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Vital Mobile Holdings Limited
維太移動控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6133)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHT

- Revenue increased from approximately RMB 196.1 million for the year ended 31 December 2017 to approximately RMB 911.4 million for the year ended 31 December 2018, representing an increase of 365% or RMB715.3 million.

- Net profit of the Company attributable to shareholders amounted to approximately RMB14.5 million for the year ended 31 December 2018 as compared to a net loss of approximately RMB109.7 million for the year ended 31 December 2017, representing an increase in profit of 113.2% or RMB124.2 million.

- Basic earnings per share for the year ended 31 December 2018 was approximately RMB2 cents (basic losses per share for the corresponding period in 2017: approximately RMB13 cents).

The board (the "Board") of directors (the "Directors") of Vital Mobile Holdings Limited (the "Company" or "Vital Mobile") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017, which have been reviewed by the Company's audit committee (the "Audit Committee").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Revenue	5	**911,448**	196,142
Cost of sales		**(895,399)**	(220,418)
Gross profit/(loss)		**16,049**	(24,276)
Other gains and losses	6	**11,817**	(29,216)
Other income	7	**16,603**	14,082
Research and development costs		**(225)**	(264)
Selling and distribution expenses		**(10,846)**	(5,758)
Administrative expenses		**(17,983)**	(62,194)
Interest expenses		**(866)**	(103)
Profit/(loss) before tax	8	**14,549**	(107,729)
Income tax expense	9	**–**	(1,977)
Profit/(loss) and total comprehensive income for the year attributable to equity holders of the Company		**14,549**	(109,706)
Basic earnings/(loss) per share (RMB per share)	10	**0.02**	(0.13)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
Non-current assets			
Equipment		**133**	197
		133	197
Current assets			
Inventories		**26,583**	41,128
Trade and other receivables	12	**67,871**	74,499
Pledged bank deposits		**85,026**	88,230
Bank deposits		**678,223**	670,000
Cash and bank balances	13	**23,331**	42,492
		881,034	916,349
Current liabilities			
Trade and bills payables	14	**84,733**	92,175
Bank loans		**3,432**	19,024
Accruals and other payables	15	**32,390**	23,614
Tax liabilities		**3,570**	3,531
Deposits received from customers		**–**	48,650
Contract liabilities		**16,639**	–
		140,764	186,994
Net current assets		**740,270**	729,355
Total assets less current liabilities		**740,403**	729,552
Net assets		**740,403**	729,552
Capital and reserves			
Share capital	16	**67,041**	67,041
Share premium and reserves		**673,362**	662,511
Equity attributable to equity holders of the Company		**740,403**	729,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

Vital Mobile Holdings Limited (the "Company") was established in the Cayman Islands as an exempted company with limited liability on 12 August 2014. The immediate and ultimate holding company of the Company is Winmate Limited ("Winmate") which is incorporated in the British Virgin Islands (the "BVI") and is 90% and 10% owned by Ms. Rong and Mr. Ni Gang ("Mr. Ni"), the husband of Ms. Rong, respectively.

On 26 June 2015, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited. The registered office of the Company is Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal places of business are located in Beijing and Hong Kong, the People's Republic of China ("the PRC"). The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in mobile telecommunication devices export operations in the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The International Accounting Standard Board ("IASB") has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
Amendments to IAS 40	Transfers of Investment Property
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been summarised below. The Directors of the Company consider that the other new or amended IFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

A. IFRS 9 Financial Instruments ("IFRS 9")

(i) Classification and measurement of financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following table summarised the impact, net of tax, of transition to IFRS 9 on the opening balances of reserves, and retained earnings as at 1 January 2018 as follows (increase/(decrease)):

	RMB'000
Retained earnings	
Retained earnings as at 31 December 2017	57,562
Recognition of additional expected credit losses ("ECLs") on trade and other receivables (note 2A(ii) below)	(380)
Recognition of additional expected credit losses ("ECLs") on pledged bank deposits, bank deposits and cash and cash equivalents	(4,084)
Restated retained earnings as at 1 January 2018	53,098

IFRS 9 basically retains the existing requirements in IAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification funder IFRS 9	Carrying amount as at 1 January 2018 under IAS 39 *RMB'000*	Carrying amount as at 1 January 2018 under IFRS 9 *RMB'000*
Trade and other receivables	Loans and receivables	Amortised cost	74,499	74,119
Pledged bank deposits	Loans and receivables	Amortised cost	88,230	87,780
Bank deposits	Loans and receivables	Amortised cost	670,000	666,583
Cash and bank balances	Loans and receivables	Amortised cost	42,492	42,275

The measurement categories for all financial liabilities remain the same for the Group, the carrying amounts for all liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or re-designate any financial asset or financial liability at FVTPL at 1 January 2018.

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". IFRS 9 requires the Group to recognise ECL for trade receivables, other receivables, financial assets at amortised costs, pledged deposits, bank deposits and cash and cash equivalents earlier than IAS 39.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets measured at amortised cost included other receivables, pledged bank deposits, bank deposits and cash and cash equivalents, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, these trade receivables have been grouped based on shared credit risk characteristics and the days past due. The increase in loss allowance for trade and other receivables upon the transition to IFRS 9 as of 1 January 2018 was RMB380,000.

Other financial assets at amortised cost of the Group included pledged bank deposits, bank deposits and cash and cash equivalents. Applying ECLs model, recognition of ECL of RMB$4,084,000 as at 1 January 2018.

(iii) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

B. IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for the year ended 31 December 2017 has not been restated.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract. IFRS 15 identifies 3 situations in which control of the promised goods or services is regarded as being transferred over time:

(a) when the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(b) when the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15, the entity recognises revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. Based on the assessment of the Group, the adoption of IFRS 15 from 1 January 2018 has results in changes in accounting policies of the Group, however, it does not have significant impact on the timing and amounts of revenue recognition of the Group. However, reclassification of deposits received from customers to contract liabilities and additional disclosures have been presented for the current accounting year in note 5 of the consolidated financial statement as a result of adoption of IFRS 15.

The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 15:

	At 31 December 2017	**Impact on initial application of IFRS 15**	**At 1 January 2018**
	RMB'000	***RMB'000***	***RMB'000***
Deposits received from customers	48,650	(48,650)	–
Contract liabilities	–	48,650	48,650
Current liabilities	48,650	–	48,650

The following tables summarised the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018. There was no material impact on the Groups' consolidated statement of cash flow for the year ended 31 December 2018:

Impact on the consolidated statement of financial position (increase/(decrease)) as at 31 December 2018:

Liabilities	***RMB'000***
Deposit received from customers	16,639
Contract liabilities	(16,639)
Current liabilities	–

For further details on the Group's accounting policy for revenue recognition, see accounting policy for revenue recognition in note 3.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Note	**Product/ service**	**Nature of the goods or services, satisfaction of performance obligations and payment terms**	**Nature of change in accounting policy and impact on 1 January 2018**
(i)	Sales of mobile devices	Customers obtain control of the mobile devices when the goods are delivered to and have been accepted. Revenue is thus recognised when the customers accepted the mobile devices. There is generally only one performance obligation. Invoices are usually payable before the goods delivery.	Impact IFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of IFRS 15, the Group has to make reclassification from deposits received from customers to contract liabilities, since under IFRS 15, if there is any advance consideration received from customers, an entity should recognise a contract liability.

C. Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this, its first year.

D. IFRIC-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no significant impact on these financial statements as the Group has the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities arising from the payment or receipt of advance consideration is consistent with the guidance provided in the interpretation.

New and revised IFRSs in issue but not yet effective

At the date of this report, the IASB has issued the following new and revised IFRSs, but are not yet effective and have not been early adopted by the Group.

IFRS 16	Leases[1]
(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of Business[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11, Joint Arrangements[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12, Income Taxes[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23, Borrowing Costs[1]
IFRS 17	Insurance Contracts[4]
IAS 1 and IAS 8 (Amendments)	Definition of Material[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2020

[3] Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[4] Effective for annual periods beginning on or after 1 January 2021

[5] The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncements. The Directors are currently assessing the impact of the new or amended IFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these IFRSs will not result in material financial impact on the consolidated financial statements. Information on new or amended IFRSs that are expected to have an impact on the Group's accounting policies is provided below.

New and revised IFRSs in issue but not yet effective

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows by the Group.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB4,572,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company anticipate that adoption of IFRS 16 does not result in any significant impact on the Group's financial position and results of operations. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable IFRSs issued by the IASB. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirely, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

Substantive potential voting rights held by the Company and other parties who hold voting rights;

Other contractual arrangements; and

Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are ready convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Revenue recognition (accounting policies applied from 1 January 2018)

The Group principally derives revenue from sales of goods.

Revenue is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods, excluding the amounts collected on behalf of third parties. Revenue excludes value-added taxes or other sales taxes and is after deduction of any trade discounts.

Revenue from sales of mobile phones and accessories is recognised at the point in time when control of the goods has transferred, being when the products are delivered and accepted by the customers according to the terms of contracts. There is generally only one performance obligation and the consideration include no variable amount. Customers generally are required to pay the full amount before delivery, however, a 60-day credit period may be granted to some customers.

There is no warranty and right of return clause in the contracts with customers.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Revenue recognition (accounting policies applied until 31 December 2017)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Foreign currencies

Transactions entered into by the Company in currencies other than the currency of the primary economic environment in which it operate (the "functional currency") are recorded at the rates ruling when the transactions occur. The functional currency and presentation currency of the Group is Renminbi. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

On translation from functional currency to presentation currency, assets and liabilities are translated based on the exchange rate at the reporting date. Items of income and expense, capital transactions and cash flow are translated using the exchange rate prevailing at the transaction date or at an appropriate average rate.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

When no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme (the "MPF Scheme") which are defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contribution.

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to directors and employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. For restricted share units that vest immediately at the date of grant, the fair value of the restricted share units granted is expensed immediately to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling prices for inventories less all estimated costs of completion and costs necessary to make the sale.

Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

A contract liability is recorded when the payment is made or the receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer control of the goods to a customer for which the Group has received consideration or an amount of consideration is due from the customer.

Provision for warranties

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

Provisions for the expected cost of warranty obligations for ODM business which was ceased operation in 2016 under the relevant sales of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Equipment

Equipment is stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of items of equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the term of agreement. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets

At the end of the year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Financial instruments (accounting policies applied from 1 January 2018)

(i) *Financial assets*

Classification

The Group classifies its financial assets in one measurement category which are measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

The Group subsequently measures the financial assets at amortised cost if the following conditions are met:

– the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value (either through other comprehensive income, or through profit or loss).

Derecognition

The Group derecognises a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

– the carrying amount of the financial asset transferred; and

– the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

(ii) *Impairment loss on financial assets*

The Group recognises loss allowance for ECL on Trade and other receivables, pledged and bank deposits and cash and cash equivalents measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment on financial assets included in other receivables is measured as either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, impairment is measured as lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– the financial asset is more than 90 days past due;

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group)

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable date:

– significant financial difficulty of the borrower or issuer;

– breach of contract such as a default or past due event;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statements of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. All of the Group's financial liabilities are financial liabilities at amortised costs which are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost, including trade and other payables and bank and other borrowings, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the year. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Financial Instruments (accounting policies applied until 31 December 2017)

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

The following paragraph are the accounting policies applied until 31 December 2017:

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, cash and bank balances, bank deposits and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the loans and receivables at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

The financial liabilities (including trade and bills payables, other payables, bank loans and amount due to the controlling shareholder) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions applies:

  (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

Dividends

Final dividends proposed by the director are classified as a separate allocation of retained profits within the equity section of the statement of financial position until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as liabilities.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. The Company considers that its functional currency is Renminbi. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services and also the currency in which funds from financing activities and the currency in which receipts from operating activities are usually retained.

When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

Determination of the accounting treatment for revenue

The Group is principally engaged in mobile telecommunication devices export operations in the PRC. In determine whether the revenue shall be recorded on a net basis or gross basis, the Group has made reference to indicators and requirements stated in IFRS 15 paragraphs B34 to B38 and consider the economic substance of the transactions. Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances, and the Group considers it controls the goods before they are transferred to the customer. Therefore the Group is a principal and recognises revenue at gross basis under IFRS15 after assessing the following features that are arising from its operations:

– The Group is primarily responsible for fulfilling the promises to provide the products to customers;

– The Group has inventory risk before the products have been transferred to customers; and

– The Group has discretion in establishing the prices for the products.”

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other keys sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of financial assets measured at amortised cost

Management estimates the amount of loss allowance for ECL on financial assets that are measured at amortised cost based on the credit risk of the respective financial asset. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the respective financial asset. The assessment of the credit risk of the respective financial asset involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

Allowance for inventories

The management performs regular review on the net realisable value of inventories and makes allowance for inventories based on the review. The identification of slow moving, obsolete inventories and inventories with negative margin requires the use of judgment and estimates on the conditions and saleability of the inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. In determining the net realisable value, the management considers the subsequent selling prices and aging information of inventories. As at 31 December 2018, there was no write down of inventory (2017: a write down of RMB31,009,000 was made based on the assessment of net realisable value). Where the expectation is different from the original estimate, such difference will impact carrying value of inventories in the year in which such estimate has been changed.

At 31 December 2017, the carrying amount of inventories was approximately RMB41,128,000 which was net of write down of inventories.

Income tax

As at 31 December 2018, no deferred tax asset was recognised on the tax losses and deductible temporary differences of RMB121,281,000 in aggregate (2017: RMB132,466,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are more than expected, or changes in facts and circumstances which result in revision of future taxable profits estimation, a material future recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a future recognition takes place.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts.

Segment information

The Group operates and manages its business in the PRC and Hong Kong which is considered as a separate operating segment by the management of the Company, engaging in developing, designing, production management and selling mobile telecommunication devices and sales of mobile telecommunication related components and accessories, and selling mobile telecommunication devices with software/application insertion, targeting global markets excluding the PRC. For segment reporting, the individual operating segments have been aggregated into a single reportable

segment. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the gross profit of the Group as a whole when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial statements are available for assessment of performance of different products, no segment information other than certain entity-wide disclosures are presented.

Revenue from major products

The following table sets forth a breakdown of the Group's revenue by major products during the relevant periods:

	2018	2017
	RMB'000	*RMB'000*
Recognised at a point in time		
Mobile telecommunication devices	**911,448**	195,742
Mobile device components	**–**	400
	911,448	196,142

The Group has initially applied IFRS 15 using the cumulative effect method. Revenue is recognised at a point in time when the customer obtains control of the goods or service. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18.

Geographical information

A substantial amount of revenue from external customers, based on their locations, is derived from the Group's country of domicile, the PRC. The following table sets forth a breakdown of the Group's revenue during the year based on locations of the customers:

	2018	2017
	RMB'000	*RMB'000*
Hong Kong	**910,999**	187,199
Taiwan	**449**	6,581
Europe	**–**	1,298
Other parts of Asia	**–**	737
South Asia	**–**	284
Africa	**–**	43
	911,448	196,142

Notes:

1. Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell mobile telecommunication devices to various countries including but not limited to The United Arab Emirates, Russia, Thailand and Malaysia.

2. Europe includes the Czech Republic, France, Cyprus and Portugal.

3. Other parts of Asia includes Singapore and Pakistan.

4. South Asia includes India.

5. Africa includes South Africa and Algeria.

The Group's operations and non-current assets are located in the PRC, including Hong Kong, the country of domicile.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2018	2017
	RMB'000	*RMB'000*
Customer A	**N/A**[1,3]	27,074[1]
Customer B	**–**	25,084[1]
Customer C	**178,826**[1,2]	–
Customer D	**150,244**[1,2]	–
Customer E	**143,552**[1,2]	–

[1] Revenue from sales of mobile telecommunication devices.

[2] New Customer for the year ended 31 December 2018

[3] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

As a result of the Group's efforts in expanding its markets for mobile telecommunication devices including those with software/application insertion, the Group recorded a significant increase in revenue from new customers in 2018. Other than Customer A and Customer B, all customers contributed not more than 10% of the total sales of the Group in 2017.

6. OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Foreign exchange gain/(losses), net	**4,321**	(21,168)
Reversal of impairment loss/(impairment loss) recognised on trade receivables, net	**5,277**	(7,826)
Gain from disposal of impaired inventories	**2,101**	–
Others	**118**	(222)
	11,817	(29,216)

7. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income on pledged bank deposits	**44**	3,874
Interest income on bank deposits	**14,899**	8,235
Interest income on bank balances	**1,432**	32
Services income	**228**	1,941
	16,603	14,082

8. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging/(crediting):

	2018	2017
	RMB'000	*RMB'000*
Auditor's remuneration	**2,706**	4,660
Depreciation of equipment	**73**	47
Exchange (gain)/losses, net	**(4,321)**	21,168
Impairment loss recognised in respect of intangible asset	**–**	40,329
Amortisation of intangible asset (included in cost of sales)	**–**	4,566
Directors' emoluments	**4,878**	5,523
Other staff costs		
– salaries and other allowance	**7,653**	5,119
– retirement benefit schemes contribution	**866**	662
– recognition of equity-settled share-based payment	**225**	776
Total staff costs	**13,622**	12,080
Cost of inventories recognised as an expense	**895,399**	220,418
(Reversal)/write down of inventories (included in cost of sales)	**(1,478)**	21,728
Reversal of provision for warranty(included in cost of sales)	**–**	(2,464)
(Reversal of impairment loss)/impairment loss recognised on trade receivables	**(5,277)**	7,826
Expected credit loss on trade receivables, pledged bank deposits and bank deposits	**13**	–
Operating lease rentals	**2,798**	1,806

9. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
PRC Enterprise income tax ("EIT")		
– Current tax in the PRC	**–**	–
– Current tax in HK	**–**	–
– Over provision in prior years – EIT	**–**	(5)
Deferred tax	**–**	1,982
	–	1,977

The Company's subsidiary incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5%. No provision for Hong Kong Profits Tax has been made in the financial statements for the year ended 31 December 2018 as this subsidiary has tax losses to offset the assessable profits for the year. This subsidiary incurred a loss for the year ended 2017 therefore, no provision for Hong Kong profit tax for the year ended 2017.

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the income tax rate of Beijing Benywave Wireless Communication Co., Ltd ("Benywave Wireless"), a subsidiary of the Company, is 25%. Since Benywave Wireless was recognised as "New and High Technology Enterprises" in 2015 and therefore it is entitled to apply a preferential tax rate of 15% for the years ended 31 December 2018 and 2017.

Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

The tax charge for the year can be reconciled to the profit/(loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	RMB'000	*RMB'000*
Profit/(loss) before tax	**14,549**	(107,729)
Tax calculated at applicable domestic tax rates (2018: 16.5%, 2017: 15%)	**2,401**	(16,159)
Tax effect of expenses not deductible for tax purposes	**172**	3,443
Tax effect of income not taxable for tax purpose	**(2,757)**	–
Effect of tax incentive granted	**(113)**	(69)
Effect of different tax rates of the entities operating in other jurisdictions	**–**	(247)
Tax effect of tax losses and deductible temporary differences not recognised	**297**	15,014
Over provision in prior years	**–**	(5)
Income tax expense	**–**	1,977

10. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to equity holders of the Company is based on the following data:

	2018	2017
	RMB'000	*RMB'000*
Profit/(loss) for the purposes of basic earnings/(loss) per share, representing profit/(loss) for the year attributable to equity holders of the Company	**14,549**	(109,706)

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**850,000**	850,000

There are no dilutive potential shares for both years.

11. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year	**–**	14,802

During the year ended 31 December 2018, no final dividend for the year ended 31 December 2017 was declared and paid (2017: a final dividend of HK2 cents per share in respect of the year ended 31 December 2016).

The board of directors did not recommend the payment of dividend for the year ended 31 December 2018 (2017: Nil).

12. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**20,158**	20,351
Less: allowance for doubtful debts	**15,074**	20,351
	5,084	–
Other receivables		
– Advance to a customer (i)	**–**	14,261
– Interest receivables	**11,913**	8,699
– Other PRC tax receivables	**2,036**	–
– Others	**461**	387
Prepayments to suppliers (ii)	**48,699**	51,152
	63,109	74,499
Less: impairment allowance	**322**	380
	62,787	74,119
	67,871	74,119

Notes:

(i) The amount is non-trading in nature, unsecured and non-interest bearing. The total amount has been repaid in 2018.

(ii) As at 31 December, 2017, included in the balance is prepayments of RMB5,228,000 to Henan Ketai Lexun Communication Equipment Industry Park Co. Ltd ("Ketai"), a fellow subsidiary of the Company. The amount was repaid to the Group in January 2018.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2018	2017
	RMB'000	*RMB'000*
Current	**2,763**	–
Less than 30 days	**2,321**	–
Within 30 days to 90 days	**–**	–
	5,084	–

The Group recognised impairment loss based on the accounting policy stated in Note 2(A)(ii).

Included in trade receivables are the following carrying amount denominated in a currency other than the functional currency of the Group.

	2018	2017
	RMB'000	*RMB'000*
USD	**5,084**	–

Included in other receivables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entity.

	2018	2017
	RMB'000	*RMB'000*
USD	**–**	14,261

13. CASH AND BANK BALANCES

	2018	2017
	RMB'000	*RMB'000*
Cash and bank balances	**23,451**	42,492
	23,451	42,492
Less: impairment allowance	**(120)**	–
	23,331	42,492

Included in cash and bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2018	2017
	RMB'000	*RMB'000*
– USD	**22,039**	37,343
– HKD	**362**	798
– EUR	**77**	–

Bank balances carried interest at market rates which range from nil to 0.30% per annum as at 31 December 2018 (2017: from nil to 0.3% per annum).

The bank balances denominated in RMB869,000 were deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

14. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**14,733**	15,477
Bills payables	**70,000**	76,698
	84,733	92,175

The following is an aged analysis of trade payables presented based on the recognition date of inventory at the end of the reporting period:

	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**–**	–
91 to 180 days	**–**	–
181 days to 1 year	**–**	–
Over 1 year	**14,733**	15,477
	14,733	15,477

Included in trade payables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entity.

	2018	2017
	RMB'000	*RMB'000*
USD	**2,020**	2,765

The following is an aged analysis of bills payables based on the date of issue at the end of the reporting period:

	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**–**	–
91 to 180 days	**70,000**	3,271
181 days to 1 year	**–**	73,427
	70,000	76,698

15. ACCRUALS AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Royalties payable	**13,210**	13,210
Other PRC tax payables	**–**	2,231
Staff costs payable	**1,183**	1,376
Payable for insurance premium and freights	**942**	942
Interest payable	**20**	103
Others	**17,035**	5,752
	32,390	23,614

16. SHARE CAPITAL

	Number of shares	**per share**	**Share capital**
		HK$	*HK$*
At 31 December 2018 and 2017	850,000,000	0.1	85,000,000
			RMB'000
Presented as			67,041

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Group is primarily engaged in providing services and supply of mobile phone and related business which encompassed research and development, design, engineering, material sourcing, supply chain management, logistic, provision of products and services, including mobile phones, smartphones and the services activities to the target markets. Vital Mobile's main business is to provide service to its diverse number of wholesalers and resellers base on its extensive experience and relationship in the telecommunication market from a large network of service provider partners. Since the Company was founded, the Company has been engaging in the provision of services and products such as function phones, smartphones and phone accessories through different business strategies. The Company has been providing large number of self-design and strategic cooperated sourced hardware and software to provide ODM and Value-added products and services. One of the Group's program, the Brand+ program, is an outstanding success. Over the years, the Company has developed a large number of stakeholders from the supply side and customers in both emerging markets and some key countries in Europe and the US, who have become the Group's valuable resources to support the Group's current and future business. The Group's key strategy is to provide specific products and solutions to its customers, both technical and marketing, enabling them to sell into their local markets. The Group currently sells through its Hong Kong partners to overseas wholesalers and retail networks.

Business Review

For the year ended 31 December 2018, the global smartphone market declined for the first time as consumers held onto their devices longer, especially higher-end phones. Many did not see a need to upgrade as the available phones were too expensive without offering any groundbreaking innovation that would move them to upgrade their older device. Smartphone shipments dropped to 1.41 billion units in 2018 from 1.47 billion units in 2017. The 4.1% of global market decline in 2018 followed a stagnated growth (-0.5%) in 2017 indicated the weak business environment for the smartphone market (Sources: Counterpoint, IDC). Most of this decline in shipping volume are affecting the top two international brands and the hundreds of small local brands, with the exception of four Chinese brands being the net beneficiaries. The increasing competition from both Chinese and global smartphone players will make it even tougher for local brands which are already suffering. The Company expects that the smartphone market will further consolidate in 2019 as top brands will continue to eat up the market share of smaller and local players. The Group has started its defensive move in slowly changing into more of support services in late 2017 and the Group has stabilized its business in 2018 while it embarks on the Brand+ program in providing its key customer groups with products and services they needed to maintain their profitability in the countries and local markets that they served.

The Group improved its business volume in the first half of 2018 with the momentum of the Brand+ program and coincided with the World Cup 2018 in Russia. The Group tried to maintain the customer base through innovation and efficiency. From the start of 2018,

the management has changed the higher margin policy to a high volume, positive gross margin in quoting business opportunities, the Company managed to continue the growth with the momentum it built in the previous quarter. The management believes this new business strategy will get the Company back on track in getting the volume and will be working on improving margins with better and more types of services in the transactions.

The Company has been able to use its team in Hong Kong to acquire sales and, by working with the support teams in Shenzhen and Beijing, to provide quality supply services to its global customer. Utilising the warehouse facility set up in late 2017, the Company is able to turn it into a software and product upgrade and customer support operation. Customer support has been the Group's emphasis and the Group has started to set up its own warehouse instead of using public godowns, partly to save costs, partly to have better turnaround time for smartphone shipments. The Hong Kong warehouse was at times fully loaded. The Company has been performing part of the software upgrades and inspection in its own warehouse and a fully equipped ROM line has been set up in Hong Kong.

To facilitate the vision in the longer run, the Company will set up facilities in the local market to provide quicker response to customers and market needs, the Company has also set up supply chain providers to support its customers for export markets, these include software upgrade, sourcing, logistic, tax support functions, the Company will be setting up these capabilities ourselves in Shenzhen and other strategic locations in the export markets such as Europe and US. These functions will provide the Company with additive margins and give the Company better control over customer service. Again, the emphasis is looking for areas that the Company can provide service.

The Company has been working with the top 5 Chinese smartphone brands and believes that the Company is in a good position as the Company has one of the best distribution networks, excellent service infrastructure and best product portfolio to offer to its best partners. In the beginning of 2018, the Group believed the US market was trending up and its was ready to enhance the function of its US subsidiary, however, the marketing plan was subsequently put on hold when the China-US trade war escalated.

In the second quarter, the Group established a wholly-owned subsidiary in Slovenia and planned to set up warehouse and distribution facilities in Italy. The registration and approval process in Slovenia was slow and the Group was only fully approved to run the business around November 2018.

The second half of 2018 has a change of pace in the market, there were a number of major second tier brands bankrupted and the Russian and a number of South American market declined. Only a few markets such as India and some Asean countries were keeping up with the volume. In the second half of 2018, there was a 7% shipment decline year-on-year (Source: Centrepoint). Due to the market condition, the Company has to put on hold its European distribution centre plan and to assess the best timing to relaunch the distribution centre plan. Whilst the Company ensured to service its key customers in the better markets, the Company has been looking at other ways to improve its business.

In addition, the Company had signed two major smartphone brands aiming to market in Europe, Asian and other emerging markets. The Company will monitor the progress in these markets and prepare to invest more resources in the markets that will grow in the coming years.

Competition

In 2019, it is expected that the competition in the upper mid-range and high-end segments will intensify, and vendors must focus on bringing the latest technology to consumers to justify higher price points. Based on the major downturn in the China market down by 15% (Source: Canalys), more and more of China brands are opting to focus their effort in export. In contrast to China, the Indian market saw extraordinary growth, that 145.2 million smartphone units shipped in 2018, representing a 10% year-over-year growth over the 132 million units that shipped in 2017 (Source: Canalys) and many of the Asian and Middle East countries had been doing quite well. Meanwhile, the Company's growth in some markets in the second half of 2018, such as Thailand and Russia, had slowed down. There are more and more competition as the business model matures, competitors will eat into the Company's market shares. The Company has to improve its market position in providing better services and working with more strategic partners.

Another type of competition is the brand itself wanting to extend their service and sales reach by setting up their own network. The Company is preparing itself by working with more second tier brands and in some area participating in these franchise network in the near future.

The Group has successfully increased the sales of smartphones through the network of resellers and wholesales. The Group's total sales increased from RMB196.1 million for the year ended 31 December 2017 to RMB911.4 million for the year ended 31 December 2018. Gross margin has improved to RMB16 million for the year ended 31 December 2018 from negative RMB24.3 million for the year ended 31 December 2017.

The Group has recorded a net profit of approximately RMB14.5 million for the year ended 31 December 2018 as compared to a net loss of RMB109.7 million for the year ended 31 December 2017.

The improvement in the Group's results for the year ended 31 December 2018 was attributable to: (i) the improvement in sales for Chinese Branded smartphone for the year ended 31 December 2018 with positive gross margin amounted to approximately RMB16 million; and (ii) a combined effect contributed by (a) an one-off reversal of bad debts provision in the amount of approximately RMB5.6 million for the year ended 31 December 2018; (b) an increase in interest income from pledged bank deposit and bank deposits from approximately RMB12.1 million for the year ended 31 December 2017 to approximately RMB16.4 million for the year ended 31 December 2018 primarily due to higher interest rate being offered; (c) a turnaround to an exchange gain amounted to approximately RMB4.3 million for the year ended 31 December 2018 as compared to an exchange loss of approximately RMB21.2 million for the year ended 31 December 2017; and (d) the impairment loss recognized in respect of intangible asset of approximately RMB40.3 million, amortization of intangible assets of approximately RMB4.6 million and write-down of inventories of approximately RMB21.7 million were made for the year ended 31 December 2017.

Outlook

The smartphone market will decline overall in 2019 to 1.39 billion units (Source: IDC), but sales will begin to improve during the second half of the year as 5G devices slowly begin to make inroads with customers — a process that will take years, not months. 5G phone shipment is expected to be around 7 million units in 2019 and the Group is not expected to ship many of this new technology class. The Company believes that the 4G phones will stay dominant within the market at least for the next two years. It is expected that 4G smartphones will have an estimated 95.4% in 2019, and 71.4% of an even larger 1.54 billion units phone market four years from now (Source: IDC).

The smartphone is being regarded as indispensable, as it is used as more than a phone but a communication and message device, online payment, transaction terminal, as well as portable computer. Whilst the smartphone market has entered into an era that it becomes a necessity and not a commodity, there are a lot of new innovation that will come, such as the 5G technology is just round the corner, the interactive and self-driving automotive vehicles, smart home/appliances, which will become new business targets and programs.

Even though the market has become mature to the point that the fierce competition has seen many global brands disappear, and the better and bigger players dominate the market. The Company has seen most of the brands are now moving to supply other electronic devices and services using the smartphones as the interactive terminals. The Company believes that with its extensive relationship and flexible approach by adopting the service approach, it will enhance its competitive advantages. With 5G, the Company anticipates there will be improved growth in the smartphone market. The Company will engage with its existing and past customers in developing its new business endeavor.

The Company believes there are features and specifications that will allow it to differentiate from competitions. First of all, with the advent of 5G technology, foldable phone is one of the fad though this will extend to flexible display and largely replacing a lot of the portables PC and instrumentations, with these the OLED display will be dominant. Within the next two years, all smartphone manufacturers will create their own unique internet of things (IoT)-internet-developers ecosystem or eco-alliances to embrace the new 5G era. Most of the smartphones will have or claim to have artificial intelligence (AI) functionality — and the functions will be used by enterprises to predict and promote business development on the commercial side. As facial recognition becoming the primary (simple) security verification method, companies will also launch new business models surrounding this functionality together with the photo-imaging technologies; under-screen fingerprint technology will also be a trend for the cheaper phones. A main camera that has 3D and wide-angle/long-focus features will become a standard feature in the flagship models. Some high-end smartphones will be equipped with hardware as well as augmented-reality applications that support 3D modeling. The average unit price of the overall smartphone market will reach USD416 — an increase of 28% compared with 2018 — while the duration of users' phone replacement cycle will be lengthened (Source: IDC).

The Company is working with above trend and believes smartphone manufacturers will seek to form their own and new brand matrix in the future to accommodate the appetite of users in a new era. The speed of upgrading mainstream and mid-priced products will accelerate, while new retail platforms will be the focus of their investments in sales terminals. The Company believes it can work well with them as the Company has its infrastructure to support this change.

On one hand, the Group continuously enhances its technical capabilities, increased its CAPEX spending and to upgrade its support capabilities in software upgrade, product packaging and supply chain and logistic services. The Company has also embarked on designing wireless communication devices and electronic gadgets.

On the other hand, the Company also has a team looking for projects that it can invest which will provide other business opportunities, particularly in the Greater Bay Area (Guangdong-Hong Kong-Macau). The PRC government is currently undergoing certain structural reform for the supply side of the manufacturing industry, among which:

(i) the domestic low-end manufacturing industry has been accelerating its shift to countries with lower labor costs. For example, some low-end mobile phone production has begun to shift to India; and

(ii) the China's domestic manufacturing industry has accelerated its overall upgrade. It is expected that certain major technologies will change the manufacturing landscape in the coming decades, including robotics, artificial intelligence, 3D printing and powerful sensing devices that will lead to highly intelligent and flexible manufacturing plants.

Under this wave of industrial transfer, the overall export of the manufacturing equipment system will be highly sought after by customers. The Company, coupled with over 10 years of mobile phone manufacturing experience, will continuously look for the most cost-effective manufacturing equipment for overseas customers, provide a certain kind of manufacturing equipment, especially the integrated solution of 3C products, including the creation of 3C production equipment trading platform, and provide multi-level, multi-category options to the targeted customers, and provide personalized local services such as process management, equipment after-sales service, initial product quality control, personnel training and more. The Company believes that the above business strategy will bring in positive effect in the Company's revenue for the year 2019.

Driven by the same Greater Bay Area development trend, the Group is looking for asset management opportunities as potential new business drivers because the development in the Greater Bay Area is believed that it could match with the Group's experience in exploring the upgrading for the whole manufacturing industry in the area. The Group's exposure in China's manufacturing market and Hong Kong's international financial market may be leveraged jointly to explore new opportunities. The Group is open and eager to seize the opportunities ahead in the Greater Bay Area.

FINANCIAL REVIEW

Revenue

With the improvement of revenue in late 2017, the Company has since seen its revenue increased by approximately RMB715.3 million or 3.6 times from approximately RMB196.1 million for the year ended 31 December 2017 to approximately RMB911.4 million for the year ended 31 March 2018. The following table sets forth the breakdown of the Group's revenue by product type:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	*RMB'000*	%
Mobile telecommunication devices	**911,448**	100.0	**195,742**	99.8
Mobile device components	**–**	–	**400**	0.2
	911,448	100.0	**196,142**	100.0

Note: Mobile device components are purchased by the Group's suppliers for providing after-sale maintenance services to their end users.

The Group's revenue for the year ended 31 March 2018 increased significantly. The reasons attributed to this increase of sales are as follows:

1. The rise of new Chinese Brands – as the market structure has been dominated by the top 10 smartphone brands which together hold a 76% world market share (Source: Counterpoint), the Company has been working on a new ODM and Supply Chain business model that in combination, that can deliver products to new customers group, which competes effectively in some of emerging market.

2. Utilization of our network – the Company could make use of its network and focus on the Brands+ strategy with some of the Chinese leading brands in the emerging market with profits.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years indicated:

Geographical information

A substantial amount of revenue from external customers, based on their locations, is derived from the Group's country of domicile, Hong Kong. The following table sets forth a breakdown of the Group's revenue during the year based on locations of the customers:

	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Hong Kong	**910,999**	**99.9**	187,199	95.4
Taiwan	**449**	**0.1**	6,581	3.4
Europe	**–**		1,298	0.7
Other parts of Asia	**–**		737	0.4
South Asia	**–**		284	0.1
Africa	**–**		43	–
	911,448	**100**	196,142	100

Notes:

1. Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell mobile telecommunication devices to various countries including but not limited to the United Arab Emirates, Russia, Thailand and Malaysia.

2. Europe includes the Czech Republic, France, Cyprus and Portugal.

3. Other parts of Asia includes Singapore and Pakistan.

4. South Asia includes India.

5. Africa includes South Africa and Algeria.

The Group's revenue generated from sales in Hong Kong increased from approximately RMB187.2 million for the year ended 31 December 2017 to approximately RMB911 million for the year ended 31 December 2018, representing an increase of 387%.

The Group's revenue generated from sales in Taiwan decreased from approximately RMB6.6 million for the year ended 31 December 2017 to approximately RMB0.4 million, representing a decrease of 93.2%.

Gross profit and gross profit margin

	Year ended 31 December 2018		Year ended 31 December 2017	
	RMB'000	*%*	*RMB'000*	*%*
Mobile telecommunication devices	**16,049**	**1.8**	(22,126)	(11.3)
Mobile device components	**–**	**–**	(2,150)	(537.5)
	16,049	**1.8**	(24,276)	(12.4)

The Company targets to improve and generate more business with the top five Chinese brands who may prefer the Company's business approach and with the supply chain service model that hopefully will improve the Group's gross profit margins in the future. The gross margin in 2018 has improved from approximately negative RMB24.3 million or -12.4% in 2017 to approximately RMB16 million or 1.8% in 2018. These were attributed by more sales volume of Chinese Brand smartphone, no inventory provision and IP amortization in 2018. (Inventory provision of approximately RMB21.7 million and IP amortization of approximately RMB4.6 million were included in cost of sales in 2017.)

Research and development costs

Research and development costs mainly include R&D staff costs and product test costs. Research and development costs amounted to approximately RMB0.2 million for the year ended 31 December 2018, decreased by approximately RMB0.1 million or 15% from RMB0.3 million for the year ended 31 December 2017. The decrease was mainly due to the number of R&D staff decreased and less product test costs from less ODM mobile models.

Selling and distribution expenses

Selling and distribution expenses mainly include sales and distribution staff costs, office expenses, freight charges and marketing expenses. Selling and distribution expenses amounted to approximately RMB10.8 million for the year ended 31 December 2018, increased by approximately RMB5.1 million or 88.4% from RMB5.8 million for the year ended 31 December 2017. The increase was primarily due to the increase in freight charges, marketing expenses and more staff cost for supporting logistics for the increased sales volume in 2018.

Administrative expenses

Administrative expenses mainly include staff costs for administrative employee, audit fees, legal fees, impairment loss recognized in respect of intangible assets and general office expenses. Administrative expenses amounted to approximately RMB18 million for the year ended 31 December 2018, decreased by approximately RMB44.2 million or 71.1% from RMB62.2 million for the year ended 31 December 2017. The decrease was primarily due to the impairment of intangible assets amounted to RMB40.3 million and RMB 1.8 million professional fee for merger of a target company incurred in 2017 and less audit fee.

Other income

Other income mainly consisted of the interest income on pledged bank deposit, bank deposits and the bank balances which amounted to RMB16.4 million and service income amounted to RMB0.2 million for the year ended 31 December 2018. The increase was mainly due to higher interest rate for the bank deposits in 2018.

Taxation

No income tax was provided for the year ended 31 December 2018 due to Benywave Wireless incurred loss for 2018 and the Group's subsidiary in Hong Kong carried tax loss of approximately RMB1.5 million from 2017 to offset the profit for the year ended 31 December 2018.

For the year 2018, Benywave Wireless was entitled to apply a preferential tax rate of 15%, while the Group's subsidiary incorporated in Hong Kong is subject to a profit tax at a rate of 16.5%.

Liquidity and source of funding

As at 31 December 2018, the Group's total cash and bank balances decreased by approximately RMB19.2 million from approximately RMB42.5 million to approximately RMB23.3 million.

As at 31 December 2018, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 6.3 compared with 4.9 as at 31 December 2017.

Foreign exchange exposure

The Group undertakes certain operating transactions in foreign currencies and the bank balances of the proceeds from the global offering denominated in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

Material acquisitions and disposals

The Group has no material acquisitions and disposals for the year ended 31 December 2018.

Trade and other receivables

Trade and other receivables mainly include the trade receivables, other receivable and prepayments to suppliers. As at 31 December 2018, the carrying amount of trade and other receivables were approximately RMB67.9 million, representing a decrease of approximately RMB6.6 million.

Intangible Assets

The carrying amount of the intangible assets is zero for both 2017 and 2018.

Inventories

Inventories mainly are the mobile telecommunication devices. As at 31 December 2018, the Group's total inventories was RMB 26.6 million decreased by RMB14.5 million from RMB 41.1 million (net of allowance RMB 31 million). In determining the write-down of inventories, the management considered the subsequent selling price and aging of inventories.

Contingent liabilities and commitments

At the end of the year 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which amounted to RMB4.6 million. The operating lease payments commitments represent rental payable by the Group for offices, warehouses and equipment rental. The lease was negotiated for lease terms of one to three years. Monthly rental was fixed for certain lease.

Continuing connected transactions

Pursuant to an equipment lease agreement made between Benywave Technology and Benywave Wireless, Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. Amounting to RMB66,561 rental expenses were incurred by Benywave Wireless for the year ended 31 December 2018.

Pursuant to a lease agreement made between Beijing Tianyu Communication Equipment Co., Ltd. ("Tianyu") and Benywave Wireless, Tianyu has let the premises situated at Zone A, 4th Floor, No. 55, Jiachuang Second Road, Zhongguancun Science Park, OPTO-Merchatronics Industrial Park, Tongzhou District, Beijing, China to Benywave Wireless for carrying on its business. Amounting to RMB741,766 rental expenses were incurred by Benywave Wireless for the year ended 31 December 2018.

Related party transaction

Except for the continuing connected transactions disclosed above, for the year ended 31 December 2018, the Group had no related party transaction incurred.

Dividends

No dividends were declared or paid during the year ended 31 December 2018.

The board of directors did not recommend the payment of dividend for the year ended 31 December 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a solid, transparent and sensible framework of corporate governance for the Company and its subsidiaries and will continue to review its effectiveness.

The Company has adopted the Code Provisions (the "Code Provisions") as stated in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the corporate governance code of the Company. The Board is committed to complying with the Code Provisions as stated in the CG Code to the extent that the Directors consider it is applicable and practical to the Company.

During the year under review, the Company has complied with the Code Provisions in the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

CHANGES IN INFORMATION OF DIRECTORS

The change of Director's information as required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

1. Mr. Tsang Yat Kiang ("Mr. Tsang") resigned as independent non-executive Director, a member of the audit committee, the chairman of the remuneration committee and the chairman of the nomination committee of the Company with effect from 31 January 2019 due to his personal health reason;

2. Mr. Wong Ho Chun has been appointed as an executive Director with effect from 1 February 2019; and

3. Mr. Hon Kwok Ping, Lawrence retired as joint secretary of Courage Investment Group Limited with effect from 28 February 2019.

AUDIT COMMITTEE

The Company has an Audit Committee, which was established in accordance with Rule 3.21 of the Listing Rules with primary duties of reviewing and providing supervision over the Group's financial reporting process and internal controls. During the year under review, the Audit Committee comprised three independent non-executive Directors, namely Mr. Lam Yiu Kin (Chairman), Mr. Tsang Yat Kiang and Mr. Hon Kwok Ping, Lawrence.

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2018 including the accounting principles and practices adopted by the Group.

Following the resignation of Mr. Tsang, the number of independent non-executive directors of the Company falls below the minimum number of three as required under Rule 3.10(1) of the Listing Rules and falls below one-third of the Board as required under Rule 3.10A of the Listing Rules. Furthermore, the audit committee members decreased from three to two, falling below the minimum number required under Rule 3.21 of the Listing Rules.

In this regard, the Company will use its best endeavor to identify a suitable candidate to fill the vacancy as soon as practicable, with the relevant appointments to be made within three months from the effective date of Mr. Tsang's resignation as required under the Listing Rules. Further announcement(s) will be made by the Company in relation to such appointment(s) as and when appropriate.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditors, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2018. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this announcement.

PUBLICATION OF FINANCIAL INFORMATION

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.vital-mobile.com). The Company's annual report for 2018 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
Vital Mobile Holdings Limited
Rong Xiuli
Chairperson

Hong Kong, 26 March 2019

As at the date of this announcement, the Board of the Company comprises Ms. Rong Xiuli, Mr. Rong Shengli, Mr. Yin Xuquan, Mr. Tang Shun Lam and Mr. Wong Ho Chun as executive Directors; and Mr. Hon Kwok Ping Lawrence and Mr. Lam Yiu Kin as independent non-executive Directors.