Vital Innovations Holdings Limited
維太創科控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock code 股份代號 : 6133

INTERIM REPORT 2019 中期報告

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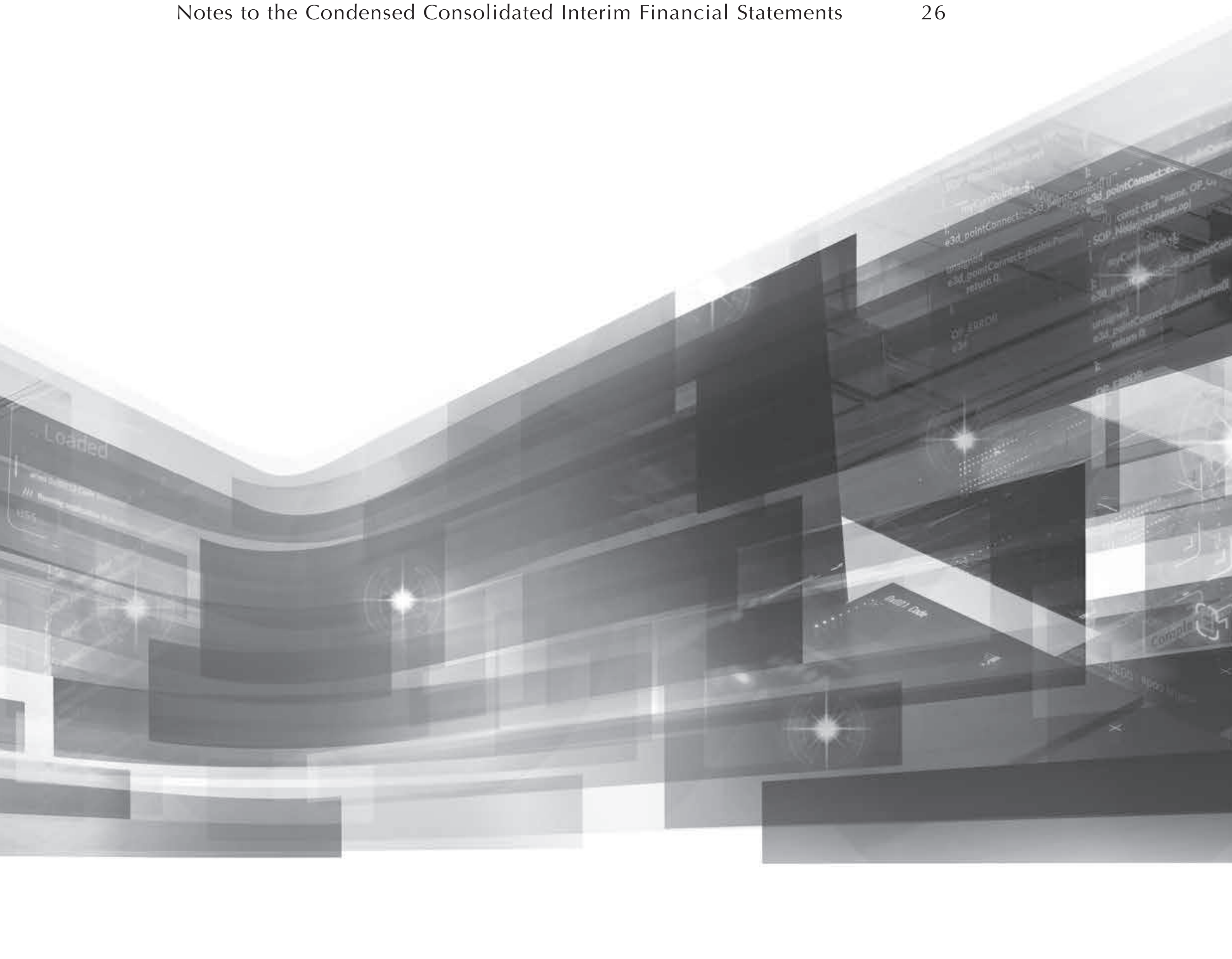

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Rong Xiuli *(Chairperson)*
Rong Shengli *(Chief executive officer)*
Yin Xuquan *(President)*
Tang Shun Lam
Wong Ho Chun *(appointed on 1 February 2019)*

Independent Non-executive Directors

Hon Kwok Ping, Lawrence
Lam Yiu Kin
Han Xiaojing *(appointed on 6 June 2019)*
Tsang Yat Kiang *(resigned on 31 January 2019)*

COMPANY SECRETARY

Chui Man Lung, Everett

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Hon Kwok Ping, Lawrence
Han Xiaojing

REMUNERATION COMMITTEE

Hon Kwok Ping, Lawrence *(Chairman)*
Rong Xiuli
Lam Yiu Kin
Han Xiaojing

NOMINATION COMMITTEE

Rong Xiuli *(Chairman)*
Hon Kwok Ping, Lawrence
Lam Yiu Kin
Han Xiaojing

RISK MANAGEMENT COMMITTEE

Hon Kwok Ping, Lawrence *(Chairman)*
Rong Xiuli
Rong Shengli

AUTHORISED REPRESENTATIVES

Rong Xiuli
Chui Man Lung, Everett

AUDITOR

BDO Limited
Certified Public Accountants
25/F., Wing On Centre,
111 Connaught Road Central,
Hong Kong

PRINCIPAL BANKERS

Shanghai Commercial Bank
China Everbright Bank

LEGAL ADVISERS

As to Hong Kong Law

Sidley Austin

As to PRC Law

HeNan BoYin Law Firm

As to Cayman Islands Law

Conyers Dill & Pearman

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND OPERATING HEAD OFFICE IN CHINA

4th Floor, No.55 Jiachuang Second Road
OTPO-Merchatronics Industrial Park
Zhongguancun Science Park
Tongzhou District, Beijing
China

Corporate Information (continued)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite B, 16/F.,
W Square, 314-324 Hennessy Road
Wanchai, Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

6133

COMPANY'S WEBSITE

www.vitalinno.com

Management Discussion and Analysis

BUSINESS REVIEW

Vital Innovations Holdings Limited (formerly known as "Vital Mobile Holdings Limited") (the "Company", and together with its subsidiaries, the "Group") is primarily engaged in providing services and supply of mobile phone and related business which encompassed research and development, design, engineering, material sourcing, supply chain management, logistic, provision of products and services including mobile phones, smartphones and the services activities to the target markets. 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. The Group has been engaged in the provision of function phones, smartphones and phone accessories through different business strategies, and has been providing large number of self-design and strategic cooperated sourced hardware and software to provide ODM and value-added products and services, such as its Brand+ program which is an outstanding success. Over the years, the Group has developed a large number of stakeholders from the supply side and customers in both emerging markets and some key America and European countries. The Group has been able to work with many of its customers to provide specific needs, both technical and marketing, so that they can sell into their local markets. These include a large network of local wholesalers, retail networks and trading partners with whom the Group markets the smartphones for their market needs. The Group's core value has evolved to be its flexibility and ability to service.

With the Sino-American trade war in the back drop, the overall worldwide economy took a hit in the first half of 2019. This is also reflected in the smartphone and wearable market for the first six months of 2019. Smartphone vendors shipped a total of 345 million units in first quarter of 2019 ("1Q19"), dropped 5% over the first quarter of 2018 ("1Q18") (Source: Counterpoint) and marked the sixth consecutive quarter of decline. In 2018, smartphone shipments dropped 4.1% over 2017, which was inclusive of a first quarter that was down 3.5% – just half of what the market experienced in 1Q19. This quarter's results are a clear sign that 2019 will be another down year for worldwide smartphone shipments. From a geographic standpoint, while the China market will likely be challenged for the remaining year of 2019, it was the U.S. market that felt the worst of the downturn in 1Q19. Challenges were seen across many markets with China and the United States experiencing the sharpest quarterly declines. However, the declines in China during the first half of 2019 have been less severe than the second half of 2018, suggesting some recovery is underway in the world's largest single market. Asia Pacific (excluding Japan and China) continued the strong momentum from 2018 with shipments up more than 3% in the quarter fuelled by growth across India and many Southeast Asia markets. Worldwide smartphones shipments declined 2.3% year over year in the second quarter of 2019 ("2Q19") for the strongest quarterly performance since the second quarter of 2018 ("2Q18"), according to preliminary data from the International Data Corporation. Smartphone vendors shipped a total of 341.4 million phones in 2Q19, which was a drop of 2.6% over 2Q18 (Source: Strategy Analytics). The vendor landscape at the top of the market continues to get stronger while the struggles for local OEMs and old school industry names got worse. In the second quarter of 2019, the top 5 vendors accounted for 69% of the total market volume, and the top 10 vendors accounted for 87%. This trend is making the vendor playing field for smartphones look more and more like the PC market. With 5G beginning to unfold in many markets around the world, the challenges are sure to increase for any vendors without strong consumer mindset. A key driver in the second quarter was the availability of vastly improved mid-tier devices that offer premium designs and features while significantly undercutting the ultra-high-end in price. Combine this with intensified and generous trade-in programs across major markets and channels, upgrading now makes more sense to consumers (Source: IDC).

Management Discussion and Analysis (continued)

The Company witnessed the consolidation in the smartphone market in the past and 2019 where the top brands will continue to take over the market share of smaller and local players. The Group has embarked on the Brand+ program in providing its key customer groups with products and services they needed to maintain their profitability in the countries and local markets that they served. This service-orientated business provides a stabilizing base business for the Group.

In 2019, the Group tried to maintain the customer base through innovation and efficiency. From the start of 2019, the management team has adjusted the higher margin policy to a high volume, positive gross margin in quoting business opportunities. However, due to the overall market conditions, the Group was only able to deliver similar amount of shipments as the first half of last year. The Group has maintained the momentum and is working on improving margins with better and more types of services in the transactions. The management believe this enables the Group to get back on track in getting the volume and will be working on improving margins with better and more types of services in the transactions.

In addition, the Group continues to use its team in Hong Kong to acquire sales and working with support team in Shenzhen and Beijing to provide best of supply services to its global customer base to ensure that the Group will be able to provide the best on time service, the Group continues to provide software and product upgrade and customer support in its Kwun Tong operation.

The emphasis of the Group lies in its commitment to customer support. The Group started to set up its own warehouse instead of using public godowns, partly to save costs, partly to have better turnaround time for smartphone shipments. The Hong Kong warehouse was at times fully loaded; the Group also performed part of the software upgrades and inspection in its own warehouse, a fully equipped ROM line is set up in Hong Kong. To facilitate its vision in the longer run, the Group will also set up facilities at local market to provide quicker response to customers and market needs. The Group also set up supply chain providers to support its customers for export markets, these include software upgrade, sourcing, logistic, tax support functions, and will be setting up these capabilities ourselves in Shenzhen and other strategic locations in the export markets such as Europe. These functions will better position the Group to provide better control over the service of a customer. Again, the Group's emphasis is looking for areas where it can provide service such as eSim, eCommerce and for product value chain support such as manufacturing capabilities and technologies.

The Group's key customers are from the top 5 Chinese brands and whom believed that the Group is in a good position as being equipped with one of the best distribution networks, excellent service infrastructure and best product portfolio to offer to its best partners. In the beginning of 2018, the Group believed the US market was trending up and was ready to enhance the function of the Group's US subsidiary. However, the Group had to suspend the marketing plan when the China-US trade friction escalated and slowed down the development efforts.

Management Discussion and Analysis (continued)

In the 2Q19, the Group had moved to establish a wholly-own subsidiary in Slovenia and a plan to set up warehouse and distribution facilities in Italy. The registration and approval process in Slovenia was unexpectedly slow and the Group was only fully approved to run the business around November 2018. However, the world market growth has not improved in line with the Group's original expectation. In third quarter and fourth quarter of 2018 with 7% shipment decline year-on-year. Due to the market condition, the Group has to hold back its distribution centre plan and regroup. Whilst the Group had signed two major smartphone brands aiming to market in Europe but due to market situation, the Group decided to take a slower and safer approach.

COMPETITION

The trend will persist that competition in the upper midrange and high-end segments will intensify, and vendors must focus on bringing the latest technology to consumers to justify higher price points. Based on the major downturn in China market down by 15% (Source: Canalys), more and more of China brands are opting to focus their effort in export. Especially in the Asian smartphone market. In contrast to China, the Indian market saw extraordinary growth, that 145.2 million smartphone units shipped in 2018 — a 10% year-over-year growth over the 132 million units that shipped in 2017 (Source: Canalys) and many of the Asian and Middle East countries were doing quite well. The Group's growth slowed in some markets in the second half of 2018, such as Thailand and Russia. There are more and more competition as its business model matures, competitors will attack its market shares. The Group strives to improve its market position in providing better services and working with more strategic partners. Another type of competition is the brands themselves wanting to extend their service and sales reach by setting up their own network. The Group continues to prepare itself by working with more second tier brands and in some area participating in these franchise network in the near future.

BUSINESS OUTLOOK

The smartphone market will decline overall in 2019 to 1.39 billion units (Source: IDC), but sales will begin to improve during the second half of the year as 5G devices slowly begin to make inroads with customers — a process that will take years, not months. 5G phone shipment is expected to be around 7 million units in 2019 and the Group is not expected to ship many of this new technology class. The Group believes that the 4G phones will remain in the market for at least for the next 2 years. Fundamentally speaking, 4G smartphones will have an estimated 95.4% in 2019, and 71.4% of an even larger four years from now amounting to 1.542 billion phones (Source: IDC).

Management Discussion and Analysis (continued)

It is undisputed that smartphone nowadays is being regarded as an indispensable product, as it is used as more than a phone but a communication and message device, an online payment, a transaction terminal, a camera and a small computer. Even though the market has become mature to the point that the fierce competition has seen many global brands disappear, and the better and bigger players dominate the market, the Group has also seen most of the brands are now moving to supply other electronic devices and services using the smartphones as the interactive terminals. The Company believes that with its extensive relationship and flexible approach, it can take the service approach to enhance its competitive advantages. With 5G, the Group anticipates there will be improved growth in the smartphone market. The Group will engage with its existing and past customers in developing its new business endeavor.

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

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

On the one hand, the Group will continuously enhance its technical capabilities, increase its CAPEX spending and to upgrade its support capabilities in software upgrade, product packaging and supply chain services. The Group has also embarked on designing wireless communication devices and electronic gadgets, and has started to explore the IoT market, smart-anywhere/smart-everything products.

Management Discussion and Analysis (continued)

The Group's investment team is also looking for projects that it can invest which will provide other business opportunities and the Company believes the smartphone market has entered into an era that it becomes a necessity but not a commodity. There are a lot of new innovation that will come, such as the 5G technology is just round the corner, the interactive retail shops and smart home/ appliance. Another approach is to expand the Group's service capabilities in the supply chain, logistic, industrial services and customer care areas. Including value added services in its supply chain which can provide services and support to facilitate the Group's customers in the front end of smartphones and electronics design and manufacturing.

Following the Greater Bay Area (Guangdong-Hong Kong-Macau) concept, the Group, combined with 10+ years of mobile phone manufacturing experience, has been working on sourcing and developing the most cost-effective manufacturing technology and equipment for the customers, providing a holistic integrated solution for the high end and high value added IT, communication and consumer electronics products, including the creation of sophisticated production equipment trading platform, and providing multi-level, multi-category options to the target customers, the provision of functional machines and equipment, and customized local services such as process management, equipment after-sales service, initial product quality control and personnel training, etc.. The Group believes this manufacturing management and services will provide a viable income stream for the Group in the future. In the first half of 2019, the Group has identified several customers and will accelerate the development work in developing functional production lines for these customers.

Management Discussion and Analysis (continued)

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by RMB27 million or 6% to RMB389 million for the six months ended 30 June 2019 from RMB416 million for the six months ended 30 June 2018.

The following table sets forth a breakdown of the Group's revenue from contracts with customers by major products during the six months ended 30 June 2019 and 2018.

	For the period ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Mobile telecommunication devices	**389,140**	415,839

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

The Group's revenue generated from sales of mobile telecommunication devices decreased from RMB416 million for the six months ended 30 June 2018 to RMB389 million for the six months ended 30 June 2019, representing a decrease by 6%.

The Group's revenue for the first six months of 2019 has decreased due to the relatively less active market.

Management Discussion and Analysis (continued)

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

	For the six months ended 30 June			
	2019		2018	
	(unaudited)		(unaudited)	
	RMB'000	**%**	RMB'000	%
Hong Kong	**389,140**	**100**	415,390	99.9
Other parts of Asia	**–**	**–**	449	0.1
	389,140	**100.0**	415,839	100.0

Notes:

1. Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell smartphones to various countries including but not limited to South Asia excludes India, Russia and Middle-East.

2. Other parts of Asia include Taiwan and Pakistan.

The Group's revenue generated from sales in Hong Kong decreased from RMB416 million for the six months ended 30 June 2018 to RMB389 million for the six months ended 30 June 2019, representing a decrease of 6%. It was mainly due to the relatively less active market.

Gross profit and gross profit margin

	For the period ended 30 June			
	2019		2018	
	Gross profit (unaudited)	**Gross profit margin**	Gross profit (unaudited)	Gross profit margin
	RMB'000	**%**	RMB'000	%
Mobile telecommunication devices	**4,512**	**1.2**	7,064	1.7

Gross profit amounted to RMB5 million for the six months ended 30 June 2019, decreased by RMB2 million from RMB7 million for the six months ended 30 June 2018. The decrease in gross profit ratio of mobile telecommunication devices was mainly attributable to the strong price competition.

Management Discussion and Analysis (continued)

Other income

Other income mainly represented an interest income of the pledged bank deposits and bank deposits amounting to RMB7 million for the six months ended 30 June 2019 and RMB8 million for the six months ended 30 June 2018. The decrease was mainly due to the matured bank deposits in May 2019 were not renewed.

Continuing Connected Transactions

Pursuant to an equipment lease agreement made between Beijing Benywave Technology Co., Ltd. ("Benywave Technology") and Beijing Benywave Wireless Communications Co., Ltd. ("Benywave Wireless"), Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. For the six months ended 30 June 2019, the equipment lease payment and interest on lease payment incurred by Benywave Wireless amounted to RMB33,000 and RMB3,000 respectively.

Pursuant to a lease agreement made between Beijing Tianyu Communication Equipment Co., Ltd. ("Tianyu") and Benywave Wireless, Tianyu has let the premises situated at Zone B, 4th Floor, No. 55, Jiachuang Second Road, China to Benywave Wireless for carrying on its business. For the six months ended 30 June 2019, the lease payment and interest on lease payment incurred by Benywave Wireless amounted to RMB346,000 and RMB28,000 respectively.

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 2019.

Material acquisitions and disposals

For the six months ended 30 June 2019, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures.

Liquidity and source of funding

The Group's total cash and bank balances increased by RMB13 million from RMB23 million as at 31 December 2018 to RMB36 million as at 30 June 2019. The bank deposits of the Group decreased from approximately RMB678 million as at 31 December 2018 to approximately RMB330 million as at 30 June 2019 to finance the business needs.

As at 30 June 2019, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 8.43 as compared with 6.26 as at 31 December 2018.

Inventories

The Group's total inventories decreased by RMB3 million from RMB27 million as at 31 December 2018 to RMB24 million as at 30 June 2019. In determining the write down of inventories, the Company's management considered the subsequent selling price and ageing of inventories.

Management Discussion and Analysis (continued)

Trade and other receivables

Trade and other receivables mainly include the trade receivables, other receivables and prepayments to suppliers. As at 30 June 2019, the carrying amount of trade and other receivables were approximately RMB447 million, net of impairment allowance, representing an increase of approximately RMB379 million as compared to the corresponding period in 2018.

In assessing the recoverability of trade receivables and determining the allowance for doubtful debts, the management adopted the expected credit losses model subject to impairment under IFRS9, including considering the default or delay in payments, subsequent settlements and ageing analysis of the trade receivables. On the basis of management estimation, the impairment allowance of trade receivables was approximately RMB15 million as at 30 June 2019.

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.

Dividends

For the six months ended 30 June 2019, the board of directors (the "Board") does not recommend the payment of an interim dividend.

On 14 June 2019, the Board recommended the payment of special dividend of HKD0.10 (equivalent to RMB0.09) per share out of the share premium account, amounting to HKD85,000,000 (equivalent to RMB76,500,000) and formal approval by the shareholders was obtained at the extraordinary general meeting held on 9 July 2019.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which have been recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Long positions:

Ordinary shares of HK$0.1 each of the Company (the "Shares")

(i) Interest in the Company

Name of Director	Nature of interest	Number of and class of securities[(1)]	Approximate percentage of issued share capital of the Company[(3)]
Rong Xiuli ("Ms. Rong")[(2)]	Interest in a controlled corporation Personal interest	568,480,000 (L)	66.88%
Rong Shengli	Personal interest	3,720,000 (L)	0.44%
Tang Shun Lam	Personal interest	3,400,000 (L)	0.40%
Hon Kwok Ping Lawrence	Personal interest	310,000 (L)	0.04%
Lam Yiu Kin	Personal interest	310,000 (L)	0.04%

Other Information (continued)

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ms. Rong and Mr. Ni Gang ("Mr. Ni") hold 90% and 10% of the entire issued share capital of Winmate Limited ("Winmate") respectively. Ms. Rong is the spouse of Mr. Ni, and therefore, Ms. Rong is deemed to be interested in the Shares held by Winmate.

(3) As at 30 June 2019, the issued share capital is 850,000,000 shares.

(ii) Interest in associated corporation of the Company

Name of Director	**Name of associated corporation**	**Percentage of interest in associated corporation**
Ms. Rong (Note)	Winmate Limited	90%

Note: As at 30 June 2019, Winmate held more than 50% of the Shares. Therefore, the Company was a subsidiary of Winmate, and Winmate was the holding company and an associated corporation of the Company.

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information (continued)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, as far as known to the Directors, the following persons or entities (other than a Director or a chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions:

Ordinary shares of HK$0.1 each of the Company

Name of Shareholder	Nature of interest	Number of and class of securities[1]	Approximate percentage of issued share capital of the Company[5]
Winmate	Beneficial owner	480,624,000 (L)	56.54%
Mr. Ni[2]	Interest of spouse	568,480,000 (L)	66.88%
Yardley Finance Limited	Person having a security interest in shares	533,480,000 (L)	62.76%
Mr. Chan Kin Sun[3]	Interest in a controlled corporation	533,480,000 (L)	62.76%

Other Information (continued)

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ms. Rong and Mr. Ni hold 90% and 10% of the entire issued share capital of Winmate respectively. Ms. Rong is the spouse of Mr. Ni, and therefore, Ms. Rong and Mr. Ni are deemed to be interested in the Shares held by Winmate.

(3) Yardley Finance Limited ("Yardley") is owned by Mr. Chan Kin Sun. Therefore, Mr. Chan Kin Sun is deemed to be interested in the Shares held by Yardley.

(4) As at 30 June 2019, the issued share capital is 850,000,000 Shares.

Save as disclosed above, as at 30 June 2019, the Company has not been notified by any person (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information (continued)

USE OF PROCEEDS

The shares of the Company were successfully listed on the main board of the Stock Exchange on 26 June 2015 (the "Listing"). The net proceeds received from the initial public offering, after deducting underwriting fees and other expenses in relation to the Listing, were approximately HKD484 million (equivalent to approximately RMB426 million). Such net proceeds were deposited, with any unutilized amount remained to be deposited, at the Group's bank accounts. As at 30 June 2019, the net proceeds were utilized as follows:

Use:	% of the total amount of the proceeds	Approximate amounts of the net proceeds In HKD million (RMB equivalent)	Approximate amounts utilized In HKD million (RMB equivalent)	Approximate remaining amounts In HKD million (RMB equivalent)
Purchasing raw materials to expand our raw material sourcing capacity	45.5	220(194)	220(194)	Nil
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(115)	3.33(2.93)	127.67(112.07)
Expanding our research and development capabilities	12.5	61(54)	61(54)	Nil
Setting up a new quality testing laboratory, employing additional quality testing personnel and purchasing additional quality testing equipment	5	24(21)	Nil	24(21)
General working capital	10	48(42)	48(42)	Nil
Total	100	484(426)	332.33(292.93)	151.67(133.07)

Other Information (continued)

HUMAN RESOURCES

As at 30 June 2019, the Group employed approximately 38 employees (30 June 2018: 36 employees) in Hong Kong and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 9 June 2015 as an incentive to the Group's employees and business associates (the "Scheme"). Subject to the provisions for early termination of the Scheme, the Scheme shall be valid for a period of ten years from the date of adoption. Details of the Scheme are set out in the section headed "Statutory and General Information – E. Share Option Scheme" in Appendix IV to the prospectus of the Company dated 16 June 2015 and the annual report of the Company for the year ended 31 December 2018.

As at the date of this interim report, no share option had been granted by the Company pursuant to the Scheme.

RESTRICTED SHARE UNIT SCHEME

The Company adopted Restricted Share Unit ("RSU") Scheme (the "RSU Scheme") on 9 June 2015. Details of the RSU Scheme are set out in the section headed "Statutory and General Information – D. RSU Scheme" in Appendix IV to the prospectus of the Company dated 16 June 2015 and the annual report of the Company for the year ended 31 December 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board acknowledges the importance of a high standards 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 emphasis 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 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.

As at 30 June 2019, the Company has complied with all the code provisions in the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted 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 2019.

Other Information (continued)

DISCLOSURES PURSUANT TO PARAGRAPHS 44(3) AND 44(4) OF APPENDIX 16 TO THE LISTING RULES

During the six months ended 30 June 2019, the Company was once unable to meet the following requirements under the Listing Rules due to the resignation of Mr. Tsang Yat Kiang ("Mr. Tsang") as an independent non-executive Director on 31 January 2019:

(a) Listing Rule 3.10(1), which prescribes that the board of directors of a listed issuer must include at least three independent non-executive directors;

(b) Listing Rule 3.10A, which prescribes that a listed issuer must appoint independent non-executive directors representing at least one-third of the board; and

(c) Listing Rule 3.21, which prescribes that a listed issuer's audit committee must comprise a minimum of three members.

Since the resignation of Mr. Tsang, the Company has taken proactive steps to seek and identify suitable candidate to fill the vacancy of the independent non-executive directorship (the "Vacancy"), including but not limited to:

(i) seeking guidance from independent non-executive Directors and a member of the nomination committee of the Company (the "Nomination Committee");

(ii) discussing with external parties, including financial institutions and professional service providers, for introduction and referral of suitable candidates;

(iii) identifying potential candidates through public domain, for example, by approaching directors of other listed companies within similar industry; and

(iv) reviewing the curriculum vitae and information relating to the personal background, academic and professional qualification and experiences, and interviewing potential candidates to assess their fitness and competence to act as an independent non-executive director of the Company.

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

Other Information (continued)

CHANGE OF DIRECTOR'S INFORMATION

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

- Mr. Han Xiaojing has been appointed as an independent non-executive Director and member of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 6 June 2019;

- Mr. Tang Shun Lam ("Mr. Tang") has been appointed as an independent director, chairperson of audit committee and a member of compensation committee and nominating and corporate governance committee of Uxin Limited (a company which was listed on Nasdaq with code: UXIN) with effect from 4 June 2019; Mr. Tang retired as an independent non-executive director and ceased to be chairman of the remuneration committee and a member of each of the audit committee and nomination committee of Greenheart Group Limited (a company which was listed on the Stock Exchange with code: 94) with effect from 27 May 2019.

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

- Mr. Tsang Yat Kiang resigned as an independent non-executive Director with effect from 31 January 2019;

- Mr. Hon Kwok Ping Lawrence has been appointed as chairman of the Remuneration Committee with effect from 31 January 2019; and

- Ms. Rong Xiuli has been appointed as chairman of the Nomination Committee with effect from 31 January 2019.

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 securities during the six months ended 30 June 2019.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Group had no major litigation or arbitration during the six months ended 30 June 2019.

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 report, the Company has maintained sufficient public float as required under the Listing Rules.

Other Information (continued)

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. Hon Kwok Ping, Lawrence 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 2019 together with the management of the Group.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to our shareholders for their continuing support, and extend our sincere appreciation to all management and staff for their ongoing dedication, commitments and contributions.

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

Hong Kong, 28 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

		Unaudited Six months ended 30 June	
		2019	2018
	Notes	**RMB'000**	RMB'000
Revenue	5	**389,140**	415,839
Cost of sales		**(384,628)**	(408,775)
Gross profit		**4,512**	7,064
Other gains and (losses)	6	**1,556**	8,017
Other income	7	**7,007**	7,960
Selling and distribution expenses		**(2,536)**	(3,521)
Administrative expenses		**(7,751)**	(9,435)
Finance costs	8	**(469)**	(319)
Profit before tax	9	**2,319**	9,766
Income tax expense	10	**–**	–
Profit and total comprehensive income for the period attributable to equity holders of the Company		**2,319**	9,766
Earnings per share (RMB per share)	11		
– Basic		**0.27 cents**	1.15 cents
– Diluted		**0.27 cents**	1.15 cents

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	**Unaudited 30 June 2019 RMB'000**	Audited 31 December 2018 RMB'000
Non-current assets			
Equipment		**115**	133
Right-of-use assets	3	**2,469**	–
		2,584	133
Current assets			
Inventories	13	**23,618**	26,583
Trade and other receivables	14	**446,643**	67,871
Pledged bank deposits		**3,419**	85,026
Bank deposits		**330,798**	678,223
Cash and bank balances		**36,123**	23,331
		840,601	881,034
Current liabilities			
Trade and bills payables	15	**24,977**	84,733
Bank loans	16	**19,439**	3,432
Accruals and other payables		**36,446**	32,390
Contract liabilities		**13,568**	16,639
Lease liabilities	3	**1,789**	–
Tax liabilities		**3,531**	3,570
		99,750	140,764
Net current assets		**740,851**	740,270
Total assets less current liabilities		**743,435**	740,403
Non-current liabilities			
Lease liabilities	3	**713**	–
Net assets		**742,722**	740,403
Capital and reserves attributable to owners of the Company			
Share capital		**67,041**	67,041
Share premium and reserves		**675,681**	673,362
Total equity attributable to equity holders of the Company		**742,722**	740,403

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Share capital	Share premium	Share-based payment reserve	Special reserve	Other reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019 (audited)	67,041	311,580	–	275,060	19,075	67,647	740,403
Profit and total comprehensive income for the period	–	–	–	–	–	2,319	2,319
Balance at 30 June 2019 (unaudited)	67,041	311,580	–	275,060	19,075	69,966	742,722
Balance at 31 December 2017 as originally restated	67,041	311,580	2,352	275,060	15,957	57,562	729,552
Initial application of IFRS 9	–	–	–	–	–	(4,464)	(4,464)
Restated balance at 1 January 2018	67,041	311,580	2,352	275,060	15,957	53,098	725,088
Profit and total comprehensive income for the period	–	–	–	–	–	9,766	9,766
Recognition of equity-settled share-based payment (Note 17)	–	–	300	–	–	–	300
Balance at 30 June 2018 (unaudited)	67,041	311,580	2,652	275,060	15,957	62,864	735,154

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Net cash used in operating activities	**(449,133)**	(37,528)
Cash flows from investing activities		
Withdrawal of bank deposits	**681,700**	670,000
Withdrawal of pledged bank deposits	**85,744**	88,230
Repayment of the advance to a major customer	**–**	14,261
Interests income received	**16,685**	13,134
Placement of bank deposits	**(332,394)**	(681,700)
Placement of pledged bank deposits	**(3,450)**	(82,234)
Purchase of property, plant and equipment	**–**	(5)
Net cash from investing activities	**448,285**	21,686
Cash flows from financing activities		
Net proceeds from borrowings	**52,468**	19,752
Repayment of bank borrowings	**(36,571)**	(19,024)
Payment of lease liabilities	**(859)**	–
Interest paid on lease payments	**(81)**	–
Interest paid	**(334)**	(422)
Net cash from financing activities	**14,623**	306
Net increase/(decrease) in cash and cash equivalents	**13,775**	(15,536)
Effect of foreign exchange rate changes	**(983)**	441
Cash and cash equivalents at 1 January	**23,331**	42,492
Cash and cash equivalents at 30 June, represented by cash and bank balances	**36,123**	27,397

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2019

1. GENERAL INFORMATION

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

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

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

The condensed consolidated interim financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. The condensed consolidated interim financial statements have been approved for issue by the Board on 28 August 2019.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") 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").

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new or amended International Financial Reporting Standards ("IFRSs"), which are first effective for the current accounting period of the Group, the accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated interim financial statements:

IFRS 16	Leases
International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 23	Uncertainty over Income Tax Treatment
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11 Joint Arrangements
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12 Income Taxes
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23 Borrowing Costs

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Impacts of adoption of IFRS 16 Leases

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Impacts of adoption of IFRS 16 Leases (Continued)

Set out below, are the amounts recognised in profit or loss:

	For the six months ended 30 June 2019 RMB'000
Depreciation expense of right-of-use assets	**892**
Interest expense on lease liabilities	**81**
Rent expense – short-term leases	**399**
Total amounts recognised in profit or loss	**1,372**

Summary of movement in right-of-use assets and lease liabilities

	Right-of-use Assets			**Lease Liabilities**
	Premises RMB'000	**Equipment RMB'000**	**Total RMB'000**	**Total RMB'000**
As at 1 January 2019	3,246	115	3,361	(3,361)
Addition during the period	–	–	–	–
Depreciation charge	(855)	(37)	(892)	–
Lease payment	–	–	–	778
Interest expenses	–	–	–	81
As at 30 June 2019	2,391	78	2,469	(2,502)

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Impacts of adoption of IFRS 16 Leases (Continued)

Reconciliation of operating lease commitments to lease liabilities

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

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(ii) The new definition of a lease

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

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

The Group has elected to separate non-lease components.

(iii) Accounting as a lessee

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(iii) Accounting as a lessee (Continued)

Right-of-use asset

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

Lease liability

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(iv) Transition

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

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

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

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

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

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, 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 2018 annual financial statements, except for new significant judgements related to the application of IFRS 16 as described in Note 3.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

5. 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 in the PRC which is considered as a separate operating segment by the management of the Company, engaging in developing, designing, production management and selling mobile telecommunication devices and sales of mobile telecommunication related components and accessories, and selling mobile telecommunication devices with software/application insertion, targeting global markets excluding the PRC. For segment reporting, the individual operating segments have been aggregated into a single reportable segment. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the gross profit of the Group as a whole when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial statements are available for assessment of performance of different products, no segment information other than certain entity-wide disclosures are presented.

Disaggregation of revenue from major products

The following table sets forth a breakdown of the Group's revenue from contracts with customers by major products during the six months ended 30 June 2019 and 2018.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Recognised at a point in time		
Mobile telecommunication devices	**389,140**	415,839

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

6. OTHER GAINS AND (LOSSES)

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Foreign exchange (losses)/gains, net	**(786)**	441
Reversal of impairment allowance on financial assets	**2,319**	5,609
Others	**23**	1,967
	1,556	8,017

7. OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Interest income on pledged bank deposits	**1,448**	676
Interest income on bank deposits	**5,269**	7,145
Interest income on bank balances	**1**	47
Others	**289**	92
	7,007	7,960

8. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Interest on bank loans	**388**	319
Interest on lease liabilities	**81**	–
	469	319

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

9. PROFIT BEFORE TAX

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Auditor's remuneration	**250**	478
Depreciation of equipment	**18**	39
Depreciation of right-of-use assets	**892**	–
Directors' emoluments	**2,535**	2,333
Other staff costs		
– salaries and other allowance	**3,162**	3,836
– retirement benefit schemes contribution	**402**	483
– recognition of equity-settled share-based payment (Note 17)	**–**	60
Total staff costs	**6,099**	6,712
Cost of inventories recognised as an expense	**384,628**	408,775
Reversal of write down of inventories (included in cost of sales)	**–**	(2,215)
Operating lease rentals	**–**	1,308
Interest on lease liabilities	**81**	–
Short-term leases expenses	**399**	–

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

10. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Income Tax	**–**	–
Deferred Tax	**–**	–
	–	–

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

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the income tax rate of Beijing Benywave Wireless Communication Co., Ltd. ("Benywave Wireless") is 25%. Since Benywave Wireless is recognised as "New and High Technology Enterprises" in 2015 and therefore it is entitled to apply a preferential tax rate of 15% for the six months ended 30 June 2019 and 2018.

No provision for Hong Kong Profits Tax and Enterprise Income Tax was made as the Group did not have assessable profits during the six months ended 30 June 2019 and 2018.

11. EARNINGS PER SHARE

	Unaudited Six months ended 30 June	
	2019	2018
	RMB cents	RMB cents
Basic earnings per share	**0.27**	1.15
Diluted earnings per share	**0.27**	1.15

(a) Basic earnings per share

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

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share, representing profit for the period attributable to equity holders of the Company	**2,319**	9,766

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

11. EARNINGS PER SHARE (Continued)

(a) Basic earnings per share (Continued)

	Unaudited Six months ended 30 June 2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**850,000**	850,000

(b) Diluted earnings per share

The Company has no potential dilutive ordinary shares outstanding during the six months ended 30 June 2018 and 2019. Accordingly, the basic and diluted earnings per share for both the periods are the same.

12. DIVIDENDS

	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Dividends recognised as distribution during the period	**–**	–

The Board recommended the payment of special dividend of HKD10 cents per share out of share premium account and formal approval by the shareholders was obtained at the extraordinary general meeting held on 9 July 2019. The aggregate amount of the special dividend amounted to HKD85,000,000, which approximated to RMB76,500,000.

13. INVENTORIES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Finished goods	**23,618**	26,583

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

14. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade receivables	**16,210**	20,158
Less: impairment allowance	**15,054**	15,074
	1,156	5,084
Other receivables		
– Interest receivables	**1,945**	11,913
– Other PRC tax receivables	**2,036**	2,036
– Others	**503**	461
Prepayments to suppliers	**441,272**	48,699
	445,756	63,109
Less: impairment allowance	**269**	322
	445,487	62,787
	446,643	67,871

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.

During the period ended 30 June 2019, the Group has made prepayments of RMB185,000,000 and RMB191,000,000 to two Artificial Intelligence ("AI") equipment suppliers to purchase AI equipment. Those suppliers are independent third parties to the Group. According to the underlying purchase contracts, prepayments were non-refundable. The Board expects the AI equipment will be delivered to the Group before the end of 2019.

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

14. TRADE AND OTHER RECEIVABLES (Continued)

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Current	**–**	2,763
Less than 30 days	**–**	2,321
Within 30 days to 90 days	**1,156**	–
	1,156	5,084

15. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade payables	**24,977**	14,733
Bills payables	**–**	70,000
	24,977	84,733

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 90 days	**9,034**	–
91 to 180 days	**1,207**	–
181 days to 1 year	**–**	–
Over 1 year	**14,736**	14,733
	24,977	14,733

15. TRADE AND BILLS PAYABLES (Continued)

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 90 days	**–**	–
91 to 180 days	**–**	70,000
	–	70,000

16. BANK LOANS

During the current interim period, the Group raised bank loans with amount equivalent to RMB19,439,000 (31 December 2018: RMB3,432,000). The loans carry interest at variable market rates charged at the United States Prime Rate, which were jointly secured by the properties owned by two individuals connected to the Company and a pledged bank deposit of USD500,000 (approximately equivalent to RMB3,436,000).

17. SHARE-BASED PAYMENT TRANSACTIONS

On 9 June 2015, the Company approved and adopted the restricted share unit scheme (the "RSU Scheme"). The purpose of the RSU Scheme is to (i) recognise the contributions of the personnel to the Group or its business; (ii) retain them for the continual operation and development of the Group; and (iii) to attract suitable personnel for the development of the Group (collectively referred to as the "Participant(s)"). The RSU Scheme shall be valid and effective for a term of 10 years commencing from 9 June 2015, subject to certain conditions and termination clause.

Upon the adoption of the RSU Scheme, The Core Trust Company Limited was appointed as RSU Scheme trustee (the "Trustee"), while Wisdom Managements Worldwide Limited which is a wholly-owned subsidiary of the Trustee was identified as nominee of the Trustee (the "Nominee").

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

17. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

On 26 May 2015, Winmate transferred to the Nominee by way of gift 50 shares for the RSU Scheme. Subject to the capitalisation issue, a further 32,299,950 shares have been allotted to the Nominee credited as fully paid up. Upon completion of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and as at 31 December 2016, the Nominee holds 3.8% of the total shares of the Company, represents 32,300,000 shares. Ms. Rong is the settlor of the Trust.

On 2 November 2016, pursuant to RSU Scheme, a total of 32,300,000 restricted shares were granted to the selected grantees without the initial price, among which 18,950,000 restricted shares were granted to 2 executive directors, 3 independent non-executive directors of the Company and 16 employees of the Group and remaining 13,350,000 restricted shares were granted to 13 personnel of the fellow subsidiaries of the Company. The directors consider those 13 personnel are not relevant to the Group's business and those grants have no effect to the Group's consolidated financial statements.

The following table discloses the movement of the Company's shares granted to the Participants for the six months ended 30 June 2018 and outstanding at 30 June 2018:

	Number of Awarded Shares			
Category of Participant	**Outstanding at 2018.1.1**	**Forfeited during the period**	**Outstanding at 2018.6.30**	**Exercisable at 2018.6.30**
Independent non-executive directors	–	–	–	620,000
Executive directors	2,373,334	–	2,373,334	4,746,666
Subtotal	2,373,334	–	2,373,334	5,366,666
Key employees I	1,866,666	(1,266,667)	599,999	3,866,667
Key employees II	–	–	–	3,266,667
Subtotal	1,866,666	(1,266,667)	599,999	7,133,334
Total	4,240,000	(1,266,667)	2,973,333	12,500,000

All shares were fully vested during the year ended 31 December 2018 and no additional shares were granted and outstanding for the six months ended 30 June 2019 in relation to the RSU Scheme granted by the Company. The Group has recognised share based payment expenses of RMB300,000 for the six months ended 30 June 2018.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

18. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	**Relationship**
Beijing Tianyu Communication Equipment Co., Ltd ("Tianyu")	Company controlled by Ms. Rong and Mr. Ni
Beijing Benywave Technology Co., Ltd. ("Benywave Technology")	Company controlled by Ms. Rong and Mr. Ni

(b) Related party transactions

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Premises lease payment charged by Tianyu	**346**	–
Premises interest on lease payment charged by Tianyu	**28**	–
Premises rental expenses charged by Tianyu	**–**	369
Equipment lease payment charged by Benywave Technology	**33**	–
Equipment interest on lease payment charged by Benywave Technology	**3**	–
Equipment rental expenses charged by Benywave Technology	**–**	33

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Short term employee benefits	**2,423**	2,107
Equity-settled share-based payments	**–**	240
Post-employment benefits	**–**	134
	2,423	2,481

Notes to the Condensed Consolidated Interim Financial Statements (continued)

For the six months ended 30 June 2019

19. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 14 June 2019, the Board recommended the payment of special dividend of HKD0.10 (equivalent to RMB0.09) per share out of the share premium account, amounting to HKD85,000,000 (equivalent to RMB76,500,000) and formal approval by the shareholders was obtained at the extraordinary general meeting held on 9 July 2019.

As disclosed in Note 1, the Company had changed its name on 9 July 2019, there are no other significant events occurred.

Vital Innovations Holdings Limited
維太創科控股有限公司