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VERTICAL INTERNATIONAL HOLDINGS LIMITED

弘浩國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8375)

NON-BINDING LETTER OF INTENT IN RELATION TO A PROPOSAL ON BUSINESS INVESTMENT AND DEVELOPMENT

This announcement is made by Vertical International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 17.10 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and the Inside Information Provisions (as defined under the GEM Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

THE LETTER OF INTENT

Attracted by the policies and resources made available to investors by the Government of Beihai, Guangxi Province, China, the Company has on 18 October 2019 submitted a letter of intent to the Management Committee of Beihai Industrial Park (北海市工業園區管理委員會) (the “**Authorities**”) presenting its preliminary proposal on business investment and development (the “**Proposal**”) involving acquisition of land and construction of production facilities in the Beihai Industrial Park (the “**Letter of Intent**”). The Letter of Intent is non-legally binding and does not constitute any commitment on the Company or the Authorities. The Proposal is subject to the scrutiny of the Authorities and may or may not be acceptable to the Authorities (with or without modifications).

The principal terms of the Proposal are summarised below:

- (a) the Company proposes to establish a new foreign-invested enterprise in Beihai, Guangxi Province, China, which would principally engage in the manufacturing of discrete semiconductor devices (分立式半導體), multi-layer aluminum polymer capacitor in discrete semiconductor type packaging (半導體式封裝多層式聚合物鋁質電容器) and polymer tantalum capacitor in discrete semiconductor type packaging (半導體式封裝聚合物鉭質電容器) (collectively, the “**Products**”);

- (b) the proposed investment amount would be negotiated and determined upon signing of the formal agreement;
- (c) about 600 mu (畝) of land is proposed to be acquired and the construction would be implemented in stages over a period of approximately two years. In the first year, the Group plans to complete the construction of infrastructures and part of the production facilities and to carry out small-scale trial production of the Products. In the second year, the Group plans to complete the construction of the main production facilities and to start mass production of the Products; and
- (d) about 5,000 new jobs would be created.

In the meantime, the Group is conducting feasibility study on the Proposal, which will take into consideration various factors, including without limitation, the potential market and customers of the Products, the estimated investment costs and capital expenditures, the potential returns and other operational matters such as suitability of the land and site and the staffing requirements, etc. When completed, the feasibility study report will be submitted to the Authorities for review and approval.

REASONS FOR AND BENEFITS OF THE PROPOSAL

The Group is principally engaged in the manufacturing and trading of discrete semiconductor devices, passive components, LED and LED lighting products and has been committed to investing in technology development, advancing its technology capabilities and improving its competitive advantages, with a view to achieving the Group's long-term strategic and financial goals.

The Products have become increasingly popular in the discrete semiconductor devices and passive components market (the “**Market**”) as they have greater advantage in power consumption and performance with lower equivalent series resistance, lower energy consumption, smaller size and lower costs. They are mainly used in laptops, graphics processing units, 5G telecommunication, industrial control system and auto mobile equipment. The board (the “**Board**”) of directors of the Company (the “**Directors**”) believes that the Market in China is in general on an upward trend due to the Products' enhanced features, functions and performance. Driven by the increasing trend of the Market, the Group plans to invest in the mass production of the Products, which would be complementary to the Group's product offerings, diversify the Group's products range and reduce the Group's reliance on certain existing core products. The Group has utilised its own patented manufacturing methods for development of devices, raw materials and production process to facilitate the production of the Products. The launch of the Products is part of the Group's business growth and can help the Group to seize the promising development in the Market, which will broaden its revenue base.

The Board considers that the Proposal, if materialised and implemented, is expected to bring long-term strategic value to the Group and enable the Group to leverage on the investment policies and resources of Beihai, Guangxi Province, China and to further explore favourable business and development opportunities in China, which is the principal market of the Group's products. In view of the above, the Directors (including the independent non-executive Directors) consider that the Proposal is in the interests of the Company and the shareholders of the Company as a whole.

GENERAL

The Board wishes to emphasise that the Letter of Intent merely sets out the business proposal of the Company and is subject to the feasibility study and may or may not be acceptable to the Authorities (with or without modifications). In view of the scale and prospect of the Proposal, the Company will likely require and has in fact been engaged in some discussions with potential business partners and/or co-investors for financing and/or collaborating on the proposed investment, failing which the Company may not proceed with the Proposal. No binding agreement in relation to the Letter of Intent or the Proposal has been entered into by the Company as at the date of this announcement. The Proposal, if materialised as proposed, will constitute a notifiable transaction of substantial size of the Company under the GEM Listing Rules. The Company will issue further announcement(s) in relation to the subject matter of this announcement as and when appropriate.

The Board wishes to emphasise that the Letter of Intent may or may not lead to any formal agreement. The Proposal is subject to, among other things, the signing of legally binding agreement(s), the terms and conditions of which are yet to be agreed. Shareholders of the Company and potential investors should note that the Proposal may or may not proceed and are advised to exercise caution when dealing in the shares and other securities of the Company.

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

Hong Kong, 21 October 2019

As at the date of this announcement, the executive directors of the Company are Mr. Boon Ho Yin Henry and Ms. Chow Cheung Chu; and the independent non-executive directors of the Company are Mr. Liu Kwan, Mr. Chik Kin Man Paul and Mr. Wong Wai Leung.

This announcement, for which the directors of 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 of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the GEM website at www.hkgem.com for at least seven days from its date of publication and will also be published on the website of the Company at www.verticaltech.com.cn.