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Vital Innovations Holdings Limited

維太創科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6133)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained in the paragraph headed “Review of Unaudited Annual Results” below, the auditing process for the annual results of Vital Innovations Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) has not been completed. In the meantime, the board of directors (the “**Board**”) of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 , together with the comparative figures for the year ended 31 December 2018, as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	Unaudited 2019 RMB'000	Audited 2018 <i>RMB'000</i>
Revenue	3	815,940	911,448
Cost of sales		(808,259)	(895,399)
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Gross profit		7,681	16,049
Other gains and (losses)	4	(23,265)	11,817
Other income	5	5,891	16,603
Selling and distribution expenses		(5,625)	(10,846)
Administrative expenses		(18,224)	(18,208)
Finance costs		(1,032)	(866)
<hr/>			
(Loss)/profit before tax	6	(34,574)	14,549
Income tax expense	7	–	–
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(Loss)/profit and total comprehensive income for the year attributable to equity holders of the Company		(34,574)	14,549
		<hr/> <hr/>	<hr/> <hr/>
(Loss)/earnings per share (RMB per share)	8		
– Basic		(4.07) cents	1.71 cents
– Diluted		(4.07) cents	1.71 cents
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UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	<i>Notes</i>	Unaudited 2019 RMB'000	Audited 2018 RMB'000
Non-current assets			
Equipment		100	133
Right-of-use assets		1,577	–
		1,677	133
Current assets			
Inventories		5,384	26,583
Trade and other receivables	10	2,280	19,172
Prepayments	11	657,415	48,699
Pledged bank deposits		3,504	85,026
Bank deposits		–	678,223
Cash and bank balances		51,207	23,331
		719,790	881,034
Current liabilities			
Trade and bills payables	12	12,740	84,733
Bank loans		20,874	3,432
Accruals and other payables	13	38,747	32,390
Tax liabilities		3,531	3,570
Contract liabilities		13,127	16,639
Lease liabilities		1,443	–
		90,462	140,764
Net current assets		629,328	740,270
Total assets less current liabilities		631,005	740,403
Non-current liabilities			
Lease liabilities		176	–
Net assets		630,829	740,403
Capital and reserves			
Share capital	14	67,041	67,041
Share premium and reserves		563,788	673,362
Equity attributable to equity holders of the Company		630,829	740,403

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Vital Innovations 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 (“Wimate”) which is incorporated in the British Virgin Island (the “BVI”) and is 90% and 10% owned by Ms. Rong Xiuli (“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.

Pursuant to a special resolution passed at the Extraordinary General Meeting held on 9 July 2019, the English name of the Company was changed from “Vital Mobile Holdings Limited” to “Vital Innovations Holdings Limited” and the Chinese name of the Company was changed from “維太移動控股有限公司” to “維太創科控股有限公司”. The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 10 July 2019 and the Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Hong Kong Companies Registry on 29 July 2019.

The unaudited 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”)

(a) Adoption of new/revised IFRSs – effective 1 January 2019

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:

IFRS 16	Leases
International Financial Reporting Interpretations Committee (“IFRIC”) Interpretation 23	Uncertainty over Income Tax Treatment
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11 Joint Arrangements
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12 Income Taxes
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23 Borrowing Costs

IFRS 16 Leases

The impacts of the adoption of IFRS 16 Leases have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any material impact on the Group’s accounting policies.

(i) Impacts of adoption of IFRS 16 Leases

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases (“IAS 17”), IFRIC 4 Determining whether an Arrangement contains a Lease, Standing Interpretations Committee (“SIC”) 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following table summarised the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

	Unaudited <i>RMB'000</i>
Statement of financial position as at 1 January 2019	
Right-of-use assets	3,361
Lease liabilities (non-current)	1,619
Lease liabilities (current)	1,742

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	Unaudited <i>RMB'000</i>
Reconciliation of operating lease commitments to lease liabilities	
Operating lease commitments disclosed as at 31 December 2018	4,572
Discounted using the lessee's incremental borrowing rate at the date of initial application	4,350
(Less): short-term leases recognised on a straight-line basis as expense	(585)
(Less): contracts reassessed as service agreements	(404)
Lease liability recognised as at 1 January 2019	3,361

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 5.5%.

(ii) *The new definition of a lease*

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee applies the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected to separate non-lease components.

(iii) *Accounting as a lessee*

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for the leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the initial date of adoption on 1 January 2019.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) *Transition*

As mentioned above, the Group has applied IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under IAS 17 at an amount equal to the amount recognised for the remaining lease liabilities and discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4.

(b) 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.

Amendments to IFRS 3	Definition of Business ¹
Amendments to IAS 1 and IAS 8	Definition of Material ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ¹
IFRS 17	Insurance Contracts ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 1	Classification of liabilities as current or non-current ⁴

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

⁴ Effective for annual periods beginning on or after 1 January 2022

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or 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 unaudited consolidated financial statements.

3. 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 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.

Disaggregation of revenue from major products

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

	Unaudited 2019 RMB'000	Audited 2018 RMB'000
Recognised at a point in time		
Mobile telecommunication device	815,940	911,448

Revenue is recognised at a point in time when the customers obtain control of goods and service.

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:

	Unaudited 2019		Audited 2018	
	RMB'000	%	RMB'000	%
Hong Kong	815,940	100%	910,999	99.9%
Taiwan	—	—	449	0.1%
	815,940	100%	911,448	100%

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:

	Unaudited 2019 RMB'000	Audited 2018 <i>RMB'000</i>
Customer A	441,438¹	178,826 ¹
Customer B	95,206¹	N/A ^{1,2}
Customer C	N/A^{1,2}	150,244 ¹
Customer D	N/A^{1,2}	143,552 ¹
	=====	=====

^{1.} Revenue from sales of mobile telecommunication devices

^{2.} The corresponding revenue did not contribute over 10% of the total revenue of the Group

Other than Customer A and Customer B, all customers contributed not more than 10% of the total sales of the Group in 2019.

4. OTHER GAINS AND LOSSES

	Unaudited 2019 RMB'000	Audited 2018 <i>RMB'000</i>
Foreign exchange (loss)/gain, net	(5)	4,321
Reversal of impairment loss recognised on trade receivables	26	5,277
Reversal of/(expected credit loss) recognised on other receivables, pledged bank deposits and bank deposits	3,939	(13)
Impairment loss recognised on prepayments	(29,000)	–
Gain from disposal of impaired inventories	–	2,101
Others	1,775	131
	=====	=====
	(23,265)	11,817

5. OTHER INCOME

	Unaudited 2019 RMB'000	Audited 2018 <i>RMB'000</i>
Interest income on pledged bank deposits	1,456	44
Interest income on bank deposits	3,375	14,899
Interest income on bank balances	434	1,432
Services income	573	228
Others	53	–
	=====	=====
	5,891	16,603

6. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax has been arrived at after charging/(crediting):

	Unaudited	Audited
	2019	2018
	RMB'000	RMB'000
Auditor's remuneration	2,046	2,706
Depreciation of equipment	33	73
Depreciation of right-of-use assets	1,784	–
Exchange loss/(gain), net	5	(4,321)
Directors' emoluments	5,106	4,878
Other staff costs		
– salaries and other allowance	6,767	7,653
– retirement benefit schemes contribution	764	866
– recognition of equity-settled share-based payment	–	225
	<hr/>	<hr/>
Total staff costs	12,637	13,622
Cost of inventories recognised as an expense	808,259	895,399
Reversal of write down of inventories (included in cost of sales)	–	(1,478)
Reversal of impairment loss on trade receivables	(26)	(5,277)
(Reversal of)/expected credit loss on trade receivables, pledged bank deposits and bank deposits	(3,939)	13
Impairment loss on prepayments	29,000	–
Interest on lease liabilities	138	–
Short-term leases expenses	825	–
Operating lease rentals	–	2,798
	<hr/> <hr/>	<hr/> <hr/>

7. INCOME TAX EXPENSE

The Company's subsidiary incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5%.

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 2019 and 2018.

No provision for Hong Kong Profits Tax and Enterprise Income Tax was made as the Group did not have assessable profits during the years ended 31 December 2019 and 2018.

8. (LOSS)/EARNINGS PER SHARE

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

	Unaudited 2019 RMB'000	Audited 2018 RMB'000
(Loss)/profit for the purposes of basic (loss)/earnings per share, representing (loss)/profit for the year attributable to equity holders of the Company	<u>(34,574)</u>	<u>14,549</u>
	Unaudited 2019 '000	Audited 2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>850,000</u>	<u>850,000</u>

There are no dilutive potential shares for both years.

9. DIVIDENDS

	Unaudited 2019 RMB'000	Audited 2018 RMB'000
Dividends recognised as distribution during the year	<u>75,000</u>	<u>–</u>

On 14 June 2019, The Board resolved to declare the payment of a special dividend of HK\$0.10 per Share, amounting to HK\$85,000,000 (equivalent to RMB75,000,000) and which was distributed by the Company to the shareholders of the Company during the year ended 31 December 2019.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

10. TRADE AND OTHER RECEIVABLES

	Unaudited	Audited
	2019	2018
	RMB'000	RMB'000
Trade receivables	15,048	20,158
Less: allowance for doubtful debts	15,048	15,074
	<u> </u>	<u> </u>
	-	5,084
	<u> </u>	<u> </u>
Other receivables		
– Interest receivables	2	11,913
– Other PRC tax receivables	2,036	2,036
– Others	521	461
	<u> </u>	<u> </u>
	2,559	14,410
Less: impairment allowance	279	322
	<u> </u>	<u> </u>
	2,280	14,088
	<u> </u>	<u> </u>
	2,280	19,172
	<u><u> </u></u>	<u><u> </u></u>

The Group assesses the customer's credit quality by evaluating their historical credit records and defines credit limits for each customer. Recoverability and credit limit of the existing customers are reviewed by the management regularly.

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.

	Unaudited	Audited
	2019	2018
	RMB'000	RMB'000
Current	-	2,763
Less than 30 days	-	2,321
Within 30 days to 90 days	-	-
	<u> </u>	<u> </u>
	-	5,084
	<u><u> </u></u>	<u><u> </u></u>

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

	Unaudited 2019 <i>RMB'000</i>	Audited 2018 <i>RMB'000</i>
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.

	Unaudited 2019 <i>RMB'000</i>	Audited 2018 <i>RMB'000</i>
USD	2	—

11. PREPAYMENTS

	Unaudited 2019 <i>RMB'000</i>	Audited 2018 <i>RMB'000</i>
Prepayments	686,415	48,699
Less: impairment allowance (<i>Note</i>)	(29,000)	—
	657,415	48,699

During the year ended 31 December 2019, the Group has made prepayments of RMB185,000,000 and RMB191,000,000 to two Artificial Intelligence (“AI”) equipment suppliers to purchase AI equipment. Those suppliers are independent third parties to the Group. The Board expects the AI equipment will be delivered to the Group in the year 2020.

In addition, the Group has made prepayment of RMB250,000,000 to one mobile phone supplier to secure the product supply in priority.

Note: Based on management’s assessment of current and forecast market conditions, an impairment allowance of RMB29,000,000 on prepayments made to two AI equipment suppliers.

12. TRADE AND BILLS PAYABLES

	Unaudited 2019 <i>RMB'000</i>	Audited 2018 <i>RMB'000</i>
Trade payables	12,740	14,733
Bills payables	–	70,000
	<u>12,740</u>	<u>84,733</u>

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

	Unaudited 2019 <i>RMB'000</i>	Audited 2018 <i>RMB'000</i>
Over 1 year	<u>12,740</u>	<u>14,733</u>
	<u>12,740</u>	<u>14,733</u>

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

	Unaudited 2019 <i>RMB'000</i>	Audited 2018 <i>RMB'000</i>
USD	<u>704</u>	<u>2,020</u>

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

	Unaudited 2019 <i>RMB'000</i>	Audited 2018 <i>RMB'000</i>
91 to 180 days	–	70,000
	<u>–</u>	<u>70,000</u>

13. ACCRUALS AND OTHER PAYABLES

	Unaudited	Audited
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Royalties payable	13,210	13,210
Staff costs payable	1,500	1,183
Payable for insurance premium and freights	942	942
Interest payable	113	20
Dividends payable	252	–
Others	22,730	17,035
	<u>38,747</u>	<u>32,390</u>

14. SHARE CAPITAL

	Number of	per	Share
	shares	share	capital
		<i>HK\$</i>	<i>HK\$</i>
At 31 December 2019 and 2018	850,000,000	<u>0.1</u>	<u>85,000,000</u>
			<i>RMB'000</i>
Presented as			<u>67,041</u>

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is primarily engaged in the provision of products and services including mobile phones, smartphones and related business which encompassed research and development, design, engineering, material sourcing, supply chain management, logistic, and the services activities to the target markets. The Group’s main business is to service its diverse number of wholesalers and resellers by using its extensive understanding of telecommunication technology, a large network of technological and service provider partners.

With the Sino-American trade war in the back drop, the overall worldwide economy took a hit in 2019. In 2019, global smartphone shipments continued to slip. According to the data released by International Data Corporation (IDC) on 4 February, 2020, the global smartphone shipments in 2019 was 1.371 billion units, representing a year-on-year decrease of 2.3%, the third consecutive year of decline. The IDC indicated that the decrease was partially due to the slowing transition from feature phones to smartphones for the lower number of shipments and aggravated by the ongoing trade dispute between the U.S. and China and the increasing prices of flagship smartphones. The IDC also reported an increase in Android’s market share from 85.1 percent in 2018 to 86.7 percent in 2019, which was mostly attributed to the increase in new smartphones models, some of which feature 5G connectivity and notable 5G smartphones.

In 2019, the Group strove hard to maintain the customer base through innovation and efficiency. The management team adjusted the higher margin policy to high volume, lower gross margin in quoting business opportunities. The overall market was still difficult. However, the Group was still able to deliver approximately 90 percent of last year shipments. The Group worked on improving margins with better and more services in the transactions and tightening control of all operating expenses. The management believes these measures enable the Group to get back on track with more sales volume and minimize the operating losses. The Group’s Hong Kong operation continues to provide software and product upgrade and customer support, and worked closely with support teams in Shenzhen and Beijing to provide the best supply services to its global customer base to ensure that the Group will be able to provide timely service and delivery.

The competition was strong in the upper mid-range and high-end segments in 2019 and vendors focused on bringing their latest technology to their consumers to justify the higher prices. The downturn in China market enforced all the China brands to focus their expansion in export, especially in Asian smartphone market. In contrast to China, the Indian market was growing fast and the suppliers started to set up their factories as production facilities for low cost and quick delivery. There are more and more competition as its business model matures and, it is expected that competitors will continue to compete on market shares. The Group strives to improve its market position in providing better services and working with more strategic partners. The Group's results for the year 2019 was also impacted by the competition caused by the China brands themselves wanting to extend their services and sales reach by setting up their own network in countries outside China.

2019 was a year of searching for repositioning into a more suitable format for the Group in both the segment positioning and strategic direction. The Group was adjusting its strategic position to sharpen its competitiveness. There were possible attempts to explore rebalancing on organizational structure and business model. The Company continues to look for ways for the Group to embrace a world that is having increasing volatility, uncertainty, complexity and ambiguity.

With the advent of global unilateralism, Sino-American trade war and Hong Kong's social events in 2019, challenges were everywhere. As a result, the Group's trading was adversely affected. Both business environment and demands from customers were changing. The Group's sales revenue and profit were affected negatively.

Despite the adverse, fast-changing environment and challenges, the Company had delivered a result which managed to relief the harmful effect to the business. Sales revenue for 2019 dropped to RMB816 million from RMB911 million, a decrease of approximately 10.4% along with a net loss of RMB34.6 million. The drop in revenue can be attributed to the adverse changes in the environment while the drop in earnings is primarily attributed to (i) an impairment allowance of RMB29,000,000 on prepayments made to two Artificial Intelligence equipment suppliers; and (ii) keen competition in the field globally. Margin is dropping in the course of competition to stay competitive with customers. The Group takes the strategy of staying relevant to the customers at the expense of margin.

BUSINESS OUTLOOK

According to the forecast released on 27 February 2020, the world's smartphone shipments will decrease by 2.3% over 2019 to 1.339 billion units in 2020, representing a decrease in the last forecast in November 2019 (up 1.5% to 1.436 billion units) (Source: IDC). In addition, the coronavirus outbreak since the beginning of 2020 has also significantly affected the supply chain of the accessories for smartphones. All suppliers have prepared for the worsening situation for the first half of shipments in 2020. The market participants are looking forward to the second half of 2020, with many market players looking that the introduction of 5G mobile phone will become an important solution to bring back growth. In order to seize the first batch of 5G switching users, domestic mobile phone manufacturers have launched 5G mobile phone price war in advance. 5G mobile phone shipment is expected to be around 100 million units in 2020. Nevertheless, the Group believes that the 4G smartphones will remain in the market for at least for the next two years as the major player, which may continue to pose a challenging operating environment for the Group.

It is commonly viewed that the smartphone is being regarded as indispensable, as it is used as more than a phone but a communication and message device, an online payment, a transaction terminal, a small computer. 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 noticed that 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, it can take the service approach to enhance its competitive advantages. With 5G, it 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 endeavour.

The Company believes there are features and specifications that will allow the Company to differentiate itself from competitions. First of all, with the advent of 5G technology, the foldable phones 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 is facial recognition as the primary (simple) security verification method — and 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 modelling. 3D and 5G will be the new “killer combo” of the future. (Source: IDC).

The Group is working with the above trend in mind and believes smartphone manufacturers will seek to form their own and new brand matrix to please 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 investment in sales terminals. The Group believes that it can work well along such trend as the Group has its own infrastructure to support this change. The Group has started to work with one of the top tier brand in high-end segment to secure the product supply in priority by payment of RMB250 million in advance to suppliers and an indication of the Group’s eagerness to become a sole distributor in some countries based on its strong financial strength and proven sales record to them.

POSITIONING AND OPPORTUNITIES

The Mega Trends and Risks

China and USA as the two largest economies on earth are contributing over half of the global economic growth for the whole world. Whether these two economies could take the lead for the world to move ahead become the factor affecting the coming business environment for enterprises.

China is at its most important and difficult stage of structural reform. However, she has managed to overcome the associated pain with the change in adjusting the composition and quality of the economic growth and delivered a promising growth rate of 6.1% with GDP scale of RMB99 trillion for the year of 2019. GDP per capita is over USD10,000 and China is heading toward high income group.

Despite the return of geopolitics, the crisis and black swan that must come but we never know how and when, we believe the reform of China will have great success due to the confidence on China's systematic uniqueness, the economic reform and the economic drivers within China. The tension between China and USA and USA's attitude to rewrite the current trading map would cause volatility and uncertainty to global trading. Business confidence and sentiment would be adversely affected.

The Company expects the difference in ideology and the associated conflicts would last in the long run. Difficult challenges in doing trade would be a norm within the environment for the Group. Deeper understanding on new business environment is needed. Devotion in customers' perspective becomes the key strategy to bring the Company the foundation to handle against the competition. Risks are associated with the business on AI equipment. Guided by the Company's values of prudent optimism, the Company will conduct its business under comprehensive planning and risk management measures. Smartphone challenges is expected to continue in 2020, but 5G and emerging markets will bring growth back to the market in 2020. (Source: IDC)

Over the last few years, the world is changing so fast that the Company is having hard time dealing with these changes. For main business, the Company will reposition itself back to the basic, focus on customer value by the discovering, creating, communicating with customers in a more high-end segment with more suitable product solution along with more comprehensive services.

Meanwhile, the Company understands that the competition in this field is getting even keener and some would even regard this market as a secular decline at the moment. However, with the advent of 5G technology, the Company expects the field would experience a next round of growth. The Company will need to get prepared to capture that coming growth.

On one hand, building comparative advantages is extremely difficult in this field and competition in price would be the battlefield the Company will have to enter. In board strategic direction, there is a huge need to look for new opportunities for diversification to fight against global systematic risk.

OPPORTUNITIES ON A.I. EQUIPMENT

According to Fortune Business Insights, the global artificial intelligence market size in 2018 was USD20.67 billion and it is projected to reach USD202 billion by 2026 showing a compound annual growth rate of approximately 33%. Cloud Computing, Big Data, Machine Learning and A.I. manufacturing in software and hardware would continue to have strong growth. The Company believes that this is one of the mega trends that would change the landscape of the modern business. Thus, by doing careful analysis for both sides, one on the internal side which focuses on the Group' own capabilities and the external analysis on the change of environment and trends. Combining the strength and the opportunity, the Company has resolved to commence its A.I. equipment solution business in 2019.

With over 10 years' experience in mobile phone manufacturing, the Company has equipped itself with the expertise and advantages accumulated in technology field. In 2019, the Company took the opportunity to provide upgrading solution to Chinese manufacturers by providing A.I. equipment solution. The power of disruptive technology would continue to bring innovation that would stimulate the demand and pace for the economy. The Company believes that would enrich the depth of its main business.

The Company believes that in the coming years, the area that would bring China most energetic economic growth would be area of Yangtze River Delta and the Greater Bay Area. The Company is particularly optimistic to the Greater Bay Area as it represents a global uniqueness that it is the centre for the most important strategic industries for example, it is a production centre of advanced manufacturing, an innovative centre of frontier technology and a capital centre of international capital market. The comprehensiveness of industries set the foundation for success.

ALWAYS PREPARING FOR CHANGE OF THE SOCIETY AND ENVIRONMENT

Direction and policies set by central government to develop new strategic industries provide the bottom logic and framework to guide the development of the Group. The Company believes the change of the economic composition between new and old strategic industries, economic structure on industries and the quality for economic growth would induce huge opportunities on upgrading and revolution for industries. During the process, there will be a lot of undervalued asset and the Company believes it can grab the opportunity to unlock the values by expertise and proper financing. The opportunity for asset management is right there. Risks are also there. Thus, the Company will also continue to closely monitor the markets, the business environment and the geopolitical changes and everything that would bring risks and growth to the whole economy. The Company looks forward to the chance to step into asset management business as and when suitable and the appropriate opportunity arises.

The Company continues to be firmly optimistic to the future of the Greater Bay Area. The economic growth would come from growth in demand, the growth in demand would come from the node when innovation meets capital. To make itself relevant and stay relevant in this area would determine the future success of the Group. The Company has diligently researching and observing asset management opportunities in the Greater Bay Area, both in innovation sense and capital sense. To better reflect the future direction of the Group, the Company has changed its name from Vital Mobile Holdings Limited to Vital Innovations Holdings Limited in 2019.

Short-term difficulties, risks, threats and volatility would not affect the long-term trends. Taking this opportunity, the Company would like to convey the message to its stakeholders that it insists to stay with long-term strategy. The Company sees opportunities in risks and think that every single risk is a chance for the Group to improve and grow. Seeing the future ahead, the Company is always prudently optimistic.

FINANCIAL REVIEW

Revenue

A drop in turnover from approximately RMB911 million for 2018 to approximately RMB816 million for 2019 due to the relatively less active market and strong price competition.

	For the year ended 31 December	
	Unaudited 2019 RMB'000	Audited 2018 RMB'000
Mobile telecommunication devices	815,940	911,448

Gross profit and gross profit margin

	Unaudited Year ended 31 December 2019 RMB'000		Audited Year ended 31 December 2018 RMB'000	
	%	%	%	%
Mobile telecommunication devices	7,681	0.9	16,049	1.8

The gross margin in 2019 was reduced from approximately RMB16 million or 1.8% to approximately RMB7.7 million or 0.9% in 2019. These were attributed by less sales volume of Chinese Brand smartphone in 2019.

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 RMB5.6 million for the year ended 31 December 2019, decreased by approximately RMB5.2 million or 48.2% from RMB10.8 million for the year ended 31 December 2018. The decrease of selling and distribution expenses was primarily due to the absence of marketing expense.

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 RMB18.2 million for both years ended 31 December 2019 and 31 December 2018.

Other gains and (losses)

Other losses for the year ended 31 December 2019 was mainly due to an impairment allowance of RMB29,000,000 on prepayments made to two A.I. equipment suppliers based on management's assessment of current and forecast market conditions.

Other income

Other income mainly consisted of the interest income on pledged bank deposit, bank deposits and the bank balances which amounted to RMB5.2 million and service income amounted to RMB0.6 million for the year ended 31 December 2019. The decrease was mainly due to the matured bank deposits in May 2019 were not renewed.

Taxation

For the year 2019, Benywave Wireless and the Group's subsidiary incorporated in Hong Kong incurred loss, accordingly income tax provision was not required to be made.

Liquidity and source of funding

As at 31 December 2019, the Group's total cash and bank balances decreased by approximately RMB731.9 million from approximately RMB786.6 million to approximately RMB54.7 million. The reduced cash and bank balances were used for prepayment to suppliers in the amount of RMB626 million, dividend distribution in the amount of RMB75 million and repayment of bank borrowing in the amount of RMB70 million.

As at 31 December 2019, 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 8.0 compared with 6.3 as at 31 December 2018.

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 2019.

Future plans for material investment or capital assets

Saved as disclosed in this announcement, the Directors confirmed that as at the date of this announcement, there are no current plans to acquire any material investment or capital assets other than in the Group's ordinary business of property development.

Significant investments

Save as disclosed, the Company had no other significant investments held during the year ended 31 December 2019.

Trade and other receivables

As at 31 December 2019, the carrying amount of trade and receivables were approximately RMB2.3 million decreased by RMB16.9 million mainly due to a supplier was deregistered and less interest receivable.

Prepayments

The prepayments were approximately RMB657.4 million (net of impairment allowance of RMB29,000,000) increased by RMB608.7 million.

During the year ended 31 December 2019, the company made prepayment of RMB626 million for orders of mobile phones and equipment to finance the business needs for future business expansions.

Inventories

Inventories mainly are the mobile telecommunication devices. As at 31 December 2019, the Group's total inventories was RMB5.4 million decreased by RMB21.2 million from RMB26.6 million (net of allowance RMB5.3 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 2019, the Group did not have any significant contingent liabilities and commitments.

Continuing connected transactions

Pursuant to an equipment lease agreement dated 22 July 2017 made between Benywave Technology Co., Ltd, a company controlled by Ms. Rong Xiuli, chairlady and executive director of the Company, and Benywave Wireless Communication Co., Ltd., Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. For the year ended 31 December 2019, the equipment lease payment and interest on lease payment incurred by Benywave Wireless amounted to RMB68,000 and RMB4,000 respectively.

Pursuant to a lease agreement dated 22 July 2017 made between Beijing Tianyu Communication Equipment Co., Ltd. (“Tianyu”) Co., Ltd, a company controlled by Ms. Rong Xiuli, chairlady and executive director of the Company, 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. For the year ended 31 December 2019, the lease payment and interest on lease payment incurred by Benywave Wireless amounted to RMB711,000 and RMB46,000 respectively.

Related party transaction

Except for the continuing connected transactions disclosed above, for the year ended 31 December 2019, the Group had no related party transaction incurred.

Dividends

On 14 June 2019, the Board resolved to declare the payment of a special dividend of HK\$0.10 per Share, amounting to HK\$85,000,000 (equivalent to RMB75,000,000) and which was distributed by the Company to the shareholders of the Company during the year ended 31 December 2019.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

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”) set out 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 2019.

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 2019.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee"), 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. The existing Audit Committee, comprises of Mr. Lam Yiu Kin (chairman), Mr. Hon Kwok Ping, Lawrence and Mr. Han Xiaojing, all of whom are independent non-executive Directors.

Following the resignation of Mr. Tsang Yat Kiang on 31 January 2019, 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.

The Company had subsequently fully complied with the aforesaid requirements under the Listing Rules upon the appointment of Mr. Han Xiaojing as an independent non-executive Director, member of each of the audit committee, remuneration committee and Nomination Committee of the Company with effect from 6 June 2019.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVID-19 coronavirus outbreak. The unaudited results contained herein have not been agreed by the Company's auditor. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results for the year ended 31 December 2019 (the "Unaudited Annual Results") contained herein have been reviewed by the Audit Committee of the Company.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the Unaudited Annual Results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 31 March 2020

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