
|                     | 2019<br><i>HK\$'000</i>       | 2018<br><i>HK\$'000</i> | 2019<br><i>HK\$'000</i>     | 2018<br><i>HK\$'000</i> |
| Interest on:        |                               |                         |                             |                         |
| — Bank borrowings   | 104                           | 25                      | 223                         | 50                      |
| — Bank overdraft    | —                             | 19                      | —                           | 29                      |
| — Lease liabilities | 71                            | —                       | 148                         | —                       |
|                     | <b>175</b>                    | 44                      | <b>371</b>                  | 79                      |

## 6. (LOSS) PROFIT BEFORE TAXATION

|  | Three months<br>ended 30 June |                         | Six months<br>ended 30 June |                         |
|--|-------------------------------|-------------------------|-----------------------------|-------------------------|
|  | 2019<br><i>HK\$'000</i>       | 2018<br><i>HK\$'000</i> | 2019<br><i>HK\$'000</i>     | 2018<br><i>HK\$'000</i> |
| (Loss) profit for the period has<br>been arrived at after charging:                  |                               |                         |                             |                         |
| Depreciation:  |                               |                         |                             |                         |
| Property, plant and equipment  | 1,164                         | 901                     | 2,310                       | 1,679                   |
| Right-of-use assets  | 574                           | —                       | 1,149                       | —                       |
| Depreciation capitalised in<br>inventories   | (1,443)                       | (688)                   | (2,948)                     | (1,255)                 |
| Depreciation   | <b>295</b>                    | 213                     | <b>511</b>                  | 424                     |
| Cost of inventories recognised as<br>expense   | 17,452                        | 23,283                  | 31,943                      | 43,223                  |
| Operating lease rental in respect<br>of minimum lease payments<br>of rental premises | —                             | 127                     | —                           | 562                     |

## 7. INCOME TAX EXPENSE

|  | Three months<br>ended 30 June |                  | Six months<br>ended 30 June |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | 2019<br>HK\$'000              | 2018<br>HK\$'000 | 2019<br>HK\$'000            | 2018<br>HK\$'000 |
| The charge comprises:                    |                               |                  |                             |                  |
| Current period                           |                               |                  |                             |                  |
| PRC Enterprise Income Tax<br>(the "EIT") | (442)                         | 870              | (479)                       | 1,282            |
|  | (442)                         | 870              | (479)                       | 1,282            |
| Deferred tax                             | —                             | (19)             | —                           | (39)             |
|  | (442)                         | 851              | (479)                       | 1,243            |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. Accordingly, for the six months ended 30 June 2018 and 2019, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK\$2 million.

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% for 3 years from 1 January 2016 to 31 December 2018.

## 8. DIVIDENDS

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

## 9. (LOSS) EARNINGS PER SHARE

|   | Three months<br>ended 30 June |                  | Six months<br>ended 30 June |                  |
|---|-------------------------------|------------------|-----------------------------|------------------|
|   | 2019<br>HK\$'000              | 2018<br>HK\$'000 | 2019<br>HK\$'000            | 2018<br>HK\$'000 |
| (Loss) earnings:  |                               |                  |                             |                  |
| (Loss) earnings for<br>the purpose of<br>calculating basic<br>(loss) earnings<br>per share              | <b>(493)</b>                  | 3,132            | <b>(1,062)</b>              | 4,219            |
| Number of shares:   |                               |                  |                             |                  |
| Number of ordinary<br>shares for the<br>purpose of<br>calculating basic<br>(loss) earnings per<br>share | <b>800,000,000</b>            | 800,000,000      | <b>800,000,000</b>          | 800,000,000      |

No diluted (loss) earnings per share was presented since 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\$1,997,000 (six months ended 30 June 2018: HK\$12,294,000).

During the current period, the Group disposed of property, plant and equipment with aggregate carrying amount of approximately HK\$525,000 (six months ended 30 June 2018: HK\$1,305,000).

## 11. TRADE AND BILLS RECEIVABLES

|                            | <b>At<br/>30 June<br/>2019<br/>HK\$'000</b> | At<br>31 December<br>2018<br>HK\$'000 |
|----------------------------|---|---------------------------------------|
| Trade receivables          | <b>23,932</b>                               | 21,277                                |
| Less: Impairment allowance | <b>(292)</b>                                | (177)                                 |
|                            | <b>23,640</b>                               | 21,100                                |
| Bills receivables          | <b>1,033</b>                                | 725                                   |
|                            | <b>24,673</b>                               | 21,825                                |

The credit period allowed by the Group to its customers was up to 90 days from the date of issuing invoice. The following is an aged analysis of trade receivables based on delivery dates which is the revenue recognition point, net of impairment allowance at the end of each reporting period:

|                      | <b>At<br/>30 June<br/>2019<br/>HK\$'000</b> | At<br>31 December<br>2018<br>HK\$'000 |
|----------------------|---|---------------------------------------|
| 0 to 30 days         | <b>7,476</b>                                | 7,390                                 |
| 31 to 60 days        | <b>7,427</b>                                | 6,937                                 |
| 61 to 90 days        | <b>5,994</b>                                | 4,206                                 |
| 91 to 180 days       | <b>2,327</b>                                | 1,795                                 |
| 181 days to 365 days | <b>416</b>                                  | 772                                   |
|                      | <b>23,640</b>                               | 21,100                                |

Bills receivables are those bills not yet due at the end of the reporting period and the management considers the default rate is low as the Group did not encounter any default on bills receivables based on the past experience. The maturity period of all bills receivables as at 30 June 2019 was within 180 days.

## 12. TRADE AND BILLS PAYABLES

|                | <b>At<br/>30 June<br/>2019<br/>HK\$'000</b> | At<br>31 December<br>2018<br>HK\$'000 |
|----------------|---|---------------------------------------|
| Trade payables | <b>6,866</b>                                | 9,354                                 |
| Bills payables | —   | 2,556                                 |
|                | <b>6,866</b>                                | 11,910                                |

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

|                | <b>At<br/>30 June<br/>2019<br/>HK\$'000</b> | At<br>31 December<br>2018<br>HK\$'000 |
|----------------|---|---------------------------------------|
| 0 to 30 days   | <b>4,964</b>                                | 6,053                                 |
| 31 to 60 days  | <b>1,195</b>                                | 1,763                                 |
| 61 to 90 days  | <b>663</b>                                  | 1,258                                 |
| 91 to 180 days | <b>44</b>                                   | 280                                   |
|                | <b>6,866</b>                                | 9,354                                 |

## 13. BANK BORROWINGS

During the current period, the Group raised bank borrowings of approximately HK\$3,962,000 (six months ended 30 June 2018: HK\$2,049,000), and repaid bank borrowings of approximately HK\$2,408,000 (six months ended 30 June 2018: HK\$2,579,000) respectively.

The bank borrowings carry interest at best lending rate plus/minus certain basis points. The average of effective interest rates (which are also equal to contracted interest rates) ranged from 2.50% to 5.38% (31 December 2018: 2.50% to 5.25%).

## 14. SHARE CAPITAL

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

|  | Number of<br>shares | Share<br>capital<br><i>HK\$</i> |
|--|---------------------|---------------------------------|
| <b>Authorised:</b>   |                     |                                 |
| At 1 January 2018, 31<br>December 2018 and 30 June<br>2019                       | 5,000,000,000       | 50,000,000                      |
| <b>Issued and fully paid:</b>  |                     |                                 |
| At 1 January 2018, 31<br>December 2018 (audited) and<br>30 June 2019 (unaudited) | 800,000,000         | 8,000,000                       |

## 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 |                         |
|--------------------------|--------------------------|-------------------------|
|                          | 2019<br><i>HK\$'000</i>  | 2018<br><i>HK\$'000</i> |
| Short-term benefits      | 1,743                    | 1,209                   |
| Post-employment benefits | 35                       | 43                      |
|                          | <b>1,778</b>             | <b>1,252</b>            |

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group is engaged in the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components. The revenue for the six months ended 30 June 2019 was derived from the manufacturing and trading of aluminum electrolytic capacitors and trading of electronic components.

The business environment is changing recently due to the global trade war and tariff dispute between China and the United States of America, especially for the financial performance in the first half of 2019 and forward could be adversely affected. The revenue and gross profit of the Group for the six months ended 30 June 2019 decreased by 30.5% and 45.8% respectively to as compared with that of the six months ended 30 June 2018 as the revenue of sales of our products decreased under uncertain global business environment.

The current economic uncertainty which is expected to continue during the rest of 2019 has affected the Group's revenue and led to a corresponding significant decrease in gross profit. To cope with the challenging business environment, while the Group continuously review the business approach and will actively seek for potential business opportunities worldwide.

### **PROSPECTS**

The Group expect that over time, global trade tariff dispute affects international trade and growth, these uncertainties may pose a new challenge to the Group's business. The Group however remain committed to investing in technology development, advancing its technology capabilities and enforcing the competitive advantage, which will help the Group achieve its long-term strategic and financial goals.



## **FINANCIAL REVIEW**

### **Revenue**

The Group's revenue decreased to approximately HK\$41.3 million for the six months ended 30 June 2019 from approximately HK\$59.5 million for the corresponding period in 2018, representing a decrease of approximately 30.5%. Such decrease in the Group's revenue was mainly attributable to weakening demand in the consumer market under the uncertain global business environment as a result of the trade war and tariff dispute between China and the United States of America.

### **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\$33.9 million for the six months ended 30 June 2019 from approximately HK\$45.8 million for the six months ended 30 June 2018, representing a decrease of approximately 25.9%. The Group's cost of sales decreased along with the decline in revenue for the six months ended 30 June 2019.

### **Gross profit and gross profit margin**

The Group's gross profit decreased to approximately HK\$7.4 million for the six months ended 30 June 2019 from approximately HK\$13.7 million for the six months ended 30 June 2018, representing a decrease of approximately 45.8%. The Group's gross profit margin decreased to approximately 17.9% for the six months ended 30 June 2019 from approximately 23.0% for the six months ended 30 June 2018. Such decrease was mainly due to revenue declined approximately HK\$18.1 million for the six months ended 30 June 2019 while the fixed manufacturing cost were not decreased in line with the revenue.

## **Selling and distribution expenses**

The Group's selling and distribution expenses decreased to approximately HK\$1.7 million for the six months ended 30 June 2019 from approximately HK\$2.1 million for the six months ended 30 June 2018, representing a decrease of approximately 17.9%, mainly due to decrease in the warehouse charges, transportation expenses and salaries.

## **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\$6.4 million for the six months ended 30 June 2019 from approximately HK\$6.0 million for the six months ended 30 June 2018.

## **Income tax expenses**

Income tax expenses decreased by approximately HK\$0.8 million or 61.5%, from approximately HK\$1.2 million for the six months ended 30 June 2018 to approximately HK\$0.5 million for the six months ended 30 June 2019.

## **(Loss) profit for the period**

The Group recorded a loss for the period of HK\$1.1 million for the six months ended 30 June 2019, as compared with the profit for the period for the six months ended 30 June 2018 of approximately HK\$4.2 million. Such decrease was mainly because of the decrease in revenue and gross profit of approximately HK\$18.1 million and HK\$6.3 million respectively for the six months ended 30 June 2019 as compared to the corresponding period in 2018.

## **Basic (loss) earnings per share**

The Group recorded loss per share of approximately 0.13 HK cents for the six months ended 30 June 2019 as compared with earnings per share of approximately 0.53 HK cents for the six months ended 30 June 2018, representing a decrease of approximately 0.66 HK cents. Such decrease was mainly due to the decrease of profit for the period for the six months ended 30 June 2019.

## **RESERVES**

Movements in the reserves of the Group for the six months ended 30 June 2019 are set out above in the unaudited condensed consolidated statement of changes in equity.

## **DIVIDEND**

No dividend was paid, proposed or declared for the ordinary shareholders of the Company for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

## **CAPITAL COMMITMENTS**

As at 30 June 2019, the Group had capital commitments contracted for but not provided in the unaudited condensed consolidated financial statements amounting to approximately HK\$1.6 million (31 December 2018: HK\$2.4 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 acquisitions or disposals during the six months ended 30 June 2019.

## **CONTINGENT LIABILITIES**

The Group did not have material contingent liabilities as at 30 June 2019 and 2018.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2019 and 31 December 2018, the Group has total assets of approximately HK\$121.4 million and HK\$125.5 million respectively, which is financed by total liabilities, shareholders' equity (comprising share capital and reserve) of approximately HK\$30.1 million (31 December 2018: HK\$32.4 million) and approximately HK\$91.3 million (31 December 2018: HK\$93.1 million) respectively. The current ratio as at 30 June 2019 of the Group was approximately 2.7 times (31 December 2018: approximately 2.5 times).

As at 30 June 2019 and 31 December 2018, the Group had cash and cash equivalents of approximately HK\$31.7 million and HK\$38.2 million respectively.

The total interest-bearing bank borrowing and lease liabilities of the Group as at 30 June 2019 was approximately HK\$16.0 million (31 December 2018: HK\$9.9 million). The gearing ratio (calculated based on interest bearing bank borrowings and lease liabilities divided by total equity) of the Group as of 30 June 2019 was 0.17 times (31 December 2018: 0.11 times).

The shares of the Company (the "**Shares**") were successfully listed on GEM on 13 November 2017. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises ordinary Shares.

As at 30 June 2019, the Company's issued share capital amounted to HK\$8,000,000 divided into 800,000,000 Shares of HK\$0.01 each.

### **CHARGES ON GROUP'S ASSETS**

As at 30 June 2019, the leasehold land and building with the carrying value of approximately HK\$5.0 million (31 December 2018: HK\$5.1 million) is pledged to a bank to secure banking facilities granted to the Group.

### **EMPLOYEE INFORMATION**

As at 30 June 2019 and 2018, the Group had 144 and 185 full-time employees respectively, including the Directors. Total remuneration for the six months ended 30 June 2019 and 2018 was HK\$8.3 million and HK\$10.8

million respectively. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

## FOREIGN EXCHANGE EXPOSURE

The Company is mainly operated in its local jurisdiction with most of the transactions settled in its functional currencies of the operations and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

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

|      | Liabilities                                 |   | Assets                                      |   |
|------|---|---|---|---|
|      | As at<br>30 June<br>2019<br><i>HK\$'000</i> | As at<br>31 December<br>2018<br><i>HK\$'000</i> | As at<br>30 June<br>2019<br><i>HK\$'000</i> | As at<br>31 December<br>2018<br><i>HK\$'000</i> |
| US\$ | (2,346)                                     | —   | 4,253                                       | 1,325   |
| RMB  | (26)  | (523)   | 27  | 11  |

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 2019, the Group did not hold any significant investments (31 December 2018: Nil).

## EVENTS AFTER THE REPORTING DATE

As from 30 June 2019 to the date of this interim report, no significant event has occurred.

## USE OF PROCEEDS

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

The net proceeds from the Share Offer from the 13 November 2017 (the “**Listing Date**”) to 30 June 2019 were used as follows:

| <b>Use of proceeds</b>  | <b>Planned use of net proceeds (adjusted on a pro rata basis based on the actual net proceeds)</b><br><i>HK\$ million</i> | <b>Planned use of net proceeds up to 30 June 2019 (adjusted on a pro rata basis based on the actual net proceeds)</b><br><i>HK\$ million</i> | <b>Actual use of net proceeds up to 30 June 2019</b><br><i>HK\$ million</i> | <b>Unutilized proceeds as at 30 June 2019</b><br><i>HK\$ million</i> |
|---|---|--|---|--|
| To increase the production capacity of the Group’s chip type aluminum electrolytic capacitors | 21.5  | 21.5   | 21.5  | —  |
| To establish the second production plant in Dongguan, Guangdong Province, the PRC             | 6.6   | 6.6  | 1.2   | 5.4  |
| To continue research and development effort   | 2.5   | 2.5  | 2.5   | —  |
| To promote the Group’s branded products   | 2.3   | 2.3  | 2.3   | —  |
| General working capital   | 1.9   | 1.9  | 1.9   | —  |
|   | 34.8  | 34.8   | 29.4  | 5.4  |

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress from Listing Date to 30 June 2019 ("**Review Period**") is set out below:

| <b>Business objectives</b>  | <b>Actual business progress during the Review Period</b>   |
|---|--|
| — To increase the production capacity of our Group's chip-type aluminum electrolytic capacitors | — The Group has fully utilized the amount for acquiring necessary machinery and equipment.   |
| — To establish the second production plant in Dongguan, Guangdong Province, the PRC             | — Up to the date of this report, the Group has already leased an additional space for its expansion needs.   |
| — To continue research and development effort   | — The Group has fully utilized the amount for recruiting and retaining additional staff, and investing time and resource into research and development department. |
| — To promote our branded products   | — The Group has fully utilized the amount for recruiting additional sales staffs and issued booklets for marketing events.   |

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2019, 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 (the “**SFO**”)) held by the Directors and chief executives of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO) or which as entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are set out as follows:

#### (a) Long position in the Shares of the Company

| <b>Name of Director</b>  | <b>Nature of interest</b>            | <b>Number of Shares held</b><br><i>(Note 1)</i> | <b>Percentage of shareholding in the Company</b> |
|--|--------------------------------------|---|--|
| Mr. Boon Ho Yin<br>Henry<br>(“ <b>Mr. Boon</b> ”)<br><i>(Note 2)</i> | Interest in a controlled corporation | 600,000,000 (L)                                 | 75%  |



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

| <b>Name of Director</b> | <b>Nature of interest</b> | <b>Name of associated corporation</b>                                    | <b>Number of shares interested</b><br><i>(Note 1)</i> | <b>Percentage of shareholding in the associated corporation</b> |
|-------------------------|---------------------------|--|---|---|
| Mr. Boon                | Beneficial owner          | Vertical Technology Investment Limited<br><b>("Vertical Investment")</b> | 1 (L)   | 100%  |

*Notes:*

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

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2019, 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<br>(Note 1) | Percentage of shareholding in the Company |
|---|--------------------|-----------------------------------|---|
| Vertical Investment<br>(Note 2)           | Beneficial owner   | 600,000,000 (L)                   | 75%                                       |
| Ms. Sun Koon Kwan<br>("Ms. Sun") (Note 3) | Interest of spouse | 600,000,000 (L)                   | 75%                                       |

Notes:

- (1) The letter "L" denotes long position in the share interests.
- (2) Vertical Investment is wholly and beneficially owned by Mr. Boon. He is deemed to be interested in all the Shares held by Vertical Investment under the SFO.
- (3) Ms. Sun is the spouse of Mr. Boon. Ms. Sun is deemed to be interested in the same number of Shares in which Mr. Boon is interested by virtue of the SFO.

Save as disclosed above, as at 30 June 2019, 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 2019.

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 2019, none of the Directors or the controlling shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

## **CORPORATE GOVERNANCE PRACTICES**

The Board of the Company is committed to achieving good corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders of the Company, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles and practices as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 15 to the GEM Listing Rules and has adopted the CG Code as the code to govern the Company’s corporate governance practices.

During the six months ended 30 June 2019, the Company has complied with the code provisions as set out in the CG Code except for the deviation from code provision A.2.1 which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Boon is the Chairman and the Chief Executive Officer of the Company and is responsible for the Group’s major decision-making, overall strategic planning, determining corporate policies and daily operation and management of the Group. In the view that Mr. Boon is one of the founders of the Group and he has been operating and managing the Group since its establishment, the Board believes that it is in the best interest of the Group to have Mr. Boon taking up both roles for effective management and business development of the Group. Therefore, the Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2019.

## **INTERESTS OF THE COMPLIANCE ADVISER**

As at the date of this report, neither Vinco Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or close associates has any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of the GEM Listing Rules.

## **AUDIT COMMITTEE**

The Company established an audit committee (“**Audit Committee**”) with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Mr. Wong Wai Leung, Mr. Liu Kwan and Mr. Chik Kin Man Paul. Mr. Wong Wai Leung possesses the appropriate professional accounting qualifications and related financial management expertise as required in Rule 5.05(2) of the GEM Listing Rules, and he serves as the chairman of the Audit Committee.

The primary duties of the Audit Committee are to assist the Board in providing an independent review of the effectiveness of the Group’s internal audit function, financial reporting process, internal control and risk management systems, and to oversee the audit process. The Audit Committee had reviewed the unaudited interim results of the Company for the six months ended 30 June 2019.

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

Hong Kong, 7 August 2019