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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (the "**Board**") of directors (the "**Directors**" and each a "**Director**") of Vital Innovations Holdings Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2021 together with the comparative figures for the corresponding period in 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	6	**325,472**	355,001
Cost of sales		**(324,440)**	(416,077)
Gross profit (loss)		**1,032**	(61,076)
Other gains (losses), net	7	**38**	(311)
Other income	8	**257**	19
Selling and distribution expenses		**(2,554)**	(2,446)
Administrative expenses		**(7,423)**	(7,135)
Finance costs	9	**(333)**	(387)
Loss before tax	10	**(8,983)**	(71,336)
Income tax	11	**–**	–
Loss and total comprehensive expense for the period		**(8,983)**	(71,336)
Loss and total comprehensive expense for the period attributable to:			
Owners of the Company		**(8,982)**	(71,336)
Non-controlling interests		**(1)**	–
		(8,983)	(71,336)
Loss per share	12		
Basic and diluted (RMB cents)		**(1.06)**	(8.39)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	**30 June 2021** *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Non-current assets			
Equipment		**53**	69
Finance lease receivable		**29**	85
Right-of-use assets	14	**1,673**	588
		1,755	742
Current assets			
Finance lease receivable		**112**	109
Inventories		**36,651**	27,100
Other receivables	15	**2,646**	6,206
Prepayments	16	**519,346**	618,769
Pledged bank deposits		**3,274**	3,305
Cash and cash equivalents		**97,770**	54,369
		659,799	709,858
Current liabilities			
Trade payables	17	**8,511**	29,931
Bank loans	18	**13,194**	20,395
Accruals and other payables		**44,837**	50,121
Contract liabilities		**36,430**	43,674
Lease liabilities	14	**828**	449
Tax liabilities		**3,531**	3,531
		107,331	148,101
Net current assets		**552,468**	561,757
Total assets less current liabilities		**554,223**	562,499
Non-current liability			
Lease liabilities	14	**987**	280
Net assets		**553,236**	562,219
Capital and reserves			
Share capital		**67,041**	67,041
Share premium and reserves		**486,181**	495,163
Equity attributable to owners of the Company		**553,222**	562,204
Non-controlling interests		**14**	15
Capital and reserves attributable to owners of the Company		**553,236**	562,219

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2021

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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"), a company 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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the interim report. 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 principally engaged in mobile telecommunication devices export operations and trading of Artificial Intelligence ("AI") and other equipment in the PRC.

The interim condensed consolidated financial information are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. The interim condensed consolidated financial information have been approved for issue by the board of directors on 26 August 2021.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2021 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB"). This interim condensed consolidated financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the IASB.

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020 except as disclosed below.

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the IASB which are effective for the Group's financial year beginning on 1 January 2021.

Amendment to IFRS 16	COVID-19 Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate Benchmark Reform – Phase 2

The amendments to IFRSs in the current period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial information.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim condensed consolidated financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2020.

5. SEGMENT REPORTING

During the six months ended 30 June 2021, the Group's chief operating decision maker ("CODM"), has been identified as the Chief Executive Officer, reviewed revenue analysis by major products and gross profit of the Group as a whole when making decisions about allocating resources and assessing performance of the Group. During year ended 31 December 2020, the Group expanded its business into trading of AI and other equipment and two reportable segments were identified. Accordingly, the segment information reported for the prior period has been restated to reflect the two reportable 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:

Revenue from contracts with customers within the scope of IFRS 15:

– Trading of mobile telecommunication devices (including mobile telecommunication related components and accessories)

– 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 assets and liabilities are not disclosed in these interim condensed consolidated financial information as they are not regularly provided to the CODM for the purposes of resource allocation and performance assessment.

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

Six months ended 30 June (Unaudited)	**Trading of mobile telecommunication devices**		**Trading of AI and other equipment**		**Total**	
	2021	2020	**2021**	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**313,945**	247,877	**11,527**	107,124	**325,472**	355,001
Segment (loss) profit	**(603)**	99	**(919)**	(63,621)	**(1,522)**	(63,522)
Other gains (losses), net					**38**	(311)
Other income					**257**	19
Finance costs					**(333)**	(387)
Unallocated corporate expenses					**(7,423)**	(7,135)
Loss before tax					**(8,983)**	(71,336)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of other gains (losses), net, other income, administrative expenses 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 periods.

6. REVENUE

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of IFRS 15 are recognised at a point in time as follows:		
Mobile telecommunication devices	**313,945**	247,877
AI and other equipment	**11,527**	107,124
	325,472	355,001

7. OTHER GAINS (LOSSES), NET

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Foreign exchange (losses) gains, net	**(224)**	55
Government grants	**42**	107
Reversal of impairment loss on other receivables, pledged bank deposits and bank deposit	**–**	(30)
Others	**220**	(443)
	38	(311)

8. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income on pledged bank deposits	**–**	5
Interest income on finance lease	**4**	–
Interest income on bank balances	**49**	2
	53	7
Service income	**202**	–
Others	**2**	12
	257	19

9. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**297**	354
Interest on lease liabilities	**36**	33
	333	387

10. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Directors' emoluments	**1,726**	1,833
Other staff costs		
– Salaries and other allowance	**2,868**	3,142
– Retirement benefit schemes contribution	**388**	221
Total staff costs	**4,982**	5,196
Auditor's remuneration	**240**	261
Depreciation of equipment	**16**	16
Depreciation of right-of-use assets	**489**	892
Cost of inventories recognised as an expense	**324,440**	416,077
Short-term leases expenses	**418**	448

11. INCOME TAX

No provision for Hong Kong Profits Tax and Enterprise Income Tax was made as the Group did not have any assessable profits generated during the six months ended 30 June 2021 and 2020.

The Company's subsidiaries incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% (2020: 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. For the six months ended 30 June 2021 and 2020, a PRC subsidiary, Beijing Benywave Wireless Communication Co., Ltd ("Benywave Wireless")* 北京百納威爾無線通訊設備有限公司, was recognised as "New and High Technology Enterprises" and is entitled to apply a preferential tax rate of 15%.

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

12. 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:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss for the purposes of basic and diluted loss per share, representing loss during the period attributable to the owners of the Company	**(8,982)**	(71,336)

	Six months ended 30 June	
	2021	2020
	'000	*'000*
	(Unaudited)	(Unaudited)
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 six months ended 30 June 2021 and 2020.

13. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2021 and 2020, nor has any dividend been proposed since the end of the reporting period.

14. LEASES

(i) Right-of-use assets

The Group has lease contracts for properties and equipment used in its operations. The leases terms are generally a period of 2 to 3 years.

As at 30 June 2021, the carrying amount of right-of-use assets was approximately RMB1,673,000 (31 December 2020: RMB588,000) represents lease contracts for properties and equipment used in its operations.

During the six months ended 30 June 2021, the Group entered a new lease arrangement for office premises and recognised right-of-use assets of approximately RMB1,574,000 (six months ended 30 June 2020: nil).

The depreciation of the Group for the six months ended 30 June 2021 is approximately RMB489,000 (six months ended 30 June 2020: RMB892,000).

(ii) Lease liabilities

As at 30 June 2021, the carrying amount of lease liabilities was approximately RMB1,815,000 (31 December 2020: RMB729,000).

During the six months ended 30 June 2021, the Group entered into a new lease agreements for office premises and recognised lease liabilities of approximately RMB1,574,000 (six months ended 30 June 2020: nil).

(iii) Amounts recognised in profit or loss

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	**36**	33
Expense relating to short-term leases	**418**	448

(iv) Others

During the six months ended 30 June 2021, the total cash outflow for leases amount to approximately RMB942,000 (six months ended 30 June 2020: RMB1,387,000).

15. OTHER RECEIVABLES

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Other receivables		
– Other PRC tax receivables	**–**	5,383
– Others	**2,674**	851
	2,674	6,234
Less: Allowance for impairment loss	**(28)**	(28)
	2,646	6,206

16. PREPAYMENTS

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayments to suppliers of:		
AI and other equipment *(note i)*	**–**	310,899
Mobile telecommunication devices *(note ii)*	**519,346**	307,870
	519,346	618,769

Notes:

(i) As at 31 December 2020, the Group made prepayments for purchase of AI and other equipment amounted to approximately RMB310,899,000, of which approximately RMB310,879,000 was paid to a surgery masks machine supplier who is independent third party to the Group.

During the six months ended 30 June 2021, approximately RMB310,879,000 were refunded to the Group.

(ii) As at 30 June 2021 and 31 December 2020, the Group made prepayments to mobile telecommunication device suppliers to purchase mobile telecommunication related components and accessories.

During the six months ended 30 June 2021, approximately RMB140,000,000 were refunded to the Group.

As at 30 June 2021, the Group has newly made prepayments for purchase of mobile telecommunication devices of approximately RMB498,073,000 in aggregate to two suppliers who are independent third party to the Group.

17. TRADE PAYABLES

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**8,511**	29,931

The following is an ageing analysis of trade payables at the end of the reporting period:

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**–**	8,293
91 to 180 days	**–**	13,121
181 days to 1 year	**–**	–
Over 1 year	**8,511**	8,517
	8,511	29,931

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.

18. BANK LOANS

As at 30 June 2021, the amount comprised five secured bank loans (31 December 2020: seven). The terms and conditions of each loan are set out below.

As at 30 June 2021	**Maturity date**	**Carrying amount** *RMB'000*
Variable-rate bank loans:		
Secured bank loan I	26 July 2021	**4,753**
Secured bank loan II	20 August 2021	**1,471**
Secured bank loan III	23 August 2021	**1,119**
Secured bank loan IV	30 August 2021	**1,503**
Secured bank loan V	20 August 2021	**4,348**
Total bank loans		**13,194**

As at 31 December 2020	Maturity date	Carrying amount *RMB'000*
Variable-rate bank loans:		
Secured bank loan I	8 January 2021	5,050
Secured bank loan II	16 February 2021	3,179
Secured bank loan III	16 February 2021	1,589
Secured bank loan IV	16 February 2021	3,721
Secured bank loan V	26 February 2021	508
Secured bank loan VI	8 February 2021	2,126
Secured bank loan VII	9 February 2021	4,222
Total bank loans		20,395

As at 30 June 2021, the secured bank loans are charged at the United States Prime Rate, which is 3.25% (31 December 2020: 3.25% to 4.75%) per annum.

As at 30 June 2021 and 31 December 2020, the bank loans were jointly secured by (i) the properties owned by an individual, an independent third party to the Group, (ii) personal guarantee provided by a director of the Company; and (iii) a pledged bank deposit of approximately USD503,000 (equivalent to approximately RMB3,249,000) (31 December 2020: equivalent to approximately RMB3,279,000).

19. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Beijing Tianyu Communication Equipment Co. Ltd. ("Tianyu")* 北京天宇朗通通信設備股份有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Tianlang Huigu Technology Co. Ltd. ("Tianlang")* 北京天朗慧谷科技有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Zhuoyue Tianhe Management Co., Ltd. ("Zhuoyue Tianhe")* 北京卓越天和運營管理有限公司	Company controlled by Ms. Rong
Benywave Technology	Company controlled by Ms. Rong and Mr. Ni
Beijing Tianyu Operation Management Co. Ltd. ("Tianyu Operation")* 北京天語運營管理有限公司	Company controlled by Ms. Rong and Mr. Ni

* *The English name of the above companies are for reference only.*

(b) Related party transactions

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Premises lease payment charged by Tianlang *(note)*	**87**	–
Management expenses charged by Zhuoyue Tianhe *(note)*	**29**	–
Service income received from Tianyu Operation	**202**	–

Note: In November 2020, the Group entered into a lease agreement with Tianlang. The Group has made the lease payment of approximately RMB14,000 to Tianlang, where the lease is accounted for as a short-term lease, for the six months ended 30 June 2021. In addition, the Group made the management fee payment of approximately RMB29,000 during the six months ended 30 June 2021 (six months ended 30 June 2020: nil) to Zhuoyue Tianhe.

In July 2017, the Group entered into a three-years lease in respect of certain properties from Tianyu. The amount of rent payable by the Group under the lease is approximately RMB67,000 per month. As at 30 June 2021, no carrying amount of such lease liabilities. During the six months ended 30 June 2021, nil lease payment (six months ended 30 June 2020: approximately RMB387,000) made to Tianyu.

In January 2019, the Group entered into a 21-month lease in respect of certain equipment from Benywave Technology. The amount of rent payable by the Group under the lease is approximately RMB6,000 per month. As at 30 June 2021, no carrying amount of such lease liabilities. During the six months ended 30 June 2021, nil lease payment (six months ended 30 June 2020: approximately RMB37,000) made to Benywave Technology.

In July 2020, the Group entered into a three-years lease in respect of certain equipment from Benywave Technology. The amount of rent payable by the Group under the lease is approximately RMB6,000 per month. As at 30 June 2021, the carrying amount of such lease liabilities is approximately RMB152,000 (31 December 2020: RMB186,000). During the six months ended 30 June 2021, the Group has made lease payment of approximately RMB39,000 to Benywave Technology.

(c) Remuneration of key management personnel of the Group:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short term employee benefits	**1,892**	2,519
Post-employment benefits	**143**	122
	2,035	2,641

(d) Guarantee

As at 30 June 2021, the bank loans of approximately RMB13,194,000 (31 December 2020: RMB20,395,000) were jointly secured by a personal guarantee provided by the director of the Company (2020: the properties owned by an individual connected to the Company and a personal guarantee provided by the director of the Company).

20. MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2021, the Group entered into new arrangement in respect of office premises. Right-of-use assets and lease liabilities of approximately RMB1,574,000 were recognised at the commencement of the lease.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

BUSINESS ENVIRONMENT REMAINS DIFFICULT

The COVID-19 pandemic is still adversely affecting the global economy in both demand side and supply side. Governments all over the world are taking different measures to handle the pandemic and these measures has inevitably limited the speed of the recovery for global demand. On the other hand, the supply side continues to be limited and there have been general trend for inflationary pressure for overall costs. Both forces have been increasing the uncertainty and difficulty for trade worldwide and the Group is facing these challenges. After a steep decline in 2020, global smartphones sales to end users grew 26% in the first quarter of 2021, and overall worldwide mobile phone sales to end users grew by 22% year over year (Source: Gartner, Inc. 2021). The improvement in consumer outlook, sustained learning and working from home, along with pentup demand from 2020 boosted sales of smartphones in the first quarter. Consumers started spending on discretionary items as the pandemic situation improved in many parts of the world and markets opened up.

Facing such situation, the management team took measures to adjust the strategy to high volume, lower gross margin policy to stabilize the customer relationship during this hard time. The overall market was tough. The management believes the change in strategy would help the Group to get back to the right track and turn over a new leaf.

Despite the challenging environment, the Company managed to minimize the adverse impact that were brought about to the business. The Group takes the strategy of staying relevant to the customers at the expense of margin. Our actual sales of smartphones in the first half of year grew 26.6% over last year.

The world's economy continued to be seriously impacted and the hit was unprecedented for the last few decades. International trading has entered into freezing age and it is impossible to predict when it will resume back to the situation before the outbreak of the COVID-19 pandemic. The situation might never come back and it is likely that the world with pandemic would be prolonged.

The global economy is expected to pick up some growth this year. China is the only country that would record positive growth among the major economies. By analysing the current market, the Management Team found that the industry has been getting even more difficult. The bargaining power of suppliers has been getting stronger due to the market's concentration for the upper chain and on the other hand the bargaining power of customers has also been growing due to the lower switching cost by endless market choices. The key to solve the situation is to focus on how to create more customer value by the resources and competitive advantages of the Group. In this unpredictable and fast-changing business environment, the Group's overall business has been adversely affected especially on the profit margin. However, the macro trend is here to stay. The Group can only adopt to the environment and the Company understands the uncertainty will continue to bring pressure to the Group's main business. At the moment there is no single best solution to tackle the issue which is highly dependable on the worldwide recovery for demand that is influenced by the new norm and business cycle after the outbreak of COVID-19 pandemic.

Despite the adverse, fast-changing and difficult business environment, the Company managed to minimize the adverse impact that were bought to the business. Sales revenue from mobile telecommunicate devices for the first half of 2021 increased to RMB313.9 million from RMB247.9 million, an increase of approximately 26.6%. Margin continued to drop under the strong competition environment in order to stay competitive with customers. The Company took the strategy of staying relevant to the customers at the expense of margin. The one time loss of RMB63 million in relation to the sales of AI and other equipment in the first half of 2020 no longer impact 2021. The Company had a tight control of the selling and administrative expenses and the operating loss was minimized to RMB9 million, a decrease of 87.3% operating loss in the first half of 2020.

BUSINESS OUTLOOK

The connection between the two largest economies, China and USA, is likely to weaken and thus the need for China to maintain adequate supply for goods and services is extremely important. It is even strategically essential for China to strengthen its capabilities in manufacturing. It is expected that the intense relationship between China and USA will continue to worsen business environment for international trading and this political factor becomes an important issue affecting the coming business environment for enterprises.

China is determined to carry on its structural reform. That is the ultimate foundation for the whole industry to continue to grow and the Group remains highly confident and optimistic towards China's growth and development. The Company expects the difference in ideology and the associated conflicts will last in the long run. Difficult challenges in trading will be a norm within the environment for the Group. Deeper understanding on new business environment is needed. Devotion in customers' perspective becomes the key strategy to bring the Company the foundation to handle against the competition.

The Global smartphone shipments have decreased to 1.28 billion units shipped in 2020. However, the source forecasts that smartphone shipments will increase in coming years, 1.38 billion units in 2021 and 1.43 billion units in 2022. It is the China smartphones industry that looks set to dominate the market in the coming years. China, India and the United States are the countries with the highest number of smartphone users (Source: Gartner, Inc. 2021).

For our smartphone business, the Company will continue to focus on customer value by the discovering, creating, communicating with customers in a more highend segment with more suitable product solution along with more comprehensive services. Meanwhile, the Company understands that the competition in this field is getting even keener and some even regard this market as a secular decline at the moment.

The management team is working on better strategic product mix as a new solution to the market by introducing more Chinese brands of smartphone and associated products as an ecosystem to new customers. The company will work with our strategic partners to expand the market in middle Asia and south Asia.

The Group continues to be prudently optimistic on new business opportunities and also believes that in the long run the market and growth for technology in equipment and software will be tremendous and will proactively search for the right angle and event to enter into this field.

Strategic Attempt on New Areas

The management team, after comprehensive research and analysis, has formulated a set of strategic objectives based on the resources and expertise of the Group. By having years of experience in advanced manufacturing and technological industry, our team has been proactively looking for opportunities which the core competencies of the Group could be utilized. Trying to apply the competitive advantages and solid experience of the Group in advanced manufacturing and technological servicing in mobile phone industry, our team have spotted some potential areas.

These areas include new energy and artificial intelligent electric vehicles. These are the strategic industries with tremendous scale and growth and they are encouraged by the strategic policy of the PRC government and these will be the industries supporting the strategic growth of China for the coming decades. There are a lot of transferrable resources that the Group can apply in these areas. Thus, by an attempt to look for potential future growth, our team has decided to test the water with a rather traditional business model, linking and coordinating different suppliers in the upper chain and create value by servicing customer needs in the most appropriate way. The new energy area is batteries business catering for electric vehicles. For electric vehicles, the Group will try to tap into the industry by servicing and coordinating for customers in advanced manufacturing equipment used in vehicles manufacturing.

FINANCIAL REVIEW

Revenue

The Group's revenue generated from contracts with customers by Mobile telecommunication devices increased by RMB66.1 million or 26.6% to RMB313.9 million for the six months ended 30 June 2021. The Group's revenue for the first six months of 2021 has decreased due to the decline of the sales of AI and other equipment. The following table sets out the breakdown:

	For the six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Mobile telecommunication devices	**313,945**	247,877
AI and other equipment	**11,527**	107,124
	325,472	355,001

Note: Revenue is recognised at a point in time when the customer obtains control of the goods or service.

Gross profit/(loss) and gross profit/(loss) margin

	For the six months ended 30 June			
	2021		2020	
	Gross profit (unaudited)	**Gross profit margin**	Gross profit/ (loss) (unaudited)	Gross profit/ (loss) margin
	RMB'000	**%**	*RMB'000*	%
Mobile telecommunication devices	**1,012**	**0.32**	1,894	0.76
AI and other equipment	**20**	**0.17**	(62,970)	(58.8)
	1,032	**0.32**	(61,076)	(17.2)

Gross profit amounted to RMB1 million for the six months ended 30 June 2021, compared with a gross loss of RMB61.1 million for the six months ended 30 June 2020. The increase in gross profit was mainly attributable to the absence of a loss of approximately RMB63 million in relation to the sales of A.I. and other equipment owing to the worldwide pandemic and worsening trade environment, and the deteriorating trade war between China and the USA during the first half of 2020, which resulted in most market players having revised their business plans to avoid taking positions under the then market conditions.

Taxation

No provision for Hong Kong Profits Tax and Enterprise Income Tax was made as the Group did not have assessable profits during the six months ended 30 June 2021.

Contingent liabilities

As at 30 June 2021, the Group had no significant contingent liabilities (31 December 2020: Nil).

Charge on Assets

As at 30 June 2021, no property, plant and equipment was pledged (31 December 2020: Nil).

Liquidity, financial resources and source of funding

The Group's total cash and bank balances increased by RMB43.4 million from RMB54.4 million as at 31 December 2020 to RMB97.8 million as at 30 June 2021.

As at 30 June 2021, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 6.1 as compared with 4.8 as at 31 December 2020.

As at 30 June 2021, the Group had bank borrowings of approximately RMB13.2 million (31 December 2020: approximately RMB20.4 million). On the same date, the gearing ratio (calculated based on the borrowings as of the respective dates divided by the net assets as of the respective dates) of the Group was 2.35% as compared with 3.17% as at 31 December 2020.

Inventories

The Group's total inventories increased by RMB9.6 million from RMB27.1 million as at 31 December 2020 to RMB36.7 million as at 30 June 2021. In determining the write down of inventories, the Company's management considered the subsequent selling price and ageing of inventories.

Prepayments

Prepayments mainly include prepayments for mobile telecommunication devices suppliers and AI and other equipment suppliers. As at 30 June 2021, the Group has made prepayments amounting to RMB519.3 million (31 December 2020: RMB307.9 million) to mobile telecommunication devices suppliers. As at 30 June 2021, there was no prepayment for AI and other equipment suppliers (31 December 2020: RMB310.9 million was made for AI and other equipment suppliers).

Foreign exchange exposure

The Group undertakes certain operating transactions in foreign currencies, which exposes 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.

Dividends

For the six months ended 30 June 2021, the Board does not recommend the payment of an interim dividend (30 June 2020: Nil).

HUMAN RESOURCES

As at 30 June 2021, the Group employed approximately 30 employees (30 June 2020: 31 employees) in Hong Kong and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board acknowledges the importance of a high standard of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhance the shareholders' value and safeguard the interests of the shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasize an effective internal control and accountability to all shareholders.

The Board is responsible for performing the corporate governance functions in accordance with the applicable code provisions of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). 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 six months ended 30 June 2021, the Company has complied with all the code provisions set out in the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of 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 2021.

CHANGE OF DIRECTORS' INFORMATION

Change in Director's biographical details since the date of the 2020 Annual Report and up to the date of this announcement, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

- Mr. Han Xiaojing has been appointed as an Independent non-executive Director of Angelalign Technology Inc. 時代天使科技有限公司 (a company listed on The Stock Exchange of Hong Kong Limited with code: 6699) since 20 May 2021.

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 2021.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Group had no major litigation or arbitration during the six months ended 30 June 2021.

SIGNIFICANT INVESTMENTS, DISPOSALS AND ACQUISITIONS

The Group had no significant investment, disposals and acquisition of subsidiaries, associates or joint ventures during the six months ended 30 June 2021. No future plans for materials investments or capital assets additions of the Group as at 30 June 2021.

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.

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. Leung Man Fai (Chairman), Mr. Wong Pong Chun, James and Mr. Han Xiaojing.

The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2021 together with the management of the Group.

PUBLICATION OF FINANCIAL INFORMATION

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.vitalinno.com). The Company's interim report for the six months ended 30 June 2021 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 Innovations Holdings Limited
Rong Xiuli
Chairperson

Hong Kong, 26 August 2021

As at the date of this announcement, the Board comprises Ms. Rong Xiuli, Mr. Rong Shengli, Mr. Yin Xuquan and Mr. Wong Ho Chun as executive Directors, and Mr. Leung Man Fai, Mr. Wong Pong Chun James and Mr. Han Xiaojing as independent non-executive Directors.