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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6133)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Our revenue decreased from RMB704.4 million for the first half of 2015 to RMB294.1 million for the first half of 2016, representing a decrease of 58.2% or RMB410.3 million.

- Profit and total comprehensive income attributable to equity holders of the Company amounted to RMB19.5 million for the first half of 2016 compared to RMB62.4 million for the first half of 2015, representing a decrease of 68.7% or RMB42.9 million.

- Basic earnings per share for the six months ended 30 June 2016 was approximately RMB2.3 cents (for the corresponding period in 2015: approximately RMB9.6 cents).

The board (the "Board") of directors (the "Directors" and each a "Director") of Vital Mobile Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2016 together with the comparative figures. The condensed consolidated interim results are unaudited, but have been reviewed by the Company's audit committee (the "Audit Committee").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	4	**294,073**	704,359
Cost of sales		**(273,897)**	(591,167)
Gross profit		**20,176**	113,192
Other gain and loss	5	**11,941**	5,340
Other income		**9,879**	5,446
Research and development costs		**(10,037)**	(8,235)
Selling and distribution expenses		**(4,430)**	(11,043)
Administrative expenses		**(5,719)**	(4,577)
Finance costs		**(178)**	–
Listing expense		**–**	(12,408)
Profit before tax	6	**21,632**	87,715
Income tax expense	7	**(2,089)**	(25,275)
Profit and total comprehensive income for the period attributable to equity holders of the Company		**19,543**	62,440
Earnings per share	8		
– basic (RMB per share)		**0.023**	0.096

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	**As at 30 June 2016** *RMB'000* **(Unaudited)**	As at 31 December 2015 *RMB'000* (Audited)
Non-current assets			
Equipment		**124**	150
Deferred tax assets		**5,874**	4,309
		5,998	4,459
Current assets			
Inventories		**85,380**	124,151
Trade and other receivables	10	**415,659**	634,841
Structured deposits		**250,000**	420,000
Pledged bank deposits		**529,894**	762,248
Cash and bank balances		**201,407**	41,248
		1,482,340	1,982,488
Current liabilities			
Trade payables	11	**592,061**	1,034,988
Bank loan		**–**	16,200
Accrual and other payables		**20,463**	20,040
Deposits received from customers		**16,461**	19,407
Tax payables		**15,853**	28,985
Provision		**3,701**	10,343
		648,539	1,129,963
Net current assets		**833,801**	852,525
Total assets less current liabilities		**839,799**	856,984
Net assets		**839,799**	856,984
Capital and reserves			
Share capital		**67,041**	67,041
Share premium and reserves		**772,758**	789,943
Equity attributable to equity holders of the Company		**839,799**	856,984

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

The Company was established in the Cayman Islands as an exempted company with limited liability on 12 August 2014. The ultimate holding company of the Company is Winmate Limited ("Winmate") which is incorporated in the British Virgin Islands 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 condensed consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRS") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue

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 as a single operating segment that engaged in developing, designing, production management and selling mobile telecommunication devices and sale of mobile telecommunication related components and accessories, and provision of technical knowhow and other add-on service related to mobile, targeting global markets excluding the People's Republic of China (the "PRC"). 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 is available for assessment of performance of different products, no segment information other than certain entity-wide disclosures are presented.

Revenue from major products

The following table sets forth a breakdown of the Group's revenue by major products during the six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Smartphones	**273,430**	696,315
Smartphone component packs	**11,538**	–
Mobile device components	**9,105**	8,044
	294,073	704,359

5. OTHER GAIN AND LOSS

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Foreign exchange gain, net	**11,741**	5,340
Others	**200**	–
	11,941	5,340

6. PROFIT BEFORE TAX

The Group's profit before tax has been arrived at after charging:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of other equipment	**26**	21
Directors' emoluments	**1,705**	1,240
Other staff cost		
Salaries and other allowance	**7,228**	8,565
Retirement benefit schemes contribution	**1,290**	1,655
Total staff costs	**10,223**	11,460
Cost of inventories recognised as an expense	**273,897**	591,167
Write down of inventories (included in cost of sales)	**8,866**	2,609
Government grant	**–**	500

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Enterprise Income Tax ("EIT")		
Current tax in the PRC	**–**	25,275
Current tax in Hong Kong	**3,654**	–
Deferred tax	**(1,565)**	–
	2,089	25,275

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 Benywave Wireless Communication Co., Ltd. ("Benywave Wireless") is 25%. Since Benywave Wireless is recognised as "New and High Technology Enterprises" in December 2015 and the effective period is from 1 January 2015 to 31 December 2017, therefore it is entitled to apply a preferential tax rate of 15% for the six months ended 30 June 2016. Benywave Wireless applied income tax rate of 25% for the six months ended 30 June 2015.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
For the purposes of calculating basic earnings per share, representing profit for the period attributable to equity holders of the Company	**19,543**	62,440

	Six months ended 30 June	
	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**850,000**	651,635

The weighted average number of shares for the purposes of calculating basic earnings per share for six months ended 30 June 2015 has been adjusted for the effect of the capitalisation issue.

There are no dilutive potential shares for both periods.

9. DIVIDEND

During the current interim period, a final dividend of HK5.055 cents per share in respect of the year ended 31 December 2015 was declared and paid to the equity holders of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK$42,970,000 which approximated to RMB36,728,000 (2015: nil).

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2016 *RMB'000* (Unaudited)	As at 31 December 2015 *RMB'000* (Audited)
Trade receivables	**222,835**	351,697
Less: allowance for doubtful debts	**(1,457)**	(1,457)
	221,378	350,240
Other receivables		
– Value added tax receivables	**39,362**	82,626
– Others	**8,013**	4,976
Prepayments to suppliers	**146,906**	196,999
	415,659	634,841

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 presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	As at 30 June 2016 *RMB'000* (Unaudited)	As at 31 December 2015 *RMB'000* (Audited)
Within 60 days	**81,814**	229,020
61 days to 180 days	**27,547**	109,820
181 days to 1 year	**112,017**	11,400
	221,378	350,240

11. TRADE PAYABLES

	As at 30 June 2016 *RMB'000* (Unaudited)	As at 31 December 2015 *RMB'000* (Audited)
Trade payables	**128,103**	350,760
Bills payable	**463,958**	684,228
	592,061	1,034,988

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

	As at 30 June 2016 *RMB'000* (Unaudited)	As at 31 December 2015 *RMB'000* (Audited)
Within 90 days	**12,603**	259,830
91 to 180 days	**48,383**	59,069
181 days to 1 year	**53,572**	27,779
Over 1 year	**13,545**	4,082
	128,103	350,760

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

From the start of the year 2016, we faced a challenging global economy with extreme economic upheavals and downturn, fluctuating exchange rates, consumer sentiment is weak all over the world, which exerted pressure on the prices and profit margins of smartphones in 2016. For an export orientated original design manufacturer ("ODM") smartphone supplier company, the Group has found it especially difficult for such adverse operating condition. We have seen many of our customers retrench to sell less number of models in order to improve their cash position; we have also been cautious in controlling credit default risks, we have to give up some opportunities and just to make sure we will be able to control the risks by operating through different channels and partners.

For the six months ended 30 June 2016, the Group reported total sales volume of handsets and other products reaching 441,000 units, representing a period-on-period decrease of 74.3% of which that of modified smart device sales increased by 100% period-on-period to 252,000 units. Owing to the slowdown in 3G smartphone growth and a strategy focused on 4G smartphone and software development, the overall average selling price ("ASP") per unit of the Group's products increased from US$64.4 in 2015 to US$98.5 in 2016.

During the period, the Group's overall revenue decreased by 58.2% period-on-period to RMB294.1 million. Faced with these market trends, the Group reformed its marketing strategy to start adding new product and services offerings such as providing smart devices add-on and localised services to supplement the loss in ODM direct businesses. The Group applied stringent controls on costs and expenses and adhered to its effective "Step Up" product strategy, continuing to enhance operational performance.

During the period, gross profit decreased by 82.2% period-on-period to RMB20.2 million, with gross profit margin decreasing to 6.9%, compared to 16.1% in 2015.

We have streamlined our research and development ("R&D") and sales operations so as to contain our costs. The Group's operating expenses (including R&D costs, selling and distribution costs and administrative expenses) were RMB20.2 million, representing an operating expenses ratio of 6.9% on revenue. A lean, efficient organizational structure allowed the Group to respond to market changes in a timely manner, and to maintain its profitability at a healthy and stable level.

Net profit decreased by 68.7% period-on-period to RMB19.5 million, while net profit margin was 6.6%. Basic earnings per share decreased to RMB0.023 from RMB0.096.

The Board has recommended not to pay any interim dividend for the six months ended 30 June 2016. The management believes that the new business plan will improve the Company's financial performance and the Company may still be paying a final dividend at the end of the year.

Overall Performance of the Group

The first half of 2016 is traditionally the low season for the industry, and with the slowdown in the global mobile phone market, the Group's revenue has recorded a period-on-period decrease for the first half of 2016; the significantly intensified competition will further exert pressure on product selling prices and gross margins. We have witnessed a major structural change in the mobile phone market place. We have seen in the past six months that two leading Chinese mobile phone companies opted out of the mobile phone retailing/distribution business. Some of the key suppliers have to redeploy their manufacturing assets outside China and closed their factories in China; this caused some disruption in our supply chain.

Even with all these trouble, we have seen the overall smartphone market has grown around 10% year-on-year in unit shipments but we believe the revenue dollar is well down.

We noted that all mobile phone companies, big or small, are working with concerted effort to improve the mobile device form, fit and functions. The inventory issues that the leading brands created in 2015 are starting to hurt the smaller brands, some of these are our key customers, as they are unloading these at a very competitive pricing in the emerging markets that we operate.

The Group encountered several difficulties during the first half of 2016, the regional performances has not been good especially with the ODM businesses; whilst the modification phone business has shown some bright spots.

We encountered some difficulties in getting on time delivery from some of the metal moulding companies we have been working with. We have eventually sorted this out by changing our supply base.

During the period, the Group changed its tactics and focused only on a few new product designs and portfolio enhancements, with less smart devices and software enhancements launched. These smartphones were well received by the market. We are starting to work with a number of partners to recover from the issues that slowed our progress in the first six months. We have especially tried to work with some co-branding through software and ROM modifications and have gained traction on income from software/application insertion.

In the first half of 2016, not only did we take new initiatives, but also built up partnership with some brands with focus on software and ROM modification, in an attempt to generate income from software/application customisation business.

1. ODM business optimisation: Outsourcing hardware solution business and strengthening software customisation capability.

    1) Outsourcing hardware solution business. During the first half of 2016, shortage of, and varying price hikes on, raw materials of handsets (such as display panels and memory cards) further prolonged the inventory turnover period. To better control the risks arising from hardware delivery, speed up the pace of delivery and reduce costs, we will outsource the hardware operation of most of our projects. We will make best use of the strengths of Shenzhen companies which have acute market response and strong delivery capacity.

    2) Strengthening software customisation capability. Every "Local King" has its own unique user interface ("UI") design. Regional operators set a higher standard for user management. Meanwhile, the Company has unique understanding and strengths in second development of application software and setting up user eco-system. Thus, we will strengthen our capability in software development, so as to provide product end-users with smoother and more convenient internet service. Further, this would bring second profit to our direct "Local King" customers on top of profit from selling hardware.

2. Overseas distribution of domestic quality brands.

    Over the ten odd years of overseas business operations, the Company has established an extensive and close network of customers throughout the world. Apart from Australia, the Company has maintained its own core customers in different places. Many of the "Local King" customers used to be or currently are the key local business partners of first tier brands.

    We came to a conclusion that, many PRC brands are delighted to engage us to provide our global network and resources, in order to promote their products in major markets across the world within a short period of time. Compared to starting from the beginning, this mode of partnership definitely gives surprisingly great efficiency.

Regional Business for the first half of 2016

1. Eastern Europe: With major devaluation in Russia, forex issues in India and South America, our three major customers still have difficulties to buy the products from the Group directly, as a result, we have to ship these products through some of the intermediaries.

2. India: It has now been the second largest smartphone market after China, with its demand rising on a yearly basis. However, owing to the large-scale disposal of stocks by the PRC manufacturers to the region, there was a plunge of profitability in the industry during the first half of 2016. Further, in order to achieve local industrial production, the Indian government has significantly increased the tax rate of handset imports from 6% to 12.5%. In the short run, constructing factories in India seems unlikely to be a prudent financial option. Under such circumstances, even the largest "Local King" in India, suffered a substantial decline in profit. To avoid making loss and other inventory risk exposures, we only retained our business with one industry player, namely Reliance. However, the postponement of the launch of 4G commercial service by Reliance from originally December last year to August this year has downgraded our expectation on profit that would derive from this customer.

3. Middle East and Africa region: One of our major customers, missed a quarterly selection for operators, leading to the decline of our sales volume in the region. We have been following up with this customer for the selection for the next quarter and, in the meantime, identifying new customers.

4. Europe and North America: The longer replacement cycle on end-user side has decelerated the pace of our customers to launch new models. Due to our absence of participation in our major supplier's project, the number of our new projects decreased in the first half of 2016, to make up the loss, we have already undertaken two projects of our other major supplier.

5. Russia: Due to the same currency exchange reason, there was no sign of economic recovery and therefore, our ODM business was hindered. However, we managed to make a breakthrough in e-commerce business. The business allows us to have direct access to consumers, without intermediary channels, and thus, our competitiveness is greatly increased. More importantly, timely payments are ensured and financial risk exposures are limited.

Outlook

Though facing many challenges, the management of the Group believes that 2016 will also be a year of both challenges and opportunities. The second quarter global shipment of phones only recorded a 0.26% growth, the slowest of the past 5 years. The geo-political problems including the Briexit, Middle East and South America problem is impacting our performance. In discussion with many of our peers and competitors, it is that everyone still believes this situation will change and they are focusing in the Americas and the emerging markets. For instance, one of famous smartphone brands announced their new marketing and distribution plan that they will create 16,000 offline stores to supplement their current network including online and offline sales channels. It is showing the market looks to sales revival as the inventory issues are subsiding, and there is some tightness in some of the supply base such as memory, display etc.

We have confidence that some of our ODM customers will be able to return to their healthy run-rate, especially in Eastern Europe, India, Africa and Southeast Asia. We will however be mindful of the 2015 problem and will be very selective in choosing our ODM customers. Our focus is for a long term partnership that will bring steady profit for both sides. We are also looking to work with strong players who not only focus on product profitability but also on services and quality.

We are going to offer a limited number of high end phones with specifications rival that of the tier one suppliers; we will be offering software support to fit the local requirements, especially those software that we can create income stream for our customers and probably also for the Group. We will be able to provide better focus to our customers and reducing the overhead across the board in R&D, marketing and supports.

In the second half of 2016, our key opportunities as to our ODM business will be:

1) continuing to serve operator market for which sales volume and revenue are basically guaranteed, with target customers, to generate better returns; and

2) focusing on certain emerging markets, such as the Philippines, South Africa and Latin America, to ensure our profitability; and

3) sparing no effort in developing open market. We will seek to establish relationship with customers that have retail channels, with an aim to ensure the sales of ODM business and competitive brands.

Nevertheless, we anticipate the volume of ODM business will not be back to the 2015 level but we anticipate these provide access for us to expand in other business segments. It is this challenging operating environment that has forced the management of Group to look for better opportunities in the mobile phone market. We believe that whilst there are many bad news in 2015 and early 2016, the market size of the mobile phone is still very large, we still believe that with an annual market size of over 2 billion phones, there is still a huge single market in the world.

The Group has been able to work with a number of partners to create a business model that will allow us to supply to our current and new customers to expand our product offerings through software and firmware modifications on some of the branded phones; thus we offer our customers the opportunities to market some of the Chinese brands with software and hardware re-packaged to suit the local market requirements. We also find several operating partners that can support us on the online platform as well as the physical retail channels; this gives us the confidence to explore to grow our distribution and sales channel business.

We have been shipping HK$190 million of products through this partnership, we are working on some of the issues to better serve our customers. This includes after sales services points, creating our own online presences and re-organising our sales teams to cover some of these new customers. We have been very successfully supplying our customers with software and firmware products including ROM modification, Interface, UI improvement, Corporate Identity, Embedded Software and CPM Program. In order to strengthen this area, we are working on recruiting or acquiring a new team that will be working on the software and firmware platform, as the R&D team that we have is quite small in number to cover these areas.

With this in mind, the management of the Group has started its "Market Brand+" vision as a driver of change. With the combination of new ODM smartphones and the "Market Brand+" business transformation strategy, the Group applied "Brands + Services" to its products and developed the new service platform model.

We are working to establish an integrated, one-stop product and service platform, positioning the Group to be a global leader both as a manufacturer of smart devices and one of key total service provider for the business-to-business markets.

On the other hand, by virtue of other third party cross-regional foreign trading e-commerce platforms, cross-regional local e-commerce and individual websites, we are working to achieve deep global coverage online.

We are building on our successful model in the ODM business to provide a platform for a bigger customer base than the ODM model, namely local brands in the export countries.

- The platform provides multiple export paths for different tiers of mobile phone manufacturers and Independent Design House (IDH) to export to all the resellers retail, wholesale, online and offline.

- The platform provides services and products on the mobile phone eco-system, we are making our profits by providing value to our customers:

  – in products including R&D, ROM modification, Interface, UI improvement, Corporate Identity, Embedded Software and CPM Program

  – in services including logistic, tax advisory, storage and fulfillment

  – in building up New Sales Channel Online and Offline

It is a more versatile and flexible business model than our original ODM model.

Aside from this, in order to ensure sustainable development, the Group will continue to invest in product development and marketing channels, which may result in a rise in expenses/revenue ratios of research and development, and sales and marketing, and accordingly, it may result in significant year-on-year decline in net profit for the second half of 2016.

Nevertheless, the Group's management believes that the financial position of the Group remains healthy and is confident in the long-term outlook for the Group. In the second half of 2016, the Group expects improvement in smart device sales with the new range of smart devices coming on stream.

The Group will continue to maintain efficient credit controls and currency hedging policies.

The Group will also further enhance its four core competencies in product technology, industry (including system management), branding and internet application services. This forms the new "Products + Services" business model, based on principles of encompassing innovative breakthroughs, open cooperation, re-organization and consolidation. Its aim is to unleash the potential for future business growth.

Further ahead, we are committed to enhancing our cloud capabilities in supply chain, service and distribution, improving our product ecosystem from the users' point of view and further broadening our user base. A spin-off benefit is that we aim to raise the number of cumulative activated mobile users of our mobile internet platform and downloads per capita, as well as to increase the value and loyalty of users by vertical industry chain integration and horizontal business expansion in the future.

In conclusion, during 2016, on top of our solid business foundation and healthy financial position, we aim to enhance our four core competencies, namely product technology, distribution (online and offline) channels, branding and application services. We will be actively developing user-friendly smart devices and application services, and establishing a comprehensive, expandable service and integrated service platform in order to engage every business opportunity to become a leading mobile device maker and total service enterprise.

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately RMB410.3 million or 58.2% to approximately RMB294.1 million for the six months ended 30 June 2016 from approximately RMB704.4 million for the six months ended 30 June 2015, the following table sets forth the breakdown of our revenue by product type:

	Six months ended 30 June			
	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
Smartphones	**273,430**	**93.0**	696,315	98.9
Smartphone component packs	**11,538**	**3.9**	–	–
Mobile device components	**9,105**	**3.1**	8,044	1.1
	294,073	**100.0**	704,359	100.0

Note: Mobile device components are purchased by our customers for providing after-sale maintenance services to their end users.

Our revenue generated from sale of smartphones decreased from approximately RMB696.3 million for the six months ended 30 June 2015 to approximately RMB273.4 million for the six months ended 30 June 2016, representing a decrease of 60.7%. During the six months ended 30 June 2016, our revenue was mainly derived from 4G smartphones. Our revenue generating from 4G smartphones decreased from approximately RMB408.0 million for the six months ended 30 June 2015 to approximately RMB253.6 million for the six months ended 30 June 2016. Our revenue generating from 3G smartphones decreased from approximately RMB288.3 million for the six months ended 30 June 2015 to approximately RMB19.8 million for the six months ended 30 June 2016. The decrease in revenue was primarily due to (i) a continuous downturn in global demand; (ii) an increase in the number of competitors in the export market of mobile devices on ODM basis; and (iii) the change in demand of customers for smartphone specification in some geographical regions.

The following table sets forth the breakdown of our revenue by geographical regions for the periods indicated:

	Six months ended 30 June			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
Hong Kong	**191,698**	**65.2**	123,489	17.5
Southeast Asia	**267**	**0.1**	1,193	0.2
South Asia	**65,534**	**22.3**	65,078	9.2
Other parts of Asia	**4,363**	**1.5**	211,643	30.1
Europe	**10,035**	**3.4**	70,068	10.0
South America	**11,536**	**3.9**	1,545	0.2
North America	**1,354**	**0.4**	102,228	14.5
Africa	**9,286**	**3.2**	129,115	18.3
	294,073	**100.0**	704,359	100.0

Notes:

(1) Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell branded mobile handsets to various countries including but not limited to Philippines, Vietnam, Thailand, Malaysia, India, Indonesia, Korea and Pakistan.

(2) Southeast Asia includes Philippines, Thailand, Vietnam, Malaysia and Indonesia.

(3) South Asia includes India and Bangladesh.

(4) Other parts of Asia includes Taiwan, Yemen, Pakistan, Dubai and Turkey.

(5) Europe includes France, Romania, Russia, Portugal, Cyprus and Italy.

(6) South America includes Brazil and Venezuela.

(7) North America includes USA and Mexico.

(8) Africa includes South Africa, Algeria and Morocco.

Our revenue generated from sales in Hong Kong increased from approximately RMB123.5 million for the six months ended 30 June 2015 to approximately RMB191.7 million for the six months ended 30 June 2016, representing an increase of 55.2%. It was mainly due to the increased demand of our Hong Kong customers in 4G products and our efforts on market development in Hong Kong.

During the six months ended 30 June 2016, our revenue generated from sales in South Asia was RMB65.5 million, remaining relatively stable compared with the same period of 2015. Meanwhile, our revenue generated from sales in this area accounted for 22.3% of the total revenue, as a result of stable demand in South Asia and decline in total sales volume.

During the six months ended 30 June 2016, our revenue generated from sales in South America increased from approximately RMB1.5 million for the six months ended 30 June 2015 to approximately RMB11.5 million for the six months ended 30 June 2016, representing an increase of 646.7%. The increase was mainly due to the sales of smartphone component packs to a certain customer in South America.

In other regions, our revenue decreased as a result of the reasons described in the paragraphs mentioned above.

Gross profit and gross profit margin

	Six months ended 30 June			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
Smartphones	**27,349**	**10.0**	113,453	16.3
Smartphone component packs	**(4,025)**	**(34.9)**	–	–
Mobile device components	**(3,148)**	**(34.6)**	(261)	(3.2)
	20,176	**6.9**	113,192	16.1

Gross profit amounted to approximately RMB20.2 million for the six months ended 30 June 2016, decreased by approximately RMB93.0 million or 82.2% from RMB113.2 million for the six months ended 30 June 2015. The gross profit ratio decreased by 9.2% from 16.1% for the six months ended 30 June 2015 to 6.9% for the six months ended 30 June 2016. The decline in gross profit ratio of smartphones was mainly attributable to the increase in sales proportion of 4G products with low gross profit margin while the decrease in gross profit ratio of smartphone component packs and mobile device components was mainly due to the increased inventory allowance provided for as a result of management estimation.

Research and development costs

Research and development costs mainly include R&D staff costs (including salaries and allowances, staff welfare and other staff related expenses) and product test costs. Research and development costs amounted to approximately RMB10.0 million for the six months ended 30 June 2016, increased by approximately RMB1.8 million or 21.9% from RMB8.2 million for the six months ended 30 June 2015. The increase was mainly due to (i) newly generated product test costs for new design and (ii) accrued usage of R&D materials.

Selling and distribution expenses

Selling and distribution expenses mainly include sales staff costs and freight charges, office expenses, marketing expenses and others. Selling and distribution expenses amounted to approximately RMB4.4 million for the six months ended 30 June 2016, decreased by approximately RMB6.6 million or 59.9% from RMB11.0 million for the six months ended 30 June 2015. The decrease was primarily due to (i) decrease in freight charges as a result of decrease in sales volume and (ii) decrease in headcount of sales staffs.

Administrative expenses

Administrative expenses mainly include staff costs for administrative employees, audit fees and general office expenses. Administrative expenses amounted to approximately RMB5.7 million for the six months ended 30 June 2016, increased by approximately RMB1.1 million or 25.0% from RMB4.6 million for the six months ended 30 June 2015, which was primarily due to the increase in staff costs.

Other income

Other income represented the interest income which amounted to RMB9.9 million.

Taxation

Income tax expense decreased by approximately RMB23.2 million or 91.7% from RMB25.3 million for the six months ended 30 June 2015 to RMB2.1 million for the six months ended 30 June 2016.

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 Benywave Wireless is 25%. Since Benywave Wireless is recognised as "New and High Technology Enterprises" in December 2015 and the effective period is from 1 January 2015 to 31 December 2017, therefore it is entitled to apply a preferential tax rate of 15% for the six months ended 30 June 2016. Benywave Wireless applied income tax rate of 25% for the six months ended 30 June 2015.

Liquidity and source of funding

As at 30 June 2016, the Group's total cash and bank balances increased by RMB160.2 million from RMB41.2 million as at 31 December 2015 to RMB201.4 million. The variance of cash and bank balances for the period was primarily due to the proceeds on disposal of structured deposits.

As at 30 June 2016, 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 2.3 as compared with 1.8 as at 31 December 2015.

During the current interim period, the Group repaid bank loan of RMB16,200,000, which carried interest at fixed rate 4.6% per annum with the maturity date on 16 March 2016.

Foreign exchange exposure

With its certain operating transactions undertaken in foreign currencies and its bank balances of the proceeds from the global offering denominated in foreign currencies, the Group is exposed to foreign currency risk. Currently, the Group's sales quotation is made in USD instead of the local currency. In order to reduce the impact of foreign currency risk, the Group also ships and delivers products to overseas customers through third party trading parties in Hong Kong as FOB transactions. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management controls its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging against significant foreign currency risk exposure should the need arise.

Material acquisitions and disposals

For the six months ended 30 June 2016, the Group had no material acquisitions and disposals.

Contingent liabilities and commitments

The Group had no significant contingent liabilities or capital expenditure contracted for but not provided as at 30 June 2016.

Continuing connected transactions

Pursuant to an equipment lease agreement entered into between Beijing Benywave Technology Co., Ltd. ("Benywave Technology") and Benywave Wireless, Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. For the six months ended 30 June 2016, the equipment rental expenses incurred by Benywave Wireless amounted to approximately RMB37,000.

Pursuant to a lease agreement entered into between Beijing Tianyu Communication Equipment Co. Ltd. ("Tianyu") and Benywave Wireless, Tianyu has let the premises situated at Zone A, 4th Floor, No. 55, Jiachuang Second Road, Zhongguancun Science Park, OPTO-Merchatronics Industrial Park, Tongzhou District, Beijing, China to Benywave Wireless for carrying on its business. For the six months ended 30 June 2016, the rental expenses incurred by Benywave Wireless amounted to approximately RMB396,000.

DIVIDEND

For the six months ended 30 June 2016, the Directors do not recommend the payment of an interim dividend.

USE OF PROCEEDS

The shares of the Company were successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2015. The net proceeds received from the initial public offering ("IPO"), after deducting underwriting fees and other expenses in relation to the IPO, were approximately HK$484 million (equivalent to approximately RMB382 million). Such net proceeds were deposited at the Group's bank accounts. As at 30 June 2016, the net proceeds were used as follows:

Use:	**% of the total amount of the proceeds**	**Approximate amounts of the net proceeds** *(in HK$ million) (RMB equivalent)*	**Approximate amounts utilized** *(in HK$ million) (RMB equivalent)*	**Approximate remaining amounts** *(in HK$ million) (RMB equivalent)*
Purchasing raw materials to expand our raw material sourcing capacity	45.5	220 (174)	220 (174)	0 (0)
Setting up overseas representative offices and/or establishing partnership with top local branded mobile handset suppliers or telecommunication operators in our key markets	27	131 (103)	0 (0)	131 (103)
Expanding our research and development capabilities	12.5	61 (48)	26 (20)	35 (28)
Setting up a new quality testing laboratory, employing additional quality testing personnel and purchasing additional quality testing equipment	5	24 (19)	0 (0)	24 (19)
General working capital	10	48 (38)	18 (14)	30 (24)
Total	100	484 (382)	264 (208)	220 (174)

HUMAN RESOURCES

As at 30 June 2016, the Group employed approximately 71 employees (2015: 133 employees) in Hong Kong and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.

SHARE OPTION AND RESTRICTED SHARE UNIT SCHEME

On 9 June 2015, a share option scheme and a restricted share unit ("RSU") scheme were approved and adopted by the board of Directors. No share option or RSU was granted up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 30 June 2016.

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 throughout the six months ended 30 June 2016.

CHANGE OF DIRECTORS' INFORMATION

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

1. Mr. Tang Shun Lam, previously a non-executive director of the Company, has been re-designated as an executive director of the Company with effect from 19 March 2016.

2. Mr. Lam Yiu Kin, retired as a member of the finance management committee of the Hong Kong Management Association with effect from 7 July 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2016 together with the auditors and the management of the Group.

PUBLICATION OF FINANCIAL INFORMATION

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.vital-mobile.com). The Company's interim report for the six months ended 30 June 2016 containing all information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 24 August 2016

As at the date of this announcement, the Board comprises Ms. Rong Xiuli, Mr. Rong Shengli and Mr. Tang Shun Lam as executive Directors, and Mr. Hon Kwok Ping Lawrence, Mr. Lam Yiu Kin and Mr. Tsang Yat Kiang as independent non-executive Directors.