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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023 AND RESUMPTION OF TRADING AND DELAY IN DESPATCH OF ANNUAL REPORT

The board (the "**Board**") of directors (the "**Directors**") of Vital Innovations Holdings Limited (the "**Company**" or "**Vital Innovations**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2023 together with the comparative figures for the year ended 31 December 2022, 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 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	3	**835,605**	1,092,200
Cost of sales		**(832,598)**	(1,087,499)
Gross profit		**3,007**	4,701
Other gains	4	**69**	703
Other income	5	**30**	213
Selling and distribution costs		**(6,040)**	(6,676)
Administrative expenses		**(16,421)**	(15,669)
Finance costs		**(1,491)**	(829)
Loss before tax	6	**(20,846)**	(17,557)
Income tax	7	**–**	–
Loss and total comprehensive expense for the year		**(20,846)**	(17,557)
Loss and total comprehensive expense for the year attributable to:			
Owners of the Company		**(20,839)**	(17,547)
Non-controlling interests		**(7)**	(10)
		(20,846)	(17,557)
Loss per share	8		
Basic and diluted (RMB cents)		**(2.45)**	(2.06)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 *RMB'000*	2022 *RMB'000*
Non-current assets			
Equipment		**24**	18
Right-of-use assets		**542**	1,776
		566	1,794
Current assets			
Inventories		**1,211**	8,014
Trade and other receivables	10	**2,919**	3,017
Prepayments and deposit	11	**596,246**	566,495
Pledged bank deposits		**3,571**	3,508
Cash and bank balances		**24,349**	37,583
		628,296	618,617
Current liabilities			
Trade payables	12	**8,563**	8,551
Accruals and other payables		**60,161**	56,336
Contract liabilities		**19,361**	18,899
Loan from a related party	13	**9,062**	–
Bank loans		**24,372**	7,166
Lease liabilities		**563**	1,270
Tax liabilities		**3,531**	3,531
		125,613	95,753
Net current assets		**502,683**	522,864
Total assets less current liabilities		**503,249**	524,658
Non-current liability			
Lease liabilities		**–**	563
Net assets		**503,249**	524,095
Capital and reserve			
Share capital		**67,041**	67,041
Share premium and reserves		**436,272**	457,111
Equity attributable to owners of the Company		**503,313**	524,152
Non-controlling interests		**(64)**	(57)
Total equity		**503,249**	524,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 ("Winmate") which is incorporated in the British Virgin Islands (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 Company is principally engaged in investment holding and the principal activities of its subsidiaries (together with the Company collectively referred to as the "Group") are engaged in trading of mobile and smart appliances and trading of Artifical Intelligence ("AI") and other equipment in the People's Republic of China ("PRC") and Hong Kong.

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

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

New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

IFRS 17 (including the October 2020 and February 2022 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities to provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" account policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's disclosure of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

New guidance on accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong issued by the HKICPA

In June 2022, Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 ("**the Amendment Ordinance**") was enacted. The Amendment Ordinance abolishes the use of the accrued benefits derived from employers' mandatory contributions under the mandatory provident fund ("**MPF**") to offset severance payment ("**SP**") and long service payments ("**LSP**") ("**the Abolition**"). Subsequently, the Government of HKSAR announced that the Abolition will take effect on 1 May 2025 ("**the Transition Date**"). The following key changes will take effect since the Transition Date:

– Accrued benefits derived from employers' mandatory MPF contributions cannot be used to offset the LSP/SP in respect of the employment period after the Transition Date.

– The pre-transition LSP/SP is calculated using the last month's salary immediately preceding the Transition Date, instead of using the salary of employment termination date.

Due to the complexities of the accounting for the offsetting of accrued benefits derived from an employer's MPF contributions and its LSP obligation and the accounting for offsetting mechanism could become material in light of the Abolition, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" ("**the Guidance**") in July 2023 to provide guidance to account for the offsetting mechanism and the Abolition. The HKICPA concluded that there are two acceptable accounting approaches for the offsetting mechanism, being:

Approach 1: Account for the amount expected to be offset as a deemed employee contribution towards that employee's LSP benefits in terms of Hong Kong Accounting Standard 19.93(a)

Approach 2: Account for the employer MPF contributions and the offsetting mechanism as a funding mechanism for the LSP obligation

For the years ended 31 December 2022 and 2023, the Group's LSP liability before the expected offsetting under the MPF-LSP offsetting mechanism is insignificant. Application of the guidance had no material effect on the consolidated financial statements of the Group.

Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following amendments to IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

1 Effective date to be determined.
2 Effective for annual periods beginning on or after 1 January 2024.
3 Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of the above amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENT INFORMATION

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

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15 are recognised at a point in time as follows:		
Mobile and smart appliances	**834,407**	1,092,200
AI and other equipment	**1,198**	–
	835,605	1,092,200

Information reported to the board of directors of the Company (the "Board"), being the chief operating decision maker ("CODM"), for the purposes of reserve allocation and assessment of segment performance focuses on types of products sold.

During the years ended 31 December 2023 and 2022, the Group has two reportable and operating segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

– Trading of mobile (including mobile telecommunication related components and accessories) and smart appliances ("Trading of mobile and smart appliances")

– Trading of AI and other equipment

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Trading of mobile and smart appliances		**Trading of AI and other equipment**		**Total**	
	2023	2022	**2023**	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**834,407**	1,092,200	**1,198**	–	**835,605**	1,092,200
Segment profit (loss)	**(2,093)**	431	**(940)**	(2,406)	**(3,033)**	(1,975)
Other gains					**69**	703
Other income					**30**	213
Finance costs					**(1,491)**	(829)
Unallocated corporate expenses					**(16,421)**	(15,669)
Loss before tax					**(20,846)**	(17,557)

Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of other gains, other income, administrative expenses (unallocated) and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

There were no inter-segment sales in both years.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	2023	2022
	RMB'000	*RMB'000*
Segment assets		
Trading of mobile and smart appliances	**594,241**	442,086
Trading of AI and other equipment	**27,734**	171,751
Unallocated	**6,887**	6,574
Total assets	**628,862**	620,411
Segment liabilities		
Trading of mobile and smart appliances	**21,998**	23,274
Trading of AI and other equipment	**1,608**	1,543
Unallocated	**102,007**	71,499
Total liabilities	**125,613**	96,316

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain other receivables, pledged bank deposits and certain bank balances and cash as these assets are managed on a group basis; and

- all liabilities are allocated to operating segments other than certain trade payables, certain accruals and other payables, tax liabilities, loan from a related party and bank loans.

Other segment information

	Trading of mobile and smart appliances	**Trading of AI and other equipment**	**Unallocated**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Amounts included in the measurement of segments profit or loss or segment assets				
Year ended 31 December 2023				
Additions to non-current assets	**10**	**–**	**–**	**10**
Depreciation of equipment	**4**	**–**	**–**	**4**
Depreciation of right-of-use assets	**1,194**	**40**	**–**	**1,234**

	Trading of mobile and smart appliances	Trading of AI and other equipment	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts included in the measurement of segments profit or loss or segment assets				
Year ended 31 December 2022				
Additions to non-current assets	7	–	–	7
Depreciation of equipment	23	4	–	27
Depreciation of right-of-use assets	1,194	72	–	1,266

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the external customers.

	Trading of mobile and smart appliances *RMB'000*	**Trading of AI and other equipment** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2023			
Hong Kong	**832,633**	**–**	**832,633**
The PRC	**1,774**	**1,198**	**2,972**
Total	**834,407**	**1,198**	**835,605**

	Trading of mobile and smart appliances *RMB'000*	Trading of AI and other equipment *RMB'000*	Total *RMB'000*
Year ended 31 December 2022			
Hong Kong	726,757	–	726,757
The PRC	365,443	–	365,443
Total	1,092,200	–	1,092,200

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

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	2023	2022
	RMB'000	*RMB'000*
Customer A[1]	**167,179**	578,347
Customer B[1]	**–**	334,410
Customer C[1]	**581,408**	91,905
Customer D[1]	**84,046**	46,036
	832,633	1,050,698

No other single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2023 and 2022.

1. Revenue from trading of mobile and smart appliances segment.

4. OTHER GAINS

	2023	2022
	RMB'000	*RMB'000*
Foreign exchange gains	**64**	388
Government grants (note)	**–**	206
Write-off of trade and other payables	**–**	84
Others	**5**	25
	69	703

Note: During the year ended 31 December 2022, the Group recognised government grants of approximately RMB206,000 in respect of COVID-19 related subsidies which was related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund.

5. OTHER INCOME

	2023	2022
	RMB'000	*RMB'000*
Interest income on pledged bank deposits	**4**	3
Interest income on bank balances	**11**	59
	15	62
Services income	**15**	148
Others	**–**	3
	30	213

6. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2023	2022
	RMB'000	*RMB'000*
Directors' emoluments	**3,668**	3,379
Staff costs (excluding directors' emoluments)		
– salaries and other allowances	**7,524**	7,865
– retirement benefits schemes contributions	**365**	338
Total staff costs	**11,557**	11,582
Auditor's remuneration – audit services	**1,450**	1,429
Cost of inventories recognised as an expense	**832,598**	1,087,499
Depreciation of equipment	**4**	27
Depreciation of right-of-use assets	**1,234**	1,266
Impairment losses recognised on other receivables	**4**	1

7. INCOME TAX

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax was made as the Group did not have any assessable profits generated for the years ended 31 December 2023 and 2022.

The Company's subsidiaries incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% (2022: 16.5%).

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries are 25% from 1 January 2008 onwards.

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2023	2022
	RMB'000	*RMB'000*
Loss:		
Loss for the purposes of basic and diluted loss per share, representing loss for the year attributable to owners of the Company	**(20,839)**	(17,547)

	2023	2022
	'000	*'000*
Number of shares:		
Number of ordinary shares for the purposes of basic and diluted loss per share	**850,000**	850,000

Diluted loss per share is equal to basic loss per share as there were no dilutive potential ordinary shares in issue during the years ended 31 December 2023 and 2022.

9. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

10. TRADE AND OTHER RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**11**	40
Less: allowance for credit losses	**–**	–
	11	40
Other receivables		
– Other PRC tax receivables	**2,040**	2,039
– Others *(note)*	**901**	967
	2,941	3,006
Less: allowance for credit losses	**(33)**	(29)
	2,908	2,977
Total trade and other receivables	**2,919**	3,017

The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on the invoice dates.

	2023	2022
	RMB'000	*RMB'000*
More than 90 days	**11**	40

The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

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.

Note: As at 31 December 2023, approximately RMB23,000 (2022: RMB61,320) included in others was paid to a related party, Beijing Tianlang Huigu Technology Co., Ltd.* (北京天朗慧谷科技有限公司), for premises rental deposit.

* The English name of the company is for reference only.

The following tables show reconciliation of allowance for credit losses that has been recognised for trade and other receivables:

	12-month ECL	
	2023	2022
	RMB'000	*RMB'000*
As at 1 January	**29**	28
Allowance for credit losses	**4**	1
As at 31 December	**33**	29

11. PREPAYMENTS AND DEPOSIT

	2023	2022
	RMB'000	*RMB'000*
Prepayments to suppliers for:		
– AI and other equipment *(note (a))*	**26,855**	153,000
– Mobile and smart appliances *(note (a) and (b))*	**379,391**	413,495
	406,246	566,495
Refundable purchase deposit paid for:		
– Mobile and smart appliances *(note (c))*	**190,000**	–
	596,246	566,495

Notes:

(a) As at 31 December 2023, the Group had made prepayments for purchases of AI and other equipment of approximately RMB26,855,000 and mobile and smart appliances of approximately RMB33,326,000 to an independent supplier ("**Supplier A**").

Subsequent to the end of reporting period, the Group has received the ordered goods from Supplier A and recognised purchases with Supplier A of approximately RMB6,718,000. These ordered goods had also been sold to the Group's customers. In accordance with the supply schedule, the remaining ordered goods will be delivered to the Group during the year 2024. The Group has a right to a compensation from Supplier A when Supplier A fails to deliver the goods according to the supply schedule.

As at 31 December 2022, the Group had made prepayments to an independent supplier to purchase AI and other equipment. Due to the impact of COVID-19 pandemic outbreak in year 2022 affecting supply orders in year 2022 and delivery arrangements, the Group and the supplier entered into an agreement for the refund of a part of the prepayment amounting to RMB152,020,000 by the supplier. The prepayment of RMB152,020,000 has been refunded to the Group in March 2023.

(b) Apart from prepayments to Supplier A, as at 31 December 2023, the Group had made prepayments mainly to one independent supplier ("**Supplier B**") to purchase mobile and smart appliances of approximately RMB303,060,000.

Pursuant to purchase agreement entered into between the Group and Supplier B dated 1 December 2023, the Group will purchase mobile and smart appliances from Supplier B at an aggregate cash consideration of approximately RMB303,060,000. Subsequent to the end of reporting period, the Group has received the ordered goods from Supplier B and recognised purchases with Supplier B of approximately RMB33,700,000. These ordered goods had also been sold to the Group's customers. In accordance with the supply schedule, the remaining ordered goods will be delivered to the Group during the year 2024. The Group has a right to a compensation from Supplier B when Supplier B fails to deliver the goods according to the supply schedule.

As at 31 December 2022, the Group had made prepayments to two independent suppliers to purchase mobile and smart appliances for trading business amounting to approximately RMB388,040,000. Due to the impact of Covid-19 pandemic outbreak in year 2022 affecting supply orders in year 2022 and delivery arrangements, the Group entered into an agreement for the refund of the prepayment with two independent suppliers. The prepayment amounting to RMB388,040,000 has been fully refunded to the Group in March 2023.

(c) As at 31 December 2023, the Group had paid a guarantee deposit of RMB190,000,000 to an independent supplier ("**Supplier C**") in relation to the stable supply of mobile and smart appliances with reputable brand name to the Group pursuant to the cooperation memorandum entered into between the Group and Supplier C. Subsequent to the end of reporting period, the Group had made purchases of the ordered goods of approximately RMB40,401,000 and these ordered goods had been delivered to the Group. These ordered goods has also been sold to the Group's customers.

The purchase deposit paid is refundable. The Group has a right to request Supplier C to refund the above purchase deposit when Supplier C fails to deliver the ordered goods to the Group in accordance with the supply schedule.

The directors of the Company had assessed the background, credibility and supply capacity of all the above suppliers and considered that the suppliers are large-scale enterprises in the PRC and has no default history. The directors of the Company had also assessed the financial capabilities of the above suppliers and identified no potential financial difficulties of these suppliers. Therefore, the directors of the Company considered that the Group is able to recover the prepayments and the purchase deposit from the above suppliers.

12. TRADE PAYABLES

	2023	2022
	RMB'000	*RMB'000*
Trade payables	**8,563**	8,551

The following is an ageing analysis of trade payables based on the invoice dates at the end of the reporting period:

	2023	2022
	RMB'000	*RMB'000*
Over 1 year	**8,563**	8,551

The average credit period on purchases of goods is 30-90 days but the credit terms can be longer subject to individual supplier policy and the result of negotiation between the supplier and the Group. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

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

	2023	2022
	RMB'000	*RMB'000*
USD	**715**	703

13. LOAN FROM A RELATED PARTY

	2023	2022
	RMB'000	*RMB'000*
Mr. Ni Gang ("**Mr. Ni**") *(note)*	**9,062**	–

The loan is unsecured, interest-bearing at 5% p.a. and will mature in June 2024.

Note: Mr. Ni is the spouse of Ms. Rong Xiuli, the chairperson and executive director of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Vital Innovations Holdings Limited and its subsidiaries are primarily engaged in providing products and services, including mobile phones, smartphones, and related businesses. These encompass research and development, design, engineering, material sourcing, supply chain management, logistics, and service activities for target markets. The Group's competitive edge lies in servicing a diverse number of wholesalers and resellers, leveraging its extensive understanding of telecommunication technology and a large network of technological and service provider partners.

Several factors have adversely affected the global and Chinese economies, slowing down the pace of economic development. These factors include high interest rates, wars, economic downturns, and worsening economic growth expectations, resulting in a continued drop in smartphone market sales.

Furthermore, not only have Chinese entrepreneurs' confidence been tested, but worldwide liquidity providers such as the US Federal Reserve Board have also implemented plans for quantitative tapering, significantly tightening liquidity. This has led to serious inflation pressure and reduced economic growth globally.

In 2023, global smartphone shipments experienced a downturn, with 1.14 billion units sold, representing a 4% decrease from the previous year. Market saturation and increased competition were the primary reasons for this decline. However, the market is showing signs of recovery, with future growth expected to be driven by 5G and AI technologies.

According to the latest research from Canalys, worldwide smartphone shipments grew by 8% year-on-year in the fourth quarter of 2023, reaching 320 million units. This marked the end of seven consecutive quarters of decline. The recovery is primarily driven by emerging markets such as the Middle East and Africa, and Latin America. With inventory pressure easing and global inflation stabilizing, vendors can now focus on product innovation and long-term strategic developments, laying a solid foundation for 2024. Many new flagship Android launches have already taken advantage of the on-device AI trend, benefiting our major supplier, which achieved remarkable year-on-year growth in the fourth quarter of 2023. However, mature markets, including Mainland China, Europe, and North America, still face strong headwinds due to subdued consumer spending and reduced channel investments. In 2024, emerging markets will remain a strategic battleground for most smartphone vendors seeking growth.

Despite these difficulties, the Chinese economy was managed to achieve a positive economic growth rate of 5.2% in 2023. This is a remarkable accomplishment considering the adverse factors that were dragging down the economy.

2023 was a pivotal year for Vital Innovations, marked by significant geopolitical tensions, regulatory shifts and a challenging global economic environment. These external factors, along with a slowdown in the Chinese smartphone market, posed unique challenges to our business operations.

In response to this situation, the management adopted a defensive strategy by tightly controlling operating expenses in order to survive such a tough time while also seeking new opportunities for sales growth. Through the constant hard work of the management and staff members, the Group successfully maintained its operations in this extreme environment and strove to retain its customer base through innovation and efficiency. The management also continued to adjust the margin policy to maintain sales volume and achieved a total sales revenue of approximately RMB835.6 million, representing a 23.5% decrease compared to 2022. The decrease in sales volume was primarily due to a decrease in domestic sales in China. However, this was partially offset by an increase in export sales from RMB726.8 million to RMB832.6 million, representing a 14.6% increase compared to 2022. The operating loss increased from RMB17.6 million in 2022 to RMB20.8 million in 2023, mainly due to the lack of domestic sales in China.

BUSINESS OUTLOOK

The global smartphone market is showing early signs of recovery after a 12% decline in 2022, according to new forecasts from Canalys. While shipments are dropped 4% in 2023, the decline is softening, indicating stabilization as regions like the Middle East, Africa, and Latin America are projected to return to growth at rates of 9%, 3%, and 2% respectively this year. For the full year 2023, 1.14 billion smartphones are shipped, with a projected growth of 4% to reach 1.17 billion units in 2024. The smartphone shipment is expected to reach 1.25 billion units in 2027, achieving a compound annual growth rate ("**CAGR**") (2023 to 2027) of 2.6% p.a..

"The smartphone rebound in 2024 will be fueled by emerging markets, where the devices remain integral to connectivity, entertainment, and productivity," said Sanyam Chaurasia, Senior Analyst at Canalys. "One in three smartphones shipped in 2024 will be purchased in the Asia Pacific, compared to only one in five back in 2017. This region will also witness some of the fastest growth, at 6% year-over-year, driven by resurging demand in India, Southeast Asia, and South Asia. As macroeconomic conditions and consumer confidence stabilize in these countries, smartphone upgrades will accelerate."

"On-device AI capabilities will have a limited impact on driving high-end smartphone upgrades in 2024," cautioned Runar Bjørhovde, Analyst at Canalys. "We expect less than 5% of smartphones shipped next year to be equipped with advanced AI-capable chipsets that can run on-device AI models. The growth of premium smartphones has plateaued as replacement demand in developed markets like Western Europe and the US remain weak. Many consumers in these markets already upgraded to high-end devices during the pandemic when discretionary cash was abundant. A real growth cycle in premium devices in these regions likely would not occur until 2024-2025 when AI features and use cases become compelling enough to motivate upgrades."

“With improving business conditions in 2024, many Chinese players are expected to aggressively expand outside Greater China rather than playing defense,” said Toby Zhu, Senior Analyst at Canalys. “Despite persisting geopolitical uncertainties, competition is expected to rise, especially in high-growth emerging markets. Still, optimism is growing among channels, vendors, and the supply chain.”

With reference to the article issued by “Research and Markets” on 23 February 2024, Global Smartphone Market Size Poised to Surge to US$777.52 Billion by 2030: A newly conducted comprehensive analysis of the global smartphone market provides an insightful forecast for the period ranging from 2024 to 2030. The research sheds light on the influence of inflation, industry trends, market share, and growth, highlighting the transformative impact of advanced telecommunications and the Internet of Things (IoT) on daily communication.

The exponential growth of the global smartphone market is underpinned by technological advancements and increasing adoption rates, with expectations for the market to expand at a CAGR of 6.23% (2023-2030) during the forecast period. The integration of 5G networks and 4G LTE technology across developing nations is anticipated to energize smartphone sales, with markets preparing for a surge in demand for 5G-enabled handsets.

With higher internet accessibility, smartphones have become fundamental for a multitude of online activities. From engaging on social media to e-commerce and enjoying streaming services, these devices facilitate on-the-go access to a wide range of services. This versatility, coupled with rising disposable incomes globally, is propelling the smartphone market forward, as witnessed by a noteworthy valuation of US$509.28 billion in 2023. Dominance in the smartphone sector continues with Android leading the way, thanks to its open-source platform, diverse device models, and an abundant app ecosystem on the Android system. Online platforms are now the primary focal point for smartphone transactions, illustrating a major shift in consumer purchasing habits. The user-friendly online shopping experience, coupled with the vast selection and competitive pricing, has firmly established e-commerce as the cornerstone of the smartphone distribution market.

The Chinese smartphone industry, fueled by economic growth, technological innovation, and rapid adoption of 5G, is poised to continue its ascendancy on the global stage. Conversely, the US smartphone market thrives on the integration of AI, IoT advancements, and burgeoning trends in mobile payments and e-commerce.

We predict that in 2024, the Chinese government will implement more policies to strive for economic development. The commercial connection between the world and China is expected to improve slightly, bringing in more capital and opportunities for international trade. We believe the business environment in 2024 will be better than that of 2023 due to fewer adverse factors affecting the economy.

The government's support and stimulus are expected to be stronger and further encourage international and domestic trade. Economic growth is projected to be even stronger than that of 2023. The smartphone market is also expected to face less pressure due to the maturity of smartphone innovation. In 2024, the new flagship products from different smartphone manufacturers could bring fundamental innovation to improve functionality of smartphones, thereby strengthening the sentiment to replace existing smartphones. We have confidence in China's future business environment, and believe that innovative breakthroughs in smartphones may occur in 2024, but smartphone sales may still face challenges. We anticipate that demand may improve in many markets, and we are seeing increasing consumer interest in 5G, high-end, and new form factors like foldable smartphones and dual SIM smartphones to some extent.

Looking ahead to 2024, Vital Innovations is poised to capitalize on emerging opportunities in AI and technology innovation. Our strong financial foundation, coupled with strategic investments positions us well to address ongoing market challenges and take advantage of growth opportunities. Our strategy includes integrating advanced AI features into smartphones and exploring AI applications in supply chain management. This aligns with our vision to diversify into AI-powered smart home devices and health tech. The group plans to introduce more Chinese brand smartphones and Artificial Intelligence of Things ("**AIoT**") devices, including low-end products, to new customers and markets such as Russia, Africa, Middle Asia, and the Middle East, in order to expand sales. We believe that this strategy will be successful as the group has the infrastructure to support growth.

In response to the economic slowdown and market challenges, we continue to seek investment opportunities, particularly in 5G and AI. We are also focused on diversifying our product portfolio and strengthening our supply chain to mitigate future disruptions and manage costs effectively. This is within the expertise and experience of our management team, enhancing the Group's competitiveness and diversification, and bringing financial and commercial value. The management team consists of IT professionals with over 20 years of experience and a long-standing reputation in the Chinese market. This expertise and experience can be transformed into long-lasting competitive advantages and insightful judgment in different technological advancement projects.

Our commitment to transparent and responsible financial management remains steadfast. We are strategically positioned to navigate market uncertainties and invest in key growth areas, ensuring sustainable growth and value creation for our shareholders.

In conclusion, Vital Innovations is well-positioned to seize emerging opportunities in AI and technology innovation. With a strong financial foundation and strategic investments, we are prepared to address ongoing market challenges and capitalize on growth opportunities.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB256.6 million or 23.5% to approximately RMB835.6 million for the year ended 31 December 2023 from approximately RMB1,092.2 million for the year ended 31 December 2022. The following table sets forth the breakdown of the Group's revenue by product type:

	For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Mobile and smart appliances	**834,407**	1,092,200
AI and other equipment	**1,198**	–
	835,605	1,092,200

The revenue of mobile and smart appliances decreased mainly due to the absence of the sales of top and famous smartphones in China.

The following table sets out the breakdown of the Group's revenue by geographical regions for the year ended 31 December 2023 and 2022:

	For the year ended 31 December			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Hong Kong	**832,633**	**99.6**	726,757	66.5
The PRC	**2,972**	**0.4**	365,443	33.5
	835,605	**100**	1,092,200	100

Segment profit (loss) and profit margin

	For the year ended 31 December			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Mobile and smart appliances	**(2,093)**	**–**	431	0.04
AI and other equipment	**(940)**	**–**	(2,406)	–

The mobile and smart appliances recognised segment loss of approximately RMB2,093,000 for the year ended 31 December 2023 compared with segment profit of approximately RMB431,000 for the year ended 31 December 2022. The segment loss was mainly due to the relatively less active market and strong price competition. The segment loss of AI and other equipment was approximately RMB940,000 for the year ended 31 December 2023, whereas the segment loss for the corresponding period of 2022 was RMB2,406,000.

Taxation

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax was made as the Group did not have any assessable profits generated for the years ended 31 December 2023 and 2022.

Trade and other receivables

As at 31 December 2023, the carrying amount of trade and other receivables were approximately RMB2,919,000, representing a decrease of approximately RMB98,000 as compared to the corresponding period in 2022.

Prepayments and deposit

As at 31 December 2023, the prepayments and deposit were approximately RMB596,246,000 which increased by RMB29,751,000 as compared with 2022. Prepayments and deposit are related to increasing amount paid to supplier for mobile and smart appliances.

Trade payable

The Group's trade payable as at 31 December 2023 was RMB8,563,000, which was at a similar level as that as at 31 December 2022, being RMB8,551,000.

Bank loans

The Group's bank loans increased by RMB17,206,000 from RMB7,166,000 as at 31 December 2022 to RMB24,372,000 as at 31 December 2023 as a result of an increase in financing for mobile and smart appliances.

Contract liabilities

The Group's contract liabilities slightly increased by RMB462,000 from RMB18,899,000 as at 31 December 2022 to RMB19,361,000 as at 31 December 2023 due to an increase in prepayment from customers for purchases of mobile and smart appliances.

Liquidity and source of funding

As at 31 December 2023, the Group's total cash and bank balances decreased by approximately RMB13,234,000 from approximately RMB37,583,000 to approximately RMB24,349,000.

As at 31 December 2023, the Group had unutilised bank facilities related to bank loans of RMB82,000. These credit facilities could be drawn down by the Group to finance its operation. Based on the working experience and the communication with the bank, the Board believes that the Group has the ability to renew or secure banking facilities upon maturity.

As at 31 December 2023, 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 5.0 compared with 6.5 as at 31 December 2022.

As at 31 December 2023, the Group had bank loans of approximately RMB24,372,000 (2022: approximately RMB7,166,000). On the same date, the gearing ratio (calculated based on the bank loans as of the respective dates divided by the net asset as of the respective dates) of the Group was 4.84% as compared with 1.37% as at 31 December 2022.

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.

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 development.

Material acquisitions and disposals

Saved as disclosed in this announcement, the Group has no material acquisitions and disposals of subsidiaries, associates and joint ventures for the year ended 31 December 2023.

Significant investments

Saved as disclosed in this announcement, the Company had no significant investment held during the year ended 31 December 2023.

Contingent liabilities and commitments

At the end of the year 2023, the Group did not have any significant contingent liabilities and commitments.

Dividends

No dividend was paid, declared or proposed during the year ended 31 December 2023, nor had any dividend been proposed for the year ended 31 December 2023 (2022: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2023, the Group had approximately 26 employees. The Group provides competitive remuneration packages to employees with the share option scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

CHARGES ON ASSETS

As at 31 December 2023, the Group had no charge of assets (2022: 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**") as stated in the Corporate Governance Code (the "**CG Code**") contained in Appendix C1 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") 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 C3 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 2023.

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 2023.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Group had no major litigation or arbitration during the year ended 31 December 2023.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, the Company has maintained sufficient public float as required under the Listing Rules.

SUBSEQUENT EVENTS

No material events were undertaken by the Group subsequent to 31 December 2023 and up to the date of this announcement.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors. The Audit Committee has adopted terms of reference which are in line with the CG Code. The Audit Committee has reviewed the Company and its subsidiaries' results for the year ended 31 December 2023 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Company and its subsidiaries' internal control procedure and financial reporting disclosures.

SCOPE OF WORK OF CONFUCIUS INTERNATIONAL CPA 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 2023 as set out in this announcement have been agreed by the Group's auditor, Confucius International CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2023. The work performed by Confucius International CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, or the 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 Confucius International CPA 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.vitalinno.com). The Company's annual report for 2023 containing all the information required by the Listing Rules will be made available on the above websites in due course.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 April 2024, pending the release of the annual results of the Company for the year ended 31 December 2023 contained in this announcement. Upon the publication of this announcement, an application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 17 May 2024.

DELAY IN DESPATCH OF ANNUAL REPORT

Pursuant to Rule 13.46(2)(a) of the Listing Rules, the Company is required to send the annual report for the year ended 31 December 2023 (the "**Annual Report**") to its shareholders not later than four months after the date upon which the financial period ended, that is, on or before 30 April 2024. As a result of the delay in the publication of the annual results of the Company as contained in this announcement, the despatch of the Annual Report will be delayed in order to allow sufficient time for the Company to prepare and finalize the information for inclusion in the Annual Report.

The Company is currently working towards finalising the Annual Report for publication and it is anticipated that the Annual Report (of which the Environmental, Social and Governance Report forms part) will be despatched on or around 31 May 2024.

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

Hong Kong, 16 May 2024

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. Han Xiaojing, Mr. Wong Pong Chun James, and Mr. Leung Man Fai as independent non-executive Directors.