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

ANNUAL REPORT
2019
年度報告

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Rong Xiuli *(Chairperson)*
Rong Shengli *(Chief Executive Officer)*
Tang Shun Lam (resigned on 18 December 2019)
Yin Xuquan *(President)*
Wong Ho Chun (appointed on 1 February 2019)

Independent Non-executive Directors

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

COMPANY SECRETARY

Chui Man Lung, Everett

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

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

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OTPO-Merchatronics Industrial Park
Zhongguancun Science Park
Tongzhou District, Beijing
China

CORPORATE INFORMATION

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'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Despite the adverse, fast-changing environment and challenges, the Company had delivered a result which managed to relief the harmful effect to the business. Sales revenue for 2019 dropped to RMB816 million from RMB911 million, a decrease of approximately 10.4% along with a net loss of RMB5.6 million. The drop in revenue was mainly attributable to the adverse changes in the environment while the drop in earnings is primarily attributable to keen competition in the field globally. Margin is dropping in the course of competition to stay competitive with customers. The Group takes the strategy of staying relevant to the customers at the expense of margin.

BUSINESS OUTLOOK

According to the forecast released on 27 February 2020, the world's smartphone shipments will decrease by 2.3% over 2019 to 1.339 billion units in 2020, representing a decrease in the last forecast in November 2019 (up 1.5% to 1.436 billion units) (Source: IDC). In addition, the outbreak of COVID-19 since the beginning of 2020 has also significantly affected the supply chain of the accessories for smartphones. All suppliers have prepared for the worsening situation for the first half of shipments in 2020. The market participants are looking forward to the second half of 2020, with many market players looking that the introduction of 5G mobile phone will become an important solution to bring back growth. In order to seize the first batch of 5G switching users, domestic mobile phone manufacturers have launched 5G mobile phone price war in advance. 5G mobile phone shipment is expected to be around 100 million units in 2020. Nevertheless, the Group believes that the 4G smartphones will remain in the market for at least for the next two years as the major player, which may continue to pose a challenging operating environment for the Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

POSITIONING AND OPPORTUNITIES

The Mega Trends and Risks

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

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

Despite the return of geopolitics, the Company believes the reform of China will have great success in a long run due to the confidence on China's systematic uniqueness, the economic reform and the economic drivers within China. The tension between China and USA and USA's attitude to rewrite the current trading map would cause volatility and uncertainty to global trading. Business confidence and sentiment would be adversely affected.

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPPORTUNITIES ON AI AND OTHER EQUIPMENT

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

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

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

SUBSEQUENT WITHDRAWAL AND REFUND ON THE PREPAYMENT OF AI AND OTHER EQUIPMENT

There were prepayments for AI and other equipment amounted to RMB376 million, which remained outstanding as at 31 December 2019. Management has regarded the equipment market to be fruitful and would use these transactions to explore and gain entry into the AI and other equipment market and has been looking for profitable business opportunities in these areas. However, due to the worldwide pandemic and worsening trade environment, and the deteriorating trade war between China and the USA, most market players have revised their business plans under the current market conditions. These black swans, being the trade war and the coronavirus, and the lockdown of most cities, have caused the profitability and commercial foundation for these transactions to be seriously affected. Management has assessed the situation and concluded that it would not be optimal for the Group to continue with these current transactions under the existing fast changing environment in a still worsening situation. The prospect of any profitability on these transactions has been eroded quickly after 31 December 2019 under the threat of the pandemic, and that most cities have not regained their normal level of functionality. For transactions that the Group has managed to complete subsequent to the year end, there is a loss incurred amounted to RMB71.45 million from the sales of RMB115.350 million, which will be accounted for at the completion of the transaction. The results for the first half year of 30 June 2020 will be seriously affected by these losses. Management has decided to withdraw from the remaining transactions, and the balance of the prepayments of RMB189 million was fully refunded in June 2020. The Group has not suffered any losses on these refunds.

ALWAYS PREPARING FOR CHANGE OF THE SOCIETY AND ENVIRONMENT

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

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

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

OPPORTUNITIES IN THE CHANGING ENVIRONMENT

The Management believes adapting to the latest fast changing environment is key to the Group's sustainable development. There have been an abrupt changing demand for a wide range of products. The Management is of the view that the worldwide pandemic would change the consumption pattern and the business habits in the medium to long term. The Company would be actively looking for business opportunities to meet the changing demands in the market, including but not limiting to hygiene and medical market, in particular in terms of setting up and servicing equipments that would meet the imminent demand for medical needs. As our core competencies include the technical area in communication and manufacturing, the Management would look for opportunities to utilise our experiences and connections into other area, including the medical solutions.

FINANCIAL REVIEW

Revenue

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

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

Gross profit and gross profit margin

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

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

Selling and distribution expenses

Selling and distribution expenses mainly include sales and distribution staff costs, office expenses, freight charges and marketing expenses. Selling and distribution expenses amounted to approximately RMB5.6 million for the year ended 31 December 2019, decreased by approximately RMB5.2 million or 48.1% from RMB10.8 million for the year ended 31 December 2018. The decrease of selling and distribution expenses was primarily due to the absence of marketing expense.

Administrative expenses

Administrative expenses mainly include staff costs for administrative employee, audit fees, legal fees, impairment loss recognized in respect of intangible assets and general office expenses. Administrative expenses amounted to approximately RMB18.2 million for both years ended 31 December 2019 and 31 December 2018.

Other gains

Other gains for the year ended 31 December 2019 was mainly due to the reversal of expected credit loss recognised on the bank deposits.

Other income

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

Taxation

For the year 2019, 北京百納威爾無線通信設備有限公司 (Beijing Benywave Wireless Communication Co., Ltd.*) ("Benywave Wireless") and the Group's subsidiary incorporated in Hong Kong incurred loss, accordingly income tax provision was not required to be made.

Liquidity and source of funding

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

As at 31 December 2019, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 8.3 compared with 6.3 as at 31 December 2018.

Foreign exchange exposure

The Group undertakes certain operating transactions in foreign currencies and the bank balances of the proceeds from the global offering denominated in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

Material acquisitions and disposals

The Group has no material acquisitions and disposals of subsidiaries, associates and joint ventures for the year ended 31 December 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Future plans for material investment or capital assets

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

Significant investments

The Company had no significant investment held during the year ended 31 December 2019.

Trade and other receivables

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

Prepayments

The prepayments were approximately RMB686.4 million increased by RMB637.7 million.

During the year ended 31 December 2019, the Group has made prepayments for purchase of AI and other equipment of RMB376,000,000 to two AI and other equipment suppliers which are independent third parties to the Group.

Subsequent to the year end, RMB186,806,000 of the prepayments have been transformed into sales transactions, resulting in a loss of RMB71,456,000, which will be reported on completion of sales in the fist half year of 2020; and RMB189,194,000 has been refunded to the Group in June 2020.

Inventories

Inventories mainly are the mobile telecommunication devices. As at 31 December 2019, the Group's total inventories was RMB5.4 million decreased by RMB21.2 million from RMB26.6 million (net of allowance RMB5.3 million). In determining the write-down of inventories, the management considered the subsequent selling price and aging of inventories.

Contingent liabilities and commitments

At the end of the year 2019, the Group did not have any significant contingent liabilities and commitments.

Dividends

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

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

Ms. Rong Xiuli

Executive Director and Chairperson

Ms. Rong Xiuli ("Ms. Rong"), aged 56, is the chairperson and executive Director of the Company, a member of the remuneration committee and risk management committee and chairperson of the nomination committee of the Company. Ms. Rong joined the Group in July 2004. Ms. Rong is the founder of the Group and is currently the chairperson of the Group. She gained experience and network in the mobile handset distribution business in the mid-1990s. She worked for 北京市百利豐通訊器材有限責任公司 (Beijing City Bailifeng Communication Apparatus Co., Ltd.*) which engaged in the sale and agency service of mobile phones and became the chairperson of this company until 2005. Ms. Rong also co-founded 北京天宇朗通通信設備股份有限公司 (Beijing Tianyu Communication Equipment Co. Ltd.*) ("Tianyu") with Mr. Ni Gang (spouse of Ms. Rong) in 2002. She was responsible for sales and marketing, research and development, strategic planning and general management of Tianyu from 2002 to 2008. Ms. Rong was also a director of 北京百納威爾科技有限公司 (Beijing Benywave Technology Co., Ltd.) ("Benywave Technology") since its establishment in 2004 and the chairperson of Benywave Technology from 2008 to 2014. Ms. Rong has ample experience in sales and marketing, distribution, research and development, risk management, personnel and general management. Ms. Rong has approximately 25 years of experience in mobile handset industry. Ms. Rong has extensive knowledge on telecommunications operations and control and deep understanding of the dynamic of telecommunications market in China. Ms. Rong graduated from Hunan University (湖南大學) with a degree in mechanical engineering specialized in internal combustion engine in 1983. Ms. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) (previously known as China-Europe Management Institute (中歐國際管理中心)) in 1993. Ms. Rong is an elder sister of Mr. Rong Shengli, chief executive officer and executive Director of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Rong Shengli

Executive Director and Chief Executive Officer

Mr. Rong Shengli ("Mr. Rong"), aged 49, is the chief executive officer, executive Director and a member of the risk management committee of the Company and is responsible for the management and strategic development of the Group. Mr. Rong joined the Group in October 2008. Mr. Rong joined Benywave Technology in 2008 and was the vice chairman of Benywave Technology from October 2008 to July 2014, where he was responsible for the sales and the strategic planning for its business of development, designing, production management and selling of mobile telecommunication devices on ODM basis and its related components and accessories, targeting global markets excluding the People's Republic of China ("PRC"). Prior to joining Benywave Technology, Mr. Rong served as marketing manager, regional director and general manager of operational business department of Tianyu and its subsidiaries from 2000 to 2008. Mr. Rong did not have any role in Tianyu since 2008. Mr. Rong has approximately 20 years of experience in telecommunications industry and management. Mr. Rong obtained a bachelor's degree from Harbin Engineering University (哈爾濱工程大學) (previously known as Harbin Shipbuilding Engineering Institute (哈爾濱船舶工程學院)) specialized in radio communications in 1992. Mr. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) in 1997. Mr. Rong is a brother of Ms. Rong Xiuli, chairperson and executive Director of the Company.

Mr. Yin Xuquan

Executive Director and President

Mr. Yin Xuquan ("Mr. Yin") aged 55, is an executive Director and president of the Company. Mr. Yin joined the Group in February 2018. Mr. Yin has over 17 years of experience in the telecommunication equipment industry in the PRC and held various managerial positions in 中國郵電器材集團公司 (China National Postal and Telecommunications Appliances Corporation*) during the period from February 2002 to January 2018, where he had accumulated extensive experience in corporate management. Mr. Yin graduated from Heilongjiang University (黑龍江大學) with a bachelor's degree in finance and tax in July 2006, and received an executive master degree of business administration (EMBA) from South China University of Technology (華南理工大學) in July 2011.

Mr. Wong Ho Chun

Executive Director

Mr. Wong Ho Chun ("Mr. Wong"), aged 33, is an executive Director of the Company. Mr. Wong Joined the Group in February 2019. Mr. Wong has over 7 years of experience in the asset management, fund management and financial services industries in Hong Kong. Mr. Wong was a managing partner of China Fund Group Limited, a boutique fund house in Hong Kong, during the period from 2016 to 2018; a fund manager of Pacific Sun Advisors Limited during the period from 2014 to 2016; and assumed various managerial positions in various sizable banks in Hong Kong responsible for providing investment and financial services solutions to clients during the period from 2011 to 2014. Mr. Wong obtained a master degree in Arts with a major in politics from the Durham University in 2011; and a bachelor degree of Business Administration from the City University of Hong Kong in 2009. Mr. Wong is also a Chartered Financial Analyst ("CFA") charter holder.

Mr. Hon Kwok Ping, Lawrence

Independent Non-executive Director

Mr. Hon Kwok Ping, Lawrence ("Mr. Hon"), aged 71, is an independent non-executive Director, a member of the audit committee and nomination committee, and chairman of the remuneration committee and the risk management committee of the Company. Mr. Hon joined the Group in September 2014. Mr. Hon has over 35 years' experience in accounting and finance as well as business operations. Since mid-1980's, he has been serving local and international companies in senior positions such as CEO, CFO, president & vice president as well as chief accountant and company secretary and other positions. Mr. Hon retired as the joint company secretaries of Courage Investment Group Limited (the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 1145) with effect from 28 February 2019. He is a CPA with fellow membership of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants, UK.

Mr. Lam Yiu Kin

Independent Non-executive Director

Mr. Lam Yiu Kin ("Mr. Lam"), aged 65, is an independent non-executive Director, chairman of the audit committee and a member of the remuneration committee and nomination committee of the Company. Mr. Lam Joined the Group in September 2014. Mr. Lam was the audit partner of PricewaterhouseCoopers (HK) from 1993 to 2013.

Mr. Lam has been the independent non-executive director of (i) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the shares of which are listed on the Main Board, stock code: 1349) since 2013; (ii) Spring Real Estate Investment Trust (the units of which are listed on the Main Board, stock code: 1426) since 2015; (iii) Global Digital Creations Holdings Limited (the shares of which are listed on the GEM Board, stock code: 8271) since 2015; (iv) Shougang Concord Century Holdings Limited (the shares of which are listed on the Main Board, stock code: 103) since 2015; (v) COSCO SHIPPING Ports Limited (the shares of which are listed on the Main Board, stock code: 1199) since 2015; (vi) Nine Dragons Paper (Holdings) Limited (the shares of which are listed on the Main Board, stock code: 2689) since 2016; (vii) WWPKG Holdings Company Limited (the shares of which are listed on the GEM Board, stock code: 8069) since 2016; (viii) CITIC Telecom International Holdings Limited (the shares of which are listed on the Main Board, stock code: 1883) since 2017; (ix) Bestway Global Holding Inc. (the shares of which are listed on the Main Board, stock code: 3358) since 2017; and (x) Topsports International Holdings Limited (the shares of which are listed on the Main Board, stock code: 6110) since September 2019.

Mr. Lam resigned as an independent non-executive director of MASON GROUP HOLDINGS LIMITED (the shares of which are listed on the Main Board, stock code: 273) with effect from 24 May 2017.

Mr. Lam has over 45 years of experience in accounting, auditing and business consulting. Mr. Lam is a fellow member of HKICPA, the Association of Chartered Certified Accountants, the Chartered Accountants of Australia and New Zealand and the Institute of Chartered Accountants in England & Wales. Mr. Lam was an adjunct professor in the School of Accounting and Finance of The Hong Kong Polytechnic University from 2014 to 2016, and a member of the finance management committee of the Hong Kong Management Association until July 2016. Mr. Lam obtained a higher diploma in accountancy from The Hong Kong Polytechnic University in 1975 and was conferred an Honorary Fellow by The Hong Kong Polytechnic University in 2002.

Mr. Han Xiaojing

Independent Non-executive Director

Mr. Han Xiaojing ("Mr. Han"), aged 65, is an independent non-executive Director, a member of each of the audit committee, remuneration committee and nomination committee of the Company. Mr. Han join the Group in June 2019. He is the founding partner of the Commerce & Finance Law Offices. He has over 31 years' experience in the practice of corporate and securities laws in the PRC, especially in the restructuring of large-scale state-owned enterprises and private companies and offshore listing of PRC companies. Mr. Han is currently an independent non-executive director of Far East Horizon Limited, a company listed on the Stock Exchange (Stock code: 3360) since March 2011; and an independent non-executive director of Sino-Ocean Group Holding Limited, a company listed on the Stock Exchange (Stock code: 3377) since June 2007. He has been serving as an independent director of Ping An Bank Co., Ltd., a company listed on the Shenzhen Stock Exchange, since February 2014, an independent director of Beijing Sanju Environmental Protection and New Material Co., Ltd., a company listed on the Shenzhen Stock Exchange, since April 2014 and an external director of China National Aviation Fuel Group Limited since December 2017. In addition, he was an independent non-executive director of Sinotrans Limited, a company listed on the Stock Exchange (Stock code: 598) from October 2014 until October 2017; was a supervisor of Beijing Capital International Airport Company Limited and an independent director of Shenzhen Overseas Chinese Town Holding Company Limited, a company listed on the Shenzhen Stock Exchange. Mr. Han graduated from China University of Political Science and Law and obtained a master's degree in Law in 1985.

SENIOR MANAGEMENT

Mr. Lam Man Kit

Chief Financial Officer

Mr. Lam Man Kit ("Mr. Lam"), aged 63, has over 41 years of experience in financial management, accounting and corporate finance. Mr. Lam joined the Group in June 2016. Since 1980's Mr. Lam has been serving local and international companies in senior positions such as chief financial officer, consultant, financial controller, regional controller, cost accounting manager and other positions. Prior to joining the Company, Mr. Lam was the chief financial officer of the group of Draper Athena from July 2015 to May 2016, where he was responsible for financial functions for the fund and management companies located in People's Republic of China, the United States of America, Korea and Hong Kong. Before that, he was the chief financial officer of Coolsand Technologies Limited from 2009 to 2015; a consultant of Yeton Venture Limited from 2008 to 2009; the executive director and chief financial officer of Wanji Group Limited from 2001 to 2007; the financial controller of Whirlpool Home Appliance Co. Ltd. from 1995 to 2001; the regional controller of Amphenol East Asia Limited from 1986 to 1995; and he also worked for Fairchild Semiconductor (HK) Ltd. from 1978 to 1986 first as accountant and subsequently as cost accounting manager. Mr. Lam obtained a diploma in accounting and business management from Hong Kong Baptist University in 1978.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Chan Shun Faat

Vice president

Mr. Chan Shun Faat ("Mr. Chan"), aged 31, is a vice president of the Group. Mr. Chan joined the Group in February 2019. Mr. Chan has over 7 years of experience in the asset management, fund management and financial services industries in Hong Kong. Mr. Chan was a managing director of China Fund (Group) Limited during the period from 2016 to 2018; a fund manager of Pacific Sun Advisors Limited during the period from 2014 to 2016; an investment banker of China Construction Bank (ASIA) from 2012 to 2014; and worked at two other major banks in Hong Kong responsible for providing investment and financial services solutions to clients from 2011 to 2012. Mr. Chan obtained a bachelor degree in Information Engineering from the Chinese University of Hong Kong in 2010.

Mr. Wang Lei

Vice president

Mr. Wang Lei ("Mr. Wang"), aged 38, is a vice president of the Group. Mr. Wang has over 16 years of experience in the financial management and sales management in China. Mr. Wang was a vice president of 普泰通信發展有限公司 (Putai Communication Development Limited*) during the period from January to October 2017; a vice president of 中國郵電器材深圳公司 (China Post and Telecommunication Equipment (Shenzhen) Company*) during the period from 2005 to 2017; and a financial controller of 中國郵電器材哈爾濱公司 (China Post and Telecommunication Equipment (Harbin) Company*) during the period from 2003 to 2005.

Mr. Wang obtained a master degree in business administration from University of Wales in 2013 and a bachelor degree in finance and taxation from the 黑龍江大學 (Heilongjiang University*) of China in 2003.

* *for identification purpose only*

The board (the "Board") of directors (the "Directors") of the Company presents their report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands. The principal place of business of the Company is in Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 37 to the consolidated financial statements.

CHANGE OF COMPANY NAME

The English name of the Company has been changed from "Vital Mobile Holdings Limited" to "Vital Innovations Holdings Limited" and the dual foreign name in Chinese 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" with effect from 10 July 2019. The Certificate of Registration of Alteration of Name of Registered non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 29 July 2019 confirming the registration of the new English name "Vital Innovations Holdings Limited" also known as "維太創科控股有限公司" in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

BUSINESS REVIEW

A review of the business of the Group including an analysis using financial key performance indicators during the year ended 31 December 2019 and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the section headed "Management Discussion and Analysis" set out on pages 4 to 12 of this annual report.

The financial risk management objectives and policies of the Group are shown in note 33 to the consolidated financial statements.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. The Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. Further details of the Group's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company for the year ended December 31 2019 to be published in due course. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year under review, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

The Company provides a fair and safe workplace, promotes diversity to its staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions. The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfies the needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner. The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 58 of this annual report.

On 14 June 2019, The Board recommended, and formal approval by the shareholders of the Company was obtained, the payment of a special dividend of HK$0.10 per Share amounting to HK$85,000,000. The dividend was distributed by the Company to the shareholders of the Company during the year ended 31 December 2019.

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

During the year ended 31 December 2019 and up to the date of this annual report, there was no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 140 of this annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements of the share capital of the Company during the year ended 31 December 2019 are set out in note 27 to the consolidated financial statements.

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 that date. The following is a summary of the principal terms of the Scheme: -

a) **Purpose of the Scheme**

The purpose of the Scheme is to provide incentives or rewards to the participants for their contribution to the Group.

b) **Participants of the Scheme**

Pursuant to the Scheme, the Board may at its absolute discretion grant options to any eligible employee, non-executive Director, supplier of goods or services, customer, person or entity that provides research, development or other technological support, shareholder or holder of any securities issued by the Group or any invested entity.

c) **Total number of shares available for issue under the Scheme**

The total number of shares of the Company available for issue under the scheme is 85,000,000 shares, representing 10% of the total number of share of the Company in issue as at the date of this annual report.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue from time to time.

d) **Maximum entitlement of each participant**

The total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including those exercised, outstanding and cancelled options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner as stipulated in the Scheme.

e) **Time of exercise of options**

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each option grantee, which period may commence on the day on which the option offer is made but shall end in any event not later than 10 years from the offer date subject to the provisions for early termination thereof. Unless the Directors otherwise determined and stated in the option offer to a participant of the Scheme, no minimum period for which the option granted under the Scheme must be held before it can be exercised.

f) **Subscription price per share**

The subscription price per share of the Company in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the making of the option offer but in any case the subscription price shall not be lower than the highest of:

i. the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the option offer date, which must be a trading day;

ii. the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the offer date; and

iii. the nominal value of a share of the Company.

g) **Payment on acceptance of option**

A non-refundable sum of HK$1.00 by way of consideration for the grant of an option is required to be paid by each of the grantee upon acceptance of the option.

h) **Remaining life of the Scheme**

Subject to the provisions for early termination of the Scheme, the Scheme will remain in force for a period of 10 years commencing on 9 June 2015 up to 8 June 2025 (both days inclusive).

As at the date of this report, no option had been granted by the Company.

RESTRICTED SHARE UNIT SCHEME

The Company has adopted a 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. On 2 November 2016, the Company granted 32,300,000 RSUs to certain grantees pursuant to the RSU Scheme and all the RSUs granted had been unlocked upto the year ended 31 December 2018. Details of the above grant of RSUs are set out in the announcement of the Company dated 2 November 2016.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately RMB659.8 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the Group's top five largest customers accounted for 81.5% (2018: 75.5%) of our revenues and the single largest customer accounted for 54.1% (2018: 19.6%) of our revenues. The Group's top five suppliers accounted for 79.4% (2018: 70%) of our cost of revenue and the single largest supplier accounted for 34.5% (2018: 19.2%) of our cost of revenue.

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers during the year ended 31 December 2019.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "related parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis.

Further details are set out in note 32 to the consolidated financial statements. Save for the continuing connected transactions as set forth in the paragraphs headed "Continuing Connected Transactions" below, none of the related party transactions of the Company fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company has complied with or is exempt from the disclosure requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group entered into the following transactions with entities which are regarded as connected persons of the Company under Chapter 14A of the Listing Rules:

Pursuant to the Lease Agreement dated 22 July 2017 made between 北京天宇朗通通信設備股份有限公司 (Beijing Tianyu Communication Equipment Co. Ltd.*) ("Tianyu"), a company controlled by Ms. Rong Xiuli, chairlady and executive director of the Company, and Benywave Wireless, Tianyu has let the premises situated at Zone A, 4th Floor, No. 55, Jiachuang Second Road, Zhongguancun Science Park, OPTO-Merchatronics Industrial Park, Tongzhou District, Beijing, China to Benywave Wireless for carrying on its business. For the year ended 31 December 2019, the lease payment and interest on lease payment incurred by Benywave Wireless amounted to RMB711,000 and RMB46,000 respectively.

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

As all of the applicable percentage ratios under Rule 14.07 of the Listing Rules and the annual consideration of the respective transactions contemplated under each of the Lease Agreement and the Equipment Lease Agreement are less than 5% and are less than HK$3.0 million, respectively, the respective transactions contemplated under each of the Lease Agreement and the Equipment Lease Agreement fall below the de minimis threshold under Rule 14A.76(1)(c) of the Listing Rules and are fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKING

Each of Ms. Rong Xiuli, Mr. Ni Gang, Winmate Limited, Benywave Technology and Tianyu (collectively the "Covenantors"), has entered into a deed of non-competition and undertaking dated 9 June 2015 (the "Deed of Non-Competition") in favor of the Company (for itself and on behalf of its subsidiaries from time to time), pursuant to which each of the Covenantors irrevocably and unconditionally undertakes to and covenants with the Company that each of them will not and procure that none of their respective associates and subsidiary (for a Covenantor which is a company) other than any member of the Group shall:

i. whether as principal or agent and whether undertaken directly or indirectly in his/her/its/their own account or in conjunction with or on behalf of or through any person, firm, body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, carry on, participate in, acquire, or hold (whether as a shareholder, partner, agent or otherwise) any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which competes or may compete with the business of developing, designing, production management and selling of mobile telecommunication devices on original design manufacturer ("ODM") basis and its related components and accessories, targeting global markets excluding the PRC (the "Overseas Business") in any part of the world including but not limited to undertaking the manufacture of mobile telecommunication devices on ODM basis;

ii. sell or distribute or cause or allow the sale or distribution of the own-branded mobile telecommunication devices of Benywave Technology and Tianyu and their subsidiaries or any of them (collectively the "Excluded Group") to any territory outside the PRC and, in connection therewith, the Covenantors shall procure that in all distribution agreements between any member of Excluded Group and its distributors a clause restricting the sale or distribution of such own-branded mobile telecommunication devices outside PRC shall be incorporated; and

iii. alone or jointly with or on behalf of any person,

    a) induce or attempt to induce any director, employee or consultant of the Group to terminate his/her/its employment or consultancy (as appropriate) with the Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy with the Group (as appropriate);

    b) canvass or solicit or attempt to canvass or solicit any order for business which competes or may compete with the Overseas Business; and

    c) persuade any person who has dealt with the Group or who is in the process of negotiating with the Group in relation to the Overseas Business to cease to deal with the Group, or reduce the amount of business which that person would normally do with the Group or seek to improve their terms of trade with any member of the Group.

Details of the Deed of Non-Competition are set out in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company dated 16 June 2015.

The Company confirms that each of the Convenantors have complied with the Deed of Non-Competition for the year ended 31 December 2019. In order to ensure the Covenantors have complied with the Deed of Non-Competition, the following actions have been taken:

i. the Company has required each of the Covenantors to give written confirmation to the Company on an annual basis as to whether he/she/it has complied with the Deed of Non-Competition for the year ended 31 December 2019;

ii. each of the Covenantors has provided to the Company such written confirmation (a) in respect of his/her/its compliance with the Deed of Non-Competition for the year ended 31 December 2019; and (b) stating that he/she/it has not been offered or becomes aware of any investment or commercial opportunity directly or indirectly relating to the Overseas Business in any part of the world including but not limited to supply of mobile telecommunications devices on ODM basis in the PRC; and

iii. the independent non-executive Directors have reviewed the written confirmation made by each of the Covenantors in compliance with the undertakings in the Deed of Non-Competition and have also reviewed the status of the compliance by each of the Covenantors with the undertakings in the Deed of Non- Competition and have confirmed that, as far as they can ascertain, there is no breach by any of the Covenantors of the undertakings in the Deed of Non-Competition given by them.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" above, there was no contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholders or any of their subsidiaries subsisted during or at the end of the year ended 31 December 2019, and there was no contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company or any of their subsidiaries subsisted during or at the end of the year ended 31 December 2019.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors

Ms. Rong Xiuli *(Chairperson)*
Mr. Rong Shengli *(Chief executive officer)*
Mr. Yin Xuquan *(President)*
Mr. Tang Shun Lam (resigned on 18 December 2019)
Mr. Wong Ho Chun (appointed on 1 February 2019)

Independent Non-executive Directors

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

Pursuant to article 84(1) of the Company's articles of association, one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement at an annual general meeting at least once every three years. Ms. Rong Xiuli, Mr. Rong Shengli and Mr. Hon Kwok Ping, Lawrence shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 13 to 18 of this annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

No Director has entered into any service agreement with any members of the Group which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director, other officer and auditor for the time being of the Company shall be entitled to be indemnified out of assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditors or other officer of the Company about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2019 and up to the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Continuing Connected Transactions" above, no Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisted during or at the end of the year ended 31 December 2019.

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

At 31 December 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 Futures Ordinance (the "SFO")) which were 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of 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 Shares [(1)]	Approximate percentage of issued share capital of the Company [(3)]
Rong Xiuli ("Ms. Rong") [(2)]	Interest in a controlled corporation	480,624,000 (L)	56.54%
	Personal interest	87,856,000 (L)	10.34%
Rong Shengli	Personal interest	3,720,000 (L)	0.44%
Hon Kwok Ping Lawrence	Personal interest	310,000 (L)	0.04%
Lam Yiu Kin	Personal interest	310,000 (L)	0.04%

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 31 December 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 31 December 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 31 December 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 were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Share Option Scheme" and "Restricted Share Unit Scheme" above, at no time during the year ended 31 December 2019 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any subsisting arrangement to enable the Directors to acquire such rights in any other body corporate.

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

At 31 December 2019, as far as known to the Directors, the following persons or entities (not being 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 Shares (1)	Approximate percentage of issued share capital of the Company (5)
Winmate	Beneficial owner	480,624,000 (L)	56.54%
Mr. Ni (2)	Spouse of Ms. Rong	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%

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 as to 100% by Mr. Chan Kin Sun. Therefore, Mr. Chan Kin Sun is deemed to be interested in the Shares held by Yardley.

(4) As at 31 December 2019, the issued share capital is 850,000,000 Shares.

Save as disclosed above, as at 31 December 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.

USE OF PROCEEDS

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 26 June 2015. The net proceeds received from the initial public offering ("IPO"), after deducting underwriting fees and other expenses in relation to the IPO, were approximately HKD484 million (equivalent to approximately RMB434 million). Such net proceeds were fully utilized as at 31 December 2019. The net proceeds were utilized as follows:

Use:	% of the total amount of the net proceeds	Approximate amounts of the net proceeds	Re-allocation *(Note)*	Revised allocation	Approximate amounts utilized as at 31 December 2019	Approximate remaining amounts as at 31 December 2019
		In HK$ million (RMB equivalent)	In HK$ million (RMB equivalent)	In HK$ million (RMB equivalent)	In HK$ million (RMB equivalent)	In HK$ million (RMB equivalent)
Purchasing raw materials to expand our raw sourcing capacity	45.5	220(197)	–	220(197)	220(197)	0(0)
Setting up overseas representative offices and/or establishing partnership with top local branded mobile handset suppliers or telecommunication operators in our key markets	27	131(117)	24(22)	155(139)	155(139)	0(0)
Expanding our research and development capabilities	12.5	61(55)	–	61(55)	61(55)	0(0)
Setting up a new quality testing laboratory, employing additional quality testing personnel and purchasing additional quality testing equipment	5	24(22)	(24(22))	–	0(0)	0(0)
General working capital	10	48(43)	–	48(43)	48(43)	0(0)
Total	100	484(434)	–	484(434)	484(434)	0(0)

(Note):

According to the original intended use of proceeds, the remaining unutilised proceeds were intended to setting up a new quality testing laboratory, employing additional quality testing personnel and purchasing additional quality testing equipment. However, due to the worldwide pandemic and worsening trade environment, there is no urge demand for setting up such testing laboratory in the short term.

In view of the above and for better utilisation of the Group's resources, the Board reallocated approximately HK$24,000,000 to establishing partnership with top local branded mobile handset suppliers. The reallocation of the remaining unutilised proceeds will allow the Company to deploy its financial resources more effectively to meet the Group's business development.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

COMPETING INTERESTS

As at 31 December 2019, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders of the Company.

TAX RELIEF

The Directors are not aware of any tax relief from taxation to which the shareholders of the Company are entitled by reason of their holding of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

EMOLUMENT POLICY

The emolument package of the Directors and senior management of the Group is reviewed and recommended by the remuneration committee of the Company (the "Remuneration Committee") on the basis of their merit, qualifications and competence.

The Company has adopted a share option scheme and restricted share unit scheme to the eligible persons as incentives or rewards for their contribution to the Group.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme adopted by the Company on 9 June 2015 as disclosed under the section headed "Share Option Scheme" above, the Company has not entered into any equity-linked agreements during the year ended 31 December 2019.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the group as at 31 December 2019 are set out in note 24 to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group during the year ended 31 December 2019 are set out in note 11 and note 12 to the consolidated financial statements.

RETIREMENT SCHEME

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employee in the PRC, and operates a Mandatory Provident Fund scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 31 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Details of the corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" on pages 35 to 51 of this annual report.

EVENT AFTER REPORTING PERIOD

Save for the events set out in note 38 to the consolidated financial statements in this annual report, there is no significant event occurring after Reporting Period.

CHARITABLE DONATIONS

The Group did not make any charitable donations in the year 2019. (2018: Nil)

CHANGES IN INFORMATION OF DIRECTORS

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

1. Mr. Tang Shun Lam resigned as executive Director of the Company with effect from 18 December 2019 due to his other business commitment;

2. Mr. Han Xiaojing has been appointed as an independent non-executive Director, a member of audit committee, remuneration committee and nomination committee of the Company with effect from 6 June 2019; and

3. Mr. Lam Yiu Kin has been appointed as an independent non-executive Director of Topsports International Holdings Limited (HKEx, Stock code: 6110) with effect from 26 September 2019.

AUDIT COMMITTEE

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

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and half-yearly reports and to provide advices and comments thereon to the Board.

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group.

AUDITORS

BDO Limited was appointed as the auditor of the Company with effect from 26 October 2018 to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu as auditor of the Company. Save for the above, there has been no other changes in the auditors of the Company in the preceding three years.

The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by BDO Limited, who will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of BDO Limited as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Rong Xiuli
Chairperson

Hong Kong, 30 June 2020

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a solid, transparent and sensible framework of corporate governance for the Company and its subsidiaries and will continue to review its effectiveness.

The Company has adopted the code provisions ("Code Provisions") as stated in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 to the Listing Rules as the corporate governance code of the Company. The Board is committed to complying with the Code Provisions as stated in the CG Code to the extent that the Directors of the Company consider it is applicable and practical to the Company.

During the year under review, the Company has complied with the Code Provisions in the CG Code.

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, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2019.

BOARD OF DIRECTORS

At the date of this report, the Board comprises four executive Directors and three independent non-executive Directors. The Directors were:

Executive Directors

Ms. Rong Xiuli *(Chairperson)*
Mr. Rong Shengli *(Chief executive officer)*
Mr. Yin Xuquan *(President)*
Mr. Wong Ho Chun

Independent Non-executive Directors

Mr. Hon Kwok Ping, Lawrence
Mr. Lam Yiu Kin
Mr. Han Xiaojing

The Board possesses a balanced mix of skills and expertise which supports the continuing development of the Company. The executive Directors have accumulated sufficient and valuable experience to hold their positions in order to ensure that their fiduciary duties have been carried out in an efficient and effective manner. The Board is responsible for setting the Group's strategic direction and overseeing the business performance of the Group while business operations are delegated to qualified management under the supervision of the executive Directors. The Board also monitors the financial performance and the internal controls of the Group's business operations. The senior management is responsible for the day-to-day operations of the Group.

Biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" on pages 13 to 18 of this annual report. To the best knowledge of the Company, there is no other financial, business, family or other material/relevant relationship among the Directors.

Chairman and Chief Executive Officer

According to Code Provision A.2.1 of the CG Code, the roles of the chairperson of the Company (the "Chairperson"), Ms. Rong Xiuli and the chief executive officer of the Company (the "CEO"), Mr. Rong Shengli are segregated in order to reinforce their independence and accountability.

There are clear demarcations of responsibility and authority between the Chairperson and the CEO which ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. Ms. Rong Xiuli is mainly responsible for providing guidance and supervision regarding the business and operations of the Company while Mr. Rong Shengli is responsible for the overall management of the Company's business operations.

Board Diversity

The Company has recognised the importance of board diversity to corporate governance and the board effectiveness in terms of examination and evaluation of corporate issues from different perspectives.

Pursuant to the Board Diversity Policy ("Diversity Policy"), the effective implementation of the Diversity Policy requires that shareholders of the Company are able to judge for themselves whether the Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support.

The Board will also take into account the below aspects: -

➢ articulate the benefits of diversity, including gender diversity, and the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent;

➢ to diversify at all levels, including gender, age, cultural and educational background, or professional experience;

➢ assess annually on the diversity profile including gender balance of the directors and senior management and its progress in achieving its diversity objectives;

➢ ensure that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered; and

➢ has identified and implemented programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, in time, their skills will prepare them for senior management and board positions.

Having reviewed the Diversity Policy and the Board's composition, the nomination committee of the Company (the "Nomination Committee") considered that the requirements set out in the Diversity Policy had been met.

Nomination Policy

The Group adopted a nomination policy (the "Nomination Policy") in December 2018. A summary of this policy is disclosed as below.

1. *Objective*

   The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors of the Company at general meetings or appoint as Directors to fill casual vacancies or as an addition to the existing Board.

2. *Selection Criteria*

   The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.

   - Reputation for integrity
   - Accomplishment and experience
   - Compliance with legal and regulatory requirements
   - Commitment in respect of available time and relevant interest
   - Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

3. *Nomination Procedures*

   The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

   For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders") to allow Shareholders to share the Company's profits and for the Company to retain adequate reserves for future growth.

General power to declare dividends

Subject to the Cayman Companies Law, the Company may from time to time in general meeting declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board.

Board's power to pay interim dividends

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the profits of the Company, and, in particular (but without prejudice to the generality of the foregoing), if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend.

The Board may also pay half-yearly or at other intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the profits available for distribution justify the payment.

Board's power to declare and pay special dividends

The Board may in addition from time to time declare and pay special dividends on shares of any class of such amounts and on such dates as they think fit.

Dividends to be paid out of profits or reserves

No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company.

The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

Scrip dividends

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the Shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment. In case of the Board elects to pay the dividend in shares, the Company shall abide by the provisions of the articles of association of the Company on scrip dividends.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

Independent Non-executive Directors

Independent Non-executive Directors are responsible to scrutinise the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the Board authority is within the powers conferred to the Board under the Company's articles of association, applicable laws, rules and regulations.

During the year ended 31 December 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) Rule 3.10(1) of the Listing Rules, which prescribes that the board of directors of a listed issuer must include at least three independent non-executive directors;

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

(c) Rule 3.21 of the Listing Rules, 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;

(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 Remuneration Committee and Nomination Committee of the Company with effect from 6 June 2019.

Confirmation of Independence

The Board considers that all of the independent non-executive Directors to be independent. All of the independent non-executive Directors have signed their respective confirmation letter to the Company confirming their independence as set out in Rule 3.13 of the Listing Rules.

ROLES AND FUNCTIONS OF THE BOARD AND THE MANAGEMENT

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, dividend policy and risk management strategies. The management are delegated the authorities and responsibilities by the Board for the day-to-day management and operation of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Pursuant to articles 84(1) and 84(2) of the Company's articles of association, one-third of the Directors for the time being shall retire by rotation at each annual general meeting of the Company at least once every three years. All retiring Director shall be eligible for re-election.

Article 83(3) of the Company's articles of association provides that (1) any director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting; and (2) any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Code Provisions A.4.2 of CG Code also states that every director, including those appointed for a specific term, shall be subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company. Each of the Directors of the Company has been appointed for a specific term of 3 years and is subject to retirement by rotation once every three years. Their appointments would be reviewed when they were due for re-election.

BOARD MEETINGS

The Board holds at least four regular meetings a year which are normally scheduled at the beginning of the year. Directors may approve various matters by way of passing written resolutions. The Board may also meet on other occasions when a board-level decision on a particular matter is required. In addition, at least 14 days' notice of a regular Board meeting shall be given and the Company aims at sending the agenda and the accompanying board papers to Directors at a reasonable time before the intended date of Board meeting.

During the year ended 31 December 2019, the attendance records of the Directors at the Board meetings and general meetings of the Company are set out below:

Name of Directors	No. of board meeting attended/ No. of board meetings held	No. of extraordinary general meeting attended/ No. of extraordinary general meeting meetings held	annual general meeting attended
Executive Directors			
Ms. Rong Xiuli	4/4	1/1	Yes
Mr. Rong Shengli	4/4	1/1	Yes
Mr. Tang Shun Lam (resigned on 18 December 2019)	4/4	1/1	Yes
Mr. Yin Xuquan	4/4	1/1	Yes
Mr. Wong Ho Chun (appointed on 1 February 2019)	4/4	1/1	Yes
Independent Non-Executive Directors			
Mr. Hon Kwok Ping, Lawrence	4/4	1/1	Yes
Mr. Lam Yiu Kin	4/4	1/1	Yes
Mr. Tsang Yat Kiang (resigned on 31 January 2019)	N/A	N/A	N/A
Mr. Han Xiaojing (appointed on 6 June 2019)	2/2	0/1	N/A

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Pursuant to paragraph N(a) of Appendix 14 of the Listing Rules, the primary contact person at the Company is Mr. Lam Man Kit, the chief financial officer of the Company. All Directors may access to the advice and services of the company secretary of the Company (the "Company Secretary"). The Company Secretary regularly updates the Board on governance and regulatory matters.

The Board is fully involved in selection, appointment and dismissal of the Company Secretary. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

During the year ended 31 December 2019, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

ACCESS TO INFORMATION

All Directors are kept informed on a timely basis of major changes that may have affected the Group's business, including relevant rules and regulations and are able to make further enquiries when necessary. Sufficient explanation and information have been provided to the Board to enable the Board to make an informed assessment of financial and other information put before it for approval. They also have unrestricted access to the advices and services of the Company Secretary, who is responsible for providing the Directors with board papers and related materials. The Board has also agreed that the Directors may seek independent professional advice in appropriate circumstances in performing their directors' duties at the Company's expenses.

DIRECTORS INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The directors are committed to complying with the CG Code A.6.5 on directors' training. All directors have participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility and provided a record of training they received for the financial year ended 31 December 2019 to the Company.

CORPORATE GOVERNANCE FUNCTION

The Audit Committee is responsible for performing the corporate governance duties under Code Provision D.3.1 as set out below:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to directors and employees of the Company; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the execution of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

BOARD COMMITTEES

The Board has established four committees with specific responsibilities as described below. The terms of reference of the Remuneration Committee, the Nomination Committee, the Audit Committee and the risk management committee (the "Risk Management Committee") of the Company are posted on the websites of the Company and the Stock Exchange.

REMUNERATION COMMITTEE

As at 31 December 2019, the Remuneration Committee comprises three independent non-executive Directors, namely Mr. Hon Kwok Ping, Lawrence, Mr. Lam Yiu Kin and Mr. Han Xiaojing and an executive Director, Ms. Rong Xiuli. Mr. Hon Kwok Ping, Lawrence is the chairman of the Remuneration Committee. The majority of the members of the Remuneration Committee are independent non-executive Directors.

The Remuneration Committee is responsible for reviewing and recommending all elements of the remuneration covering the Directors and senior management of the Company. No individual Director is involved in decisions relating to his/her own remuneration. The Remuneration Committee has adopted the model under Code Provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual Directors and senior management of the Company. Meeting of the Remuneration Committee is held at least once a year.

During the year ended 31 December 2019, the Remuneration Committee held one meeting to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration package of the executive Directors and senior management of the Company and other related matter. In addition, the Remuneration Committee had passed a written resolution to determine the remuneration of Mr. Han Xiaojing, the independent non-executive Director who has been appointed on 6 June 2019.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2019 are disclosed in note 11 and note 31 to the consolidated financial statements.

Attendance of the members of the Remuneration Committee at the meeting held during the year ended 31 December 2019 is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Mr. Hon Kwok Ping, Lawrence *(chairman)*	1/1
Mr. Lam Yiu Kin	1/1
Ms. Rong Xiuli	1/1
Mr. Han Xiaojing*	N/A

* Mr. Han Xiaojing has been appointed as a member of Remuneration Committee on 6 June 2019.

NOMINATION COMMITTEE

As at 31 December 2019, the Nomination Committee comprises an executive Director, Ms. Rong Xiuli as the chairman, and three independent non-executive Directors, Mr. Hon Kwok Ping, Lawrence, Mr. Lam Yiu Kin and Mr. Han Xiaojing as members. The majority of the members of the Nomination Committee are independent non-executive Directors.

The Nomination Committee is responsible for reviewing the Board composition and identifying and nominating candidates for appointment to the Board such that it has the required blend of skills, knowledge and experience. Pursuant to the terms of reference, the Nomination Committee shall hold meetings when necessary and may also deal with matters by way of circulation of written resolutions.

During the year ended 31 December 2019, the Nomination Committee held one meeting to (i) review the structure, size and diversity of the Board; (ii) assess and confirm the independence of the independent non-executive Directors; (iii) consider the re-appointment of retiring Directors at the annual general meeting of the Company; and (iv) review and endorse the Board Diversity Policy of the Company for the Board's approval. In addition, the Company passed a written resolution to recommend the appointment of Mr. Han Xiaojing, an independent non-executive Director who has been appointed on 6 June 2019.

Attendance of the members of the Nomination Committee at the meeting held during the year ended 31 December 2019 is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Ms. Rong Xiuli *(chairman)*	1/1
Mr. Hon Kwok Ping, Lawrence	1/1
Mr. Lam Yiu Kin	1/1
Mr. Han Xiaojing*	N/A

* Mr. Han Xiaojing has been appointed as a member of Nomination Committee on 6 June 2019.

AUDIT COMMITTEE

As at 31 December 2019, the Audit Committee comprises three independent non-executive Directors, namely Mr. Lam Yiu Kin, Mr. Hon Kwok Ping, Lawrence and Mr. Han Xiaojing. Mr. Lam Yiu Kin is the chairman of the Audit Committee. The Audit Committee is responsible for reviewing the Group's financial statements, overseeing the Group's financial reporting and internal control procedures, and making recommendations to the Board. None of the members of the Audit Committee is a member of the former or existing auditors of the Company. The Audit Committee has adopted the principles set out in the CG Code. Meetings of the Audit Committee are held at least twice a year.

The Audit Committee has access to and maintains an independent communication with the external auditors and management of the Company to ensure effective information exchange on all relevant financial accounting matters. During the year ended 31 December 2019, the Audit Committee held three meetings to (i) review the functional currency, (ii) review and discuss the key audit matters, annual report for the year ended 31 December 2018 and re-appointment of auditor; and (iii) review and discuss the unaudited financial statements for the six months ended 30 June 2019.

The chairman of the members of the Audit Committee, Mr. Lam Yiu Kin, possesses appropriate professional qualification in accounting and meets the requirements of Rule 3.21 of the Listing Rules.

Attendance of the members of the Audit Committee at the meetings held during the year ended 31 December 2019 is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Mr. Lam Yiu Kin *(chairman)*	3/3
Mr. Hon Kwok Ping, Lawrence	3/3
Mr. Han Xiaojing*	1/1

* Mr. Han Xiaojing has been appointed as a member of Audit Committee on 6 June 2019.

Following the resignation of Mr. Tsang Yat Kiang on 31 January 2019, the number of members of the Audit Committee decreased from three to two, falling below the minimum number required under Rule 3.21 of the Listing Rules.

The Company has subsequently fully complied with the aforesaid requirements under the Listing Rules upon the appointment of Mr. Han Xiaojing as an independent non-executive Director of the Company with effect from 6 June 2019.

RISK MANAGEMENT COMMITTEE

As at 31 December 2019, the Risk Management Committee comprises an independent non-executive Director, Mr. Hon Kwok Ping, Lawrence as the chairman, and two executive Directors, Ms. Rong Xiuli and Mr. Rong Shengli as members.

The Risk Management Committee is responsible for reviewing the Group's risk management strategies and giving guidelines and ensuring the soundness and effectiveness of the Group's internal control system, and the effectiveness of the internal audit function of the Group, to safeguard the investment of the Shareholders and the assets of the Company. Meeting of the Risk Management Committee shall be held at least once a year.

During the year ended 31 December 2019, the Risk Management Committee held one meeting to review and discuss the internal control, risk management framework, risk assessment and effectiveness of the internal audit function of the Group for the year of 2019.

Attendance of the members of the Risk Management Committee at the meeting held during the year ended 31 December 2019 is set out below:

Members	**No. of meeting attended/ No. of meeting held**
Mr. Hon Kwok Ping, Lawrence *(chairman)*	1/1
Ms. Rong Xiuli	1/1
Mr. Rong Shengli	1/1

AUDITORS' REMUNERATION

The fees paid/payable to the Company's external auditors, BDO Limited and its affiliates in respect of audit and non-audit services for the year ended 31 December 2019 are as follows:

Nature of services	**Amount** (RMB'000)
Audit services	1,792
Non-audit services	
– Provision of tax compliance services	16
– Other services	254

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the six months ended 30 June 2019 and for the year ended 31 December 2019, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The Directors acknowledge their responsibility to prepare the financial statements as set out on page 60. The statement of the external auditors about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 52 to 57 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

In order to comply with the applicable Code Provisions of the CG Code as set out in Appendix 14 to the Listing Rules, the Board has the responsibilities for evaluating and determining the nature and level of risk tolerance of the Company, establishing and maintaining sound and effective risk management and internal control systems, and overseeing and reviewing the design, implementation and monitoring of such risk management and internal control systems on an ongoing basis, so as to safeguard shareholders' interest and protect the Company's assets against unauthorized use or disposal. The Board is also responsible for ensuring maintenance of proper accounting records to provide reliable financial information and compliance with relevant laws and regulations.

The risk management and internal control systems established by the Group are aimed to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable and not absolute assurance against material misstatements or losses caused by judgment in decision making process, human error, fraud or other irregularities.

As stated in 2017 annual report, through engaging Crowe Horwath (HK) Corporate Consultancy Limited and collaborating with risk management and internal control personnel, the Group has established an internal audit charter to define the scope and duties and responsibilities of the internal audit function and its reporting protocol. The Group has also conducted an annual risk assessment for the financial year 2017 to identify respective strategic risks, operational risks, financial risks and compliance risks of its major business segments. Based on the outcome of the risk assessment and following a risk-oriented methodology audit approach, the Company has devised a three-year audit plan that prioritized the significance of the risks identified into annual audit project to assist the Board, the Audit Committee and the Risk Management Committee in assessing the effectiveness of the Group's risk management and internal control systems. During the year ended 31 December 2019, the Group has conducted an annual risk assessment for this financial year. The effectiveness of the risk management and internal control systems will be reviewed and evaluated by the Audit Committee, the Risk Management Committee and the Board at least annually. The Company has also formulated policies on handling and dissemination of inside information, which set out procedures in handling inside information in a secure and proper manner as well as those aimed to avoid mishandling of inside information of the Group.

CORPORATE GOVERNANCE REPORT

The Board has discussed and reviewed its risk management and internal control systems which covered the Company's compliance with Appendix 14 to the Listing Rules, and the validity of material controls (including financial, operational and compliance controls) at entity and operational levels. Based on the outcome of the review performed by the Company's Audit Committee, Risk Management Committee, administrative management, internal compliance coordinators and the independent professional consultant, the Directors considered and were of the opinion that the Group has maintained an adequate and effective risk management and internal control systems for the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

Right to convene extraordinary general meeting

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must specify the objects of the meeting, signed by the requisitionists and deposit it with the Company Secretary at the Company's principal place of business in Hong Kong at Suite B, 16/F., W Square, 314-324 Hennessy Road, Wanchai, Hong Kong.

If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

Right to propose a person for election as a Director at general meeting

Pursuant to article 85 of the Company's articles of association, if a Shareholder wishes to propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, he/she should give a written notice of nomination to the Company. Details for the relevant requirements and procedures can be found on the Corporate Governance section of the Company's website.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send in their enquiries and concerns to the Board in writing via the following channel:

The Board of Directors/Company Secretary
Vital Innovations Holdings Limited
Suite B, 16/F., W Square,
314-324 Hennessy Road,
Wanchai, Hong Kong

Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company established a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. The Board is committed in providing clear and full performance information of the Group to Shareholders through the publication of interim and annual reports. In addition to the circulars, notices and financial reports sent to Shareholders, additional information of the Group is also available to Shareholders on the website of the Company.

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The chairman of the Board and Directors are available to answer questions on the Group's business at the meeting. All resolutions at the general meeting are decided by a poll which is conducted by the Company's branch share registrar and transfer office in Hong Kong.

The Group values feedback from Shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

The annual general meeting of the Company provides a useful forum for Shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address Shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval, members of the independent Board committee will also make an effort to address Shareholders' queries.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year under review.

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TO THE SHAREHOLDERS OF VITAL INNOVATIONS HOLDINGS LIMITED
(FORMERLY KNOWN AS VITAL MOBILE HOLDINGS LIMITED)
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Vital Innovations Holdings Limited (formerly known as Vital Mobile Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 139, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue Recognition	
We identified the revenue recognition of mobile telecommunication devices as a key audit matter due to a significant increase of revenue from new customers recorded by the Group during the year. Revenue from sales of goods is recognised when control of the goods has transferred, being when the goods are delivered and accepted by the customers. The customers have full discretion over the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. The accounting policy for revenue recognition is disclosed in Note 3 to the consolidated financial statements. The Group has recognised revenue from mobile telecommunication devices of approximately RMB815,940,000 for the year ended 31 December 2019, and the details are disclosed in Note 5 to the consolidated financial statements.	Our procedures in relation to revenue recognition included: • Tracing a significant proportion of the recorded sales transactions for the year to sales orders, invoices, delivery notes or goods receipt notes and bank-in slips; • Performing background searches, site visits and interviews with major customers having significant sales transactions with the Group; and • Obtaining direct external confirmations on a significant proportion of total revenue from the Group's customers.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of significant prepayments	
We identified the impairment of significant prepayments to major suppliers as a key audit matter due to a significant increase of prepayments to suppliers recorded by the Group during the year. As set out in note 19 to the consolidated financial statements, the total gross amount as at 31 December 2019 of prepayments to suppliers amounted to approximately RMB686,415,000, of which approximately RMB625,973,000 were prepaid to three major suppliers for purchase of artificial intelligence ("AI") and other equipment and mobile phones. As at 31 December 2019, no impairment allowance has been recognised in relation to the prepayments to these three major suppliers. The management assessed the impairment based on the Group's past experience, adjusted for factors that are specific to the suppliers, general economic conditions at the reporting date as well as the forecast of future conditions with significant judgement involved.	Our procedures in relation to impairment assessment of the prepayments to the three major suppliers included: • Examining purchase agreements, remittance advices and bank-in slips in relation to the prepayments to major suppliers; • Performing background and credit searches, site visits and interviews with major suppliers and potential customers; • Corroborating and challenging management's assessment and expectation of reasonably possible outcomes on the recoverability of the prepayments to major suppliers and assessing whether subsequent events are adjusting or non-adjusting in assessment of impairment loss on the prepayments as at 31 December 2019; • Obtaining direct external confirmations of prepayments from the Group's major suppliers; • Examining the sales and purchase agreements made with customers for sales of certain AI and other equipment subsequent to 31 December 2019 and the remittance advices and bank-in slips in relation to the sales proceeds received from customers; • Assessing the appropriateness and reasonableness of the methodology adopted and judgements exercised by management in estimation of the fair value of the underlying AI and other equipment as at 31 December 2019 or where appropriate, the net realisable value ; and • Examining remittance advices and bank-in slips in respect of the refund of part of the prepayments from the suppliers to the Group pursuant to the supplementary agreements made with the suppliers subsequent to 31 December 2019.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Li Yin Fan
Practising Certificate Number P03113
Hong Kong,
30 June 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	**815,940**	911,448
Cost of sales		**(808,259)**	(895,399)
Gross profit		**7,681**	16,049
Other gains and losses	6	**5,735**	11,817
Other income	7	**5,891**	16,603
Selling and distribution expenses		**(5,625)**	(10,846)
Administrative expenses		**(18,224)**	(18,208)
Finance costs	8	**(1,032)**	(866)
(Loss)/profit before tax	9	**(5,574)**	14,549
Income tax expense	10	**–**	–
(Loss)/profit and total comprehensive income for the year attributable to equity holders of the Company		**(5,574)**	14,549
(Losses)/earnings per share (RMB per share)	13		
Basic		**(0.66) cents**	1.71 cents
Diluted		**(0.66) cents**	1.71 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Equipment		**100**	133
Right-of-use assets	28	**1,577**	–
		1,677	133
Current assets			
Inventories	17	**5,384**	26,583
Trade and other receivables	18	**2,280**	19,172
Prepayments	19	**686,415**	48,699
Pledged bank deposits	20	**3,504**	85,026
Bank deposits	21	**–**	678,223
Cash and bank balances	22	**51,207**	23,331
		748,790	881,034
Current liabilities			
Trade and bills payables	23	**12,740**	84,733
Bank loans	24	**20,874**	3,432
Accruals and other payables	25	**38,747**	32,390
Contract liabilities	26	**13,127**	16,639
Lease liabilities	28	**1,443**	–
Tax liabilities		**3,531**	3,570
		90,462	140,764
Net current assets		**658,328**	740,270
Total assets less current liabilities		**660,005**	740,403

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Lease liabilities	28	**176**	–
Net assets		**659,829**	740,403
Capital and reserves attributable to owners of the Company			
Share capital	27	**67,041**	67,041
Share premium and reserves		**592,788**	673,362
Total equity attributable to equity holders of the Company		**659,829**	740,403

The consolidated financial statements on pages 58 to 139 were approved and authorised for issue by the board of directors on 30 June 2020 and are signed on its behalf by:

Rong Xiuli
Director

Rong Shengli
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital RMB'000 (Note 27)	Share premium RMB'000	Share-based payment reserve RMB'000	Special Reserve RMB'000 (i)	Other reserve RMB'000 (ii)	Retained earnings RMB'000	Total RMB'000
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 year	–	–	–	–	–	14,549	14,549
Recognition of equity-settled share-based payment (Note 29)	–	–	766	–	–	–	766
Shareholder's contribution attributable to share-based payment (Note 29)	–	–	(3,118)	–	3,118	–	–
Balance at 1 January 2019	67,041	311,580	–	275,060	19,075	67,647	740,403
Loss and total comprehensive income for the year	–	–	–	–	–	(5,574)	(5,574)
Dividends recognised as distribution (Note 14)	–	(75,000)	–	–	–	–	(75,000)
Balance at 31 December 2019	67,041	236,580	–	275,060	19,075	62,073	659,829

Notes:

i. Special reserve represents the profit in respect of the operation of the business unit now comprising the Group which was retained by the then legal owner, Beijing Benywave Technology Co., Ltd. ("Benywave Technology"), and the net funding generated by the business unit now comprising the Group retained by Benywave Technology prior to a group reorganisation.

ii. Other reserve represents the shareholder's contribution attributable to share-based payment (Note 29).

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Operating activities			
(Loss)/profit before tax		**(5,574)**	14,549
Adjustments for:			
Finance costs	8	**1,032**	866
Depreciation of equipment		**33**	73
Depreciation of right-of-use assets	28	**1,784**	–
Interest income	7	**(5,266)**	(16,375)
Foreign exchange losses/(gains), net	6	**5**	(4,321)
Reversal of inventories		**–**	(1,478)
Reversal of impairment loss on trade receivables, net	6	**(26)**	(5,277)
(Reversal of)/loss allowance recognised on other receivables, pledged bank deposits and bank deposits	6	**(3,939)**	13
Written off of trade payables		**(1,825)**	–
Recognition of equity-settled share-based payment		**–**	766
Operating cash flows before movements in working capital		**(13,776)**	(11,184)
Decrease in inventories		**21,199**	16,023
Decrease in trade and other receivables		**5,050**	9,394
(Increase)/decrease in prepayments		**(637,716)**	2,453
Decrease in trade and bills payables		**(70,168)**	(7,442)
Increase in accrual and other payables		**6,012**	8,859
Decrease in contract liabilities		**(3,512)**	(32,011)
Cash used in operating activities		**(692,911)**	(13,908)
Income tax paid		**–**	–
Net cash used in operating activities		**(692,911)**	(13,908)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	**2019** **RMB'000**	2018 RMB'000
Investing activities			
Withdrawal of pledged bank deposits		**92,705**	7,119
Withdrawal of bank deposits		**756,519**	3,537
Interests income received		**17,177**	16,375
Placement of bank deposits		**(74,768)**	(11,700)
Placement of pledged bank deposits		**(10,443)**	(3,930)
Purchase of property, plant and equipment		**–**	(9)
Net cash from investing activities		**781,190**	11,392
Financing activities			
Dividends paid		**(74,531)**	–
Payment of lease liabilities		**(1,742)**	–
Repayment of bank loans		**(89,456)**	(118,323)
New bank loans raised		**106,539**	101,515
Interest paid		**(801)**	(846)
Interest paid on lease payments		**(138)**	–
Net cash used in financing activities	34	**(60,129)**	(17,654)
Net increase/(decrease) in cash and cash equivalents		**28,150**	(20,170)
Effect of foreign exchange rate changes		**(274)**	1,009
Cash and cash equivalents at 1 January		**23,331**	42,492
Cash and cash equivalents at 31 December, represented by cash and bank balances		**51,207**	23,331

1. GENERAL INFORMATION

Vital Innovations Holdings Limited (formerly known as "Vital Mobile 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 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 consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

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

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

The International Accounting Standard Board ("IASB") has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

IFRS 16 Leases

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

(i) Impacts of adoption of IFRS 16 Leases

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

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

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

	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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

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

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:

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%.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

(b) New and revised IFRSs in issue but not yet effective

At the date of this report, the IASB has issued the following new and revised IFRSs, but are not yet effective and have not been early adopted by the Group.

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

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

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

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

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

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncements. The Directors are currently assessing the impact of the new or amended IFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these IFRSs will not result in material financial impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable IFRSs issued by the IASB. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirely, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and basis of consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

Substantive potential voting rights held by the Company and other parties who hold voting rights;

Other contractual arrangements; and

Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are ready convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Revenue recognition

The Group principally derives revenue from sales of goods.

Revenue is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods, excluding the amounts collected on behalf of third parties. Revenue excludes value-added taxes or other sales taxes and is after deduction of any trade discounts.

Revenue from sales of mobile phones and accessories is recognised at the point in time when control of the goods has transferred, being when the products are delivered and accepted by the customers according to the terms of contracts. There is generally only one performance obligation and the consideration include no variable amount. Customers generally are required to pay the full amount before delivery, however, a 60-day credit period may be granted to some customers.

There is no warranty and right of return clause in the contracts with customers.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions entered into by the Company in currencies other than the currency of the primary economic environment in which it operate (the "functional currency") are recorded at the rates ruling when the transactions occur. The functional currency and presentation currency of the Group is Renminbi. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

On translation from functional currency to presentation currency, assets and liabilities are translated based on the exchange rate at the reporting date. Items of income and expense, capital transactions and cash flow are translated using the exchange rate prevailing at the transaction date or at an appropriate average rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme (the "MPF Scheme") which are defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contribution.

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to directors and employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. For restricted share units that vest immediately at the date of grant, the fair value of the restricted share units granted is expensed immediately to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling prices for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

A contract liability is recorded when the payment is made or the receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer control of the goods to a customer for which the Group has received consideration or an amount of consideration is due from the customer.

Equipment

Equipment is stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of items of equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the term of agreement. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets

At the end of the year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (accounting policies applied from 1 January 2019)

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 accounting policy choices exist 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 low-value assets and 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.

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. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (accounting policies applied from 1 January 2019) (continued)

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are 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 uses 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, the Group measures 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.

Leasing (accounting policies applied until 31 December 2018)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

(i) Financial assets

Classification

The Group classifies its financial assets in one measurement category which are measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

The Group subsequently measures the financial assets at amortised cost if the following conditions are met:

– the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value (either through other comprehensive income, or through profit or loss).

Derecognition

The Group derecognises a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Financial assets (continued)

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

– the carrying amount of the financial asset transferred; and

– the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

(ii) Impairment loss on financial assets

The Group recognises loss allowance for ECL on trade and other receivables, pledged and bank deposits and cash and cash equivalents measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

Measurement of ECLs (continued)

Impairment on financial assets included in other receivables is measured as either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, impairment is measured as lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– the financial asset is more than 90 days past due;

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable date:

– significant financial difficulty of the borrower or issuer;

– breach of contract such as a default or past due event;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statements of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. All of the Group's financial liabilities are financial liabilities at amortised costs which are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost, including trade and bills payables, other payables and bank loans, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the year. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as liabilities.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. The Company considers that its functional currency is Renminbi. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services and also the currency in which funds from financing activities and the currency in which receipts from operating activities are usually retained.

When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(a) Critical judgements in applying accounting policies (continued)

Determination of the accounting treatment for revenue

The Group is principally engaged in mobile telecommunication devices export operations in the PRC. In determine whether the revenue shall be recorded on a net basis or gross basis, the Group has made reference to indicators and requirements stated in IFRS 15 paragraphs B34 to B38 and consider the economic substance of the transactions. Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances, and the Group considers it controls the goods before they are transferred to the customer. Therefore, the Group is a principal and recognises revenue at gross basis under IFRS 15 after assessing the following features that are arising from its operations:

– The Group is primarily responsible for fulfilling the promises to provide the products to customers;

– The Group has inventory risk before the products have been transferred to customers; and

– The Group has discretion in establishing the prices for the products.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other keys sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of financial assets measured at amortised cost

Management estimates the amount of loss allowance for ECL on financial assets that are measured at amortised cost based on the credit risk of the respective financial asset. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the respective financial asset. The assessment of the credit risk of the respective financial asset involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Key sources of estimation uncertainty (continued)

Allowance for inventories

The management performs regular review on the net realisable value of inventories and makes allowance for inventories based on the review. The identification of slow moving, obsolete inventories and inventories with negative margin requires the use of judgment and estimates on the conditions and saleability of the inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. In determining the net realisable value, the management considers the subsequent selling prices, aging information of inventories and adjusting or non-adjusting event. As at 31 December 2019, there was no write down of inventory (2018: Nil). Where the expectation is different from the original estimate, such difference will impact carrying value of inventories in the year in which such estimate has been changed.

Income tax

As at 31 December 2019, no deferred tax asset was recognised on the tax losses and deductible temporary differences of RMB146,752,000 in aggregate (2018: RMB138,623,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are more than expected, or changes in facts and circumstances which result in revision of future taxable profits estimation, a material future recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a future recognition takes place. Further details are contained in Note 16.

Impairment of non-financial assets

Management periodically reviews each asset for possible impairment or reversal of previously recognised impairment. The recoverable amount of an asset is the higher of its fair value less costs to sell and value-in-use. If such assets are considered by management to be impaired or impairment recognised is no longer required, the impairment required or reversal of impairment previously recognised is measured by the amount by which the carrying amount of the assets exceeds or exceeded by the estimated recoverable amount of the assets respectively. In determining the recoverable amount, the Group seeks professional advice or makes use of independent professional valuations as appropriate which are based on various assumptions and estimates.

5. REVENUE AND SEGMENT INFORMATION

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

Segment information

The Group operates and manages its business in the PRC and Hong Kong and is engaged in selling mobile telecommunication devices targeting global markets excluding the PRC, which is considered as a separate operating segment by the management of the Group. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products of the Group 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 relevant periods:

	2019	2018
	RMB'000	RMB'000
Recognised at a point in time		
Mobile telecommunication devices	**815,940**	911,448

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

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment information (continued)

Geographical information

A substantial amount of revenue from external customers, based on their locations, is derived from the Company's country of domicile, Hong Kong. The following table sets forth a breakdown of the Group's revenue during the year based on locations of the customers:

	2019	2018
	RMB'000	RMB'000
Hong Kong	**815,940**	910,999
Taiwan	**–**	449
	815,940	911,448

Notes:

1. Sales to Hong Kong mainly comprised sales to certain mobile trading companies incorporated in Hong Kong which sell mobile telecommunication devices to various countries including but not limited to The United Arab Emirates, Russia, Thailand and Malaysia.

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

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment information (continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Customer A	**441,438**[1]	178,826[1]
Customer B	**95,206**[1]	N/A[1,2]
Customer C	**N/A**[1,2]	150,244[1]
Customer D	**N/A**[1,2]	143,552[1]

1. Revenue from sales of mobile telecommunication devices
2. The corresponding revenue did not contribute over 10% of the total revenue of the Group

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

6. OTHER GAINS AND LOSSES

	2019 RMB'000	2018 RMB'000
Foreign exchange (losses)/gains, net	**(5)**	4,321
Reversal of impairment loss on trade receivables	**26**	5,277
Reversal of/(loss allowance recognised on) other receivables, pledged bank deposits and bank deposits	**3,939**	(13)
Gain from disposal of impaired inventories	**–**	2,101
Others	**1,775**	131
	5,735	11,817

7. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Interest income on pledged bank deposits	**1,456**	44
Interest income on bank deposits	**3,376**	14,899
Interest income on bank balances	**434**	1,432
	5,266	16,375
Services income	**573**	228
Others	**52**	–
	5,891	16,603

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank loans	**894**	866
Interest on lease liabilities	**138**	–
	1,032	866

9. (LOSS)/PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	RMB'000
Auditor's remuneration	**2,046**	2,706
Advertising expenses	**–**	5,049
Depreciation of equipment	**33**	73
Depreciation of right-of-use assets	**1,784**	–
Exchange losses/(gains), net	**5**	(4,321)
Directors' emoluments (Note 11)	**5,106**	4,878
Other staff costs		
– salaries and other allowance	**6,767**	7,653
– retirement benefit schemes contribution	**764**	866
– recognition of equity-settled share-based payment	**–**	225
Total staff costs	**12,637**	13,622
Cost of inventories recognised as an expense	**808,259**	895,399
Reversal of inventories (included in cost of sales)	**–**	(1,478)
Reversal of impairment loss on trade receivables	**(26)**	(5,277)
(Reversal of)/loss allowance recognised on other receivables, pledged bank deposits and bank deposits	**(3,939)**	13
Interest on lease liabilities	**138**	–
Short-term leases expenses	**825**	–
Operating lease rentals	**–**	2,798

10. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Income Tax		
– tax for the year	–	–

The Company's subsidiary incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% (2018: 16.5%).

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the income tax rate of Beijing Benywave Wireless Communication Co., Ltd ("Benywave Wireless"), a subsidiary of the Company, is 25%. Benywave Wireless was recognised as "New and High Technology Enterprises" since 2015 and is entitled to apply a preferential tax rate of 15% for the years ended 31 December 2019 and 2018.

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

The tax credit for the year can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 RMB'000	2018 RMB'000
(Loss)/profit before tax	(5,574)	14,549
Tax calculated at applicable domestic tax rate (2019: 16.5%, 2018: 16.5%)	(920)	2,401
Tax effect of expenses not deductible for tax purposes	1,281	172
Tax effect of income not taxable for tax purpose	(2,158)	(2,757)
Effect of tax incentive granted	(76)	(113)
Effect of different tax rates of the entities operating in other jurisdictions	110	–
Tax effect of tax losses and other deductible temporary differences not recognised	1,763	297
Over provision in respect of prior years	–	–
Income tax expense	–	–

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the nine (2018: seven) directors and chief executive were as follows:

2019	Directors' fee RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Ms. Rong	–	720	60	–	–	780
Mr. Rong Shengli (i)	–	720	60	142	–	922
Mr. Yin Xuquan	–	720	60	101	–	881
Mr. Tang Shun Lam (ii)	–	1,067	–	16	–	1,083
Mr. Wong Ho Chun (iii)	–	582	–	15	–	597
Independent non-executive directors:						
Mr. Hon Kwok Ping Lawrence	317	–	–	–	–	317
Mr. Lam Yiu Kin	317	–	–	–	–	317
Mr. Tsang Yat Kiang (iv)	26	–	–	–	–	26
Mr. Han Xiaojing (v)	183	–	–	–	–	183
Total	843	3,809	180	274	–	5,106

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

2018	Directors' fee RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Ms. Rong	–	720	–	83	–	803
Mr. Rong Shengli (i)	–	720	–	126	283	1,129
Mr. Yin Xuquan	–	660	–	82	–	742
Mr. Tang Shun Lam (ii)	–	1,016	–	15	258	1,289
Independent non-executive directors:						
Mr. Hon Kwok Ping Lawrence	305	–	–	–	–	305
Mr. Lam Yiu Kin	305	–	–	–	–	305
Mr. Tsang Yat Kiang (iv)	305	–	–	–	–	305
Total	915	3,116	–	306	541	4,878

Notes:

(i) Mr. Rong Shengli is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive.

(ii) Mr. Tang Shun Lam resigned as an executive director on 18 December 2019.

(iii) Mr. Wong Ho Chun was appointed as an executive director on 1 February 2019.

(iv) Mr. Tsang Yat Kiang resigned as independent non-executive director on 31 January 2019.

(v) Mr. Han Xiaojing was appointed as independent non-executive director on 6 June 2019.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' fee shown above were mainly for their services as directors of the Company.

During the year ended 31 December 2018, certain restricted share units (the "RSU" s) granted to certain directors were vested in respect of their services to the Group under the restricted share units scheme (the "RSU Scheme") of the Company. Details of the RSU Scheme are set out in Note 29.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included four directors (2018: four), details of whose remunerations are set out in Note 11 above. Details of the remuneration for the year of the remaining one (2018: one) highest paid employees who is neither a director nor chief executive of the Company are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries and allowance	**654**	594
Retirement benefits schemes contribution	**82**	67
	736	661

The number of the highest paid employee(s) who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2019	2018
	No. of individuals	No. of individuals
Nil to HKD1,000,000	**1**	1
	1	1

During the years ended 31 December 2019 and 2018, no directors of the Company waived or agreed to waive any emoluments, and no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. (LOSSES)/EARNINGS PER SHARE

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

	2019	2018
	RMB'000	RMB'000
(Loss)/profit for the purposes of basic and diluted (losses)/ earnings per share, representing (loss)/profit for the year attributable to equity holders of the Company	**(5,574)**	14,549

	2019	2018
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**850,000**	850,000

Diluted (losses)/earnings per share is equal to basic (losses)/earnings per shares as there were no dilutive potential ordinary shares in issue during the years ended 31 December 2019 and 2018.

14. DIVIDENDS

	2019	2018
	RMB'000	RMB'000
Dividends recognised as distribution during the year	**75,000**	–

During the year ended 31 December 2019, no final dividend for the year ended 31 December 2018 was declared and paid (2018: no final dividend for the year ended 31 December 2017 was declared and paid).

Pursuant to the resolution passed by the shareholders at the extraordinary general meeting on 9 July 2019, the payment of special dividend of HK$0.10 (equivalent to approximately RMB0.09) per ordinary share out of the share premium account for the year ended 31 December 2019 amounted to HKD85,000,000 (approximately to RMB75,000,000).

15. INTANGIBLE ASSETS

	Software technology RMB'000
Cost	
As at 1 January and 31 December 2018 and 31 December 2019	45,655
Amortisation and impairment	
As at 1 January and 31 December 2018 and 31 December 2019	45,655
Carrying amounts	
As at 31 December 2019	–
As at 31 December 2018	–

The software technology is related to software/application insertion and amortised over its useful life of 10 years.

Due to the significant uncertainties in the market environment caused by the free downloads of official upgrade software from the first-tier smartphone brands and the measures taken by some of the first-tier brands starting to introduce encryption codes to prevent changes to the software codes, the use of the software technology in these target smartphone brands was negatively affected. In addition, the gross margin of sales of products related to software/application insertion was unsatisfactory. The directors assessed that the software technology required a full impairment during the year ended 31 December 2017.

16. DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of the following items:

	2019 RMB'000	2018 RMB'000
Tax losses	**67,848**	56,457
Other deductible temporary differences	**78,904**	82,166
	146,752	138,623

No deferred tax asset has been recognised in relation to the unutilised tax losses and other deductible temporary differences due to the unpredictability of future profit streams of the relevant entities and it is not probable that taxable profit or taxable temporary differences will be available against which the tax losses and the deductible temporary differences can be utilised. Other deductible temporary differences are mainly comprised of deductible depreciation allowances and amortisation allowances arising in subsidiaries.

The unrecognised tax losses will be expired as follows:

	2019 RMB'000	2018 RMB'000
2021	**3,044**	3,044
2022	**18,856**	18,856
2023	**14,561**	14,561
2024	**4,175**	–
2031	**1,275**	1,275
2032	**1,379**	1,379
2033	**628**	–
	43,918	39,115

At the end of the reporting period, the Company has unused tax losses of RMB23,930,000 (31 December 2018: RMB17,342,000) which arose in Hong Kong and are available for offset against future profits that may be carried forward indefinitely.

17. INVENTORIES

	2019 RMB'000	2018 RMB'000
Finished goods	**5,384**	26,583

The management has performed a net realisable value assessment as at 31 December 2019 with reference to the subsequent selling prices and aging information of inventories. There was no write down of inventories required for the years ended 31 December 2019 and 31 December 2018.

18. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**15,048**	20,158
Less: impairment allowance	**15,048**	15,074
	–	5,084
Other receivables		
– Interest receivables	**2**	11,913
– Other PRC tax receivables	**2,036**	2,036
– Others	**521**	461
	2,559	14,410
Less: impairment allowance	**279**	322
	2,280	14,088
	2,280	19,172

Notes:

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.

18. TRADE AND OTHER RECEIVABLES (continued)

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

	2019	2018
	RMB'000	RMB'000
Current	**–**	2,763
Less than 30 days	**–**	2,321
Within 30 days to 90 days	**–**	–
	–	5,084

The Group recognised impairment loss based on the accounting policy stated in Note 3. Further details on the group's credit policy and credit risk arising from trade and other receivables are set out in Note 33.

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

	2019	2018
	RMB'000	RMB'000
USD	**–**	5,084

The details of ECL assessment on trade and other receivables are disclosed in Note 33.

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

	2019	2018
	RMB'000	RMB'000
USD	**2**	–

19. PREPAYMENTS

	2019	2018
	RMB'000	RMB'000
Prepayments to AI and other equipment suppliers (note i)	**376,000**	–
Prepayments to mobile suppliers (note ii)	**310,415**	48,699
	686,415	48,699

Notes:

(i) During the year ended 31 December 2019, the Group has made prepayments for purchase of AI and other equipment totalling RMB376,000,000 to two AI and other equipment suppliers which are independent third parties to the Group.

Subsequent to the year end, RMB186,806,000 of the prepayments have been transformed into sales transactions, resulting in a loss of RMB71,456,000, which will be reported on completion of sales in the fist half year of 2020; and RMB189,194,000 has been refunded to the Group in June 2020.

(ii) During the year ended 31 December 2019 and 31 December 2018, the Group has made prepayments to mobile telecommunication device suppliers to purchase mobile telecommunication devices.

20. PLEDGED BANK DEPOSITS

The pledged bank deposits mainly represent deposits pledged for bills payable and bank loans. As at 31 December 2019, the above pledged bank deposits carry interest from 0.3% to 1.65% per annum (2018: from 0.3% to 1.65%).

	2019 RMB'000	2018 RMB'000
Pledged bank deposits	**3,520**	85,461
	3,520	85,461
less: impairment allowance	**(16)**	(435)
	3,504	85,026

The details of ECL assessment on pledged bank deposits are disclosed in Note 33.

Included in pledged bank deposits are the following amounts denominated in currency other than functional currency of the relevant group entity:

	2019 RMB'000	2018 RMB'000
Pledged bank deposits denominated in:		
– USD	**3,478**	6
– HKD	**–**	84,994

21. BANK DEPOSITS

As at 31 December 2019, no bank deposits were placed in the bank. As at 31 December 2018, the bank deposits were placed in the banks with high credit ratings in the PRC. The bank deposits carried a fixed annual interest rate of 1.5% to 2.25% which will be matured in one year.

	2019	2018
	RMB'000	RMB'000
Bank deposits	–	681,700
	–	681,700
less: impairment allowance	–	(3,477)
	–	678,223

The details of ECL assessment on bank deposits are disclosed in Note 33.

The Group has no bank deposits that are denominated in a currency other than the functional currency of the relevant group entities as at 31 December 2018.

22. CASH AND BANK BALANCES

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**51,449**	23,451
	51,449	23,451
less: impairment allowance	**(242)**	(120)
	51,207	23,331

The details of ECL assessment on cash and bank balances are disclosed in Note 33.

Included in cash and bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2019 RMB'000	2018 RMB'000
– USD	**40,451**	22,039
– HKD	**7,403**	362
– EUR	**71**	77

Bank balances carried interest at market rates which range from nil to 0.30% per annum as at 31 December 2019 (2018: from nil to 0.30% per annum).

The bank balances denominated in RMB, amounting to RMB520,000 (2018: RMB869,000) were deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

23. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**12,740**	14,733
Bills payables	**–**	70,000
	12,740	84,733

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

	2019 RMB'000	2018 RMB'000
Over 1 year	**12,740**	14,733
	12,740	14,733

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

	2019 RMB'000	2018 RMB'000
USD	**704**	2,020

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

	2019 RMB'000	2018 RMB'000
91 to 180 days	**–**	70,000
	–	70,000

24. BANK LOANS

As at 31 December 2019, the amount comprised nine secured bank loans (2018: one). The terms and conditions of each loan are disclosed below.

		Carrying amount	
	Maturity date	**2019**	2018
		RMB'000	RMB'000
Fixed-rate borrowings:			
Secured bank loan I	20 January 2019	**–**	3,432
Secured bank loan II	6 January 2020	**3,502**	–
Secured bank loan III	13 January 2020	**1,750**	–
Secured bank loan IV	13 January 2020	**2,453**	–
Secured bank loan V	17 January 2020	**2,098**	–
Secured bank loan VI	20 January 2020	**2,030**	–
Secured bank loan VII	21 January 2020	**2,099**	–
Secured bank loan VII	24 January 2020	**2,794**	–
Secured bank loan IX	10 February 2020	**2,050**	–
Secured bank loan X	10 February 2020	**2,098**	–
Total bank loan		**20,874**	3,432

The effective interest rate of the nine secured bank loans is charged at the United States Dollar Prime Rate, which is ranged from 4.75% to 5.50% (2018: 4.25% to 5.25%).

The loans were jointly secured by the properties owned by two individuals connected to the Company.

The Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2019	2018
	RMB'000	RMB'000
USD	**20,874**	3,432

25. ACCRUALS AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Royalties payable (note i)	**13,210**	13,210
Staff costs payable	**1,500**	1,183
Payable for insurance premium and freights	**942**	942
Interest payable	**113**	20
Dividends payable	**252**	–
Others (note ii)	**22,730**	17,035
	38,747	32,390

Note:

(i) The royalties payable represents accrued royalty fees in prior years for Original Design Manufacturer ("ODM") business which was ceased during the year 2016.

(ii) The others payable represents accrued professional fees and deposits received from ODM business amounting to RMB19,000,000 in prior years.

26. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2019 and 2018 and will be expected to be recognised within one year:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Sales of goods	**13,127**	16,639

It represented amounts received from customers in advance in relation to sales of goods. The amounts are recognised when control of the goods has transferred, being when the products are delivered and accepted by the customers according to the terms of contracts.

Movements in contract liabilities

	2019	2018
	RMB'000	RMB'000
Balance as at 1 January	**16,639**	48,650
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(10,826)**	(35,507)
Decrease in contract liabilities as result of termination of contracts	**(5,813)**	(13,143)
Increase in contract liabilities as a result of billing in advance of sales of goods	**13,127**	16,639
Balance at 31 December	**13,127**	16,639

There were no contract assets as at 31 December 2018 and 2019 recognised on the consolidated statements of financial position.

27. SHARE CAPITAL

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

28. LEASES

Group as a lessee

The Group has lease contracts for properties and equipment used in its operations. The leases typically run for a period of 3 years.

The Group also has certain leases of properties with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemptions for these leases.

IFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, details are disclosed in Note 2(i). The accounting policies applied subsequent to the date of initial application, 1 January 2019, are disclosed in Note 3.

28. LEASES (continued)

Set out below are the carrying amounts of right-of-use assets and lease liabilities recognised and the movements during the year:

	Properties		Equipment		Total	
	Right-of-use assets	Lease liabilities	Right-of-use assets	Lease liabilities	Right-of-use assets	Lease liabilities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018	–	–	–	–	–	–
Initial application of IFRS 16	3,246	3,246	115	115	3,361	3,361
Adjusted balance at 1 January 2019	3,246	3,246	115	115	3,361	3,361
Addition during the year	–	–	–	–	–	–
Depreciation expense	(1,710)	–	(74)	–	(1,784)	–
Interest expense	–	134	–	4	–	138
Lease payment	–	(1,804)	–	(76)	–	(1,880)
At 31 December 2019	1,536	1,576	41	43	1,577	1,619

28. LEASES (continued)

Future lease payments are due as follows:

	Minimum lease payments 31 December 2019 RMB'000	Interest 31 December 2019 RMB'000	Present value 31 December 2019 RMB'000
Not later than one year	1,489	(46)	1,443
Later than one year and not later than two years	177	(1)	176
	1,666	(47)	1,619

	Minimum lease payments 1 January 2019 RMB'000	Interest 1 January 2019 RMB'000	Present value 1 January 2019 RMB'000
Not later than one year	1,880	(138)	1,742
Later than one year and not later than two years	1,489	(46)	1,443
Later than two years and not later than five years	177	(1)	176
	3,546	(185)	3,361

Note: The Group has initially applied IFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 has not been restated. See note 2(a) for further details about transition.

28. LEASES (continued)

The present value of future lease payments are analysed as:

	2019	2018
	RMB'000	RMB'000
Current liabilities	**1,443**	–
Non-current liabilities	**176**	–
	1,619	–

Operating leases – lessee

The lease payments recognised as an expense are as follows:

	2019	2018
	RMB'000	RMB'000
Minimum leases payments	**825**	2,798

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018
	RMB'000
Minimum lease payments under operating leases:	
Within one year	2,667
In the second to third year	1,905
	4,572

29. SHARE-BASED PAYMENT TRANSACTIONS

On 9 June 2015, the Company approved and adopted 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 which is a wholly-owned subsidiary of the Trustee was identified as nominee of the Trustee (the "Nominee").

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 the RSU Scheme, a total of 32,300,000 restricted shares were granted to the selected grantees without the exercise 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.

29. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The details of specific categories of options are as follows:

Number of restricted shares	Date of grant	Vesting period	Exercise price
5,830,000	2 November 2016	Vested immediately	Nil
13,120,000	2 November 2016	1/3 in each of the three year	Nil
18,950,000			

A Participant does not have any contingent interest in any ordinary shares underlying an RSU unless and until these ordinary shares are actually transferred to the Participants from the Trustee. Furthermore, a Participant may not exercise any voting right in respect of the ordinary shares underlying the RSU(s), nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any ordinary shares underlying the RSU(s).

29. SHARE-BASED PAYMENT TRANSACTIONS (continued)

All shares were fully vested during the year ended 31 December 2018 and no additional shares were granted and outstanding for the year ended 31 December 2019 in relation to the RSU Scheme granted by the Company. The following table discloses the movement of the Company's shares granted to the Participants for the year ended 31 December 2018:

The movement for the period ended 31 December 2018

Category of Participant	Outstanding vested at 1 January 2018	Forfeited during the year	Vested during the year	Outstanding vested at 31 December 2018	Exercisable at 31 December 2018	Share price at grant date HK$	Vesting condition	Lock up period
Independent non-executive directors	–	–	–	–	–	1.14	No vesting condition	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Executive directors	2,373,334	–	2,373,334	–	–	1.14	Remain in service for three years	Not applicable
Subtotal	2,373,334	–	2,373,334	–	–			
Key employees I	1,866,666	1,149,999	716,667	–	–	1.14	Remain in service for three years	Not applicable
Key employees II	–	–	–	–	–	1.14	No vesting condition	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Subtotal	1,866,666	1,149,999	716,667	–	–			
Total	4,240,000	1,149,999	3,090,001	–	–			

29. SHARE-BASED PAYMENT TRANSACTIONS (continued)

At the end of each year, the Group revises its estimates of the number of RSUs that are expected to vest ultimately. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the share-based payments reserve.

The Group recognised the share base payment expense of RMB766,000 for the year ended 31 December 2018 in relation to the RSU Scheme in which the fair value of restricted shares granted and vested during the year ended 31 December 2018 amounting to RMB3,118,000 was recognised as a shareholder's contribution in other reserve.

All shares were fully vested during the year ended 31 December 2018 and no additional shares were granted and outstanding for the year ended 31 December 2019 in relation to the RSU Scheme by the Company.

30. CAPITAL COMMITMENTS

Capital commitments not provided for in the financial statements were as follows:

	2019	2018
	RMB'000	RMB'000
In respect of:		
Sales and purchases agreement	**1,881**	–

On 2 December 2019, the Group entered into a sale and purchase agreement to acquire 30% of the issued share capital of Lux Capital Management Limited ("Lux Capital") from an independent third party for a cash consideration of HKD2,100,000 (equivalent to RMB1,881,000). As at 31 December 2019, certain conditions of the sale and purchase agreement have not yet been fulfilled. Details are disclosed in Note 38.

31. RETIREMENTS BENEFITS CONTRIBUTION

The Group operates the MPF Scheme for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contribution per employee is HKD1,500 per month. During the year ended 31 December 2019, the retirement benefit scheme contribution arising from the MPF Scheme charged to profit or loss were approximately RMB174,000 (2018: RMB95,000).

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiary of the Company are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The retirement benefit cost charged to profit or loss for the year 31 December 2019 amounted to RMB864,000 (2018: RMB1,041,000).

32. RELATED PARTY TRANSACTIONS OTHER THAN THE BALANCES DISCLOSED

(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 (「天宇」)	Company controlled by Ms. Rong and Mr. Ni
Benywave Technology 北京百納威爾科技有限公司	Company controlled by Ms. Rong and Mr. Ni

32. RELATED PARTY TRANSACTIONS OTHER THAN THE BALANCES DISCLOSED (continued)

(b) Related party transactions

	2019 RMB'000	2018 RMB'000
Premises lease liability payment charged by Tianyu	711	–
Premises interest on lease liability charged by Tianyu	46	–
Premises rental expenses charged by Tianyu	–	742
Equipment lease liability payment charged by Benywave Technology	68	–
Equipment interest on lease liability charged by Benywave Technology	4	–
Equipment rental expenses charged by Benywave Technology	–	67

(c) Remuneration of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short term employee benefits	6,755	3,826
Post-employment benefit	386	457
Equity-settled share-based payments	–	717
	7,141	5,000

(d) Guarantee

As disclosed in Note 24, as at 31 December 2019, the loans of RMB20,874,000 (2018: RMB3,432,000) were jointly secured by the properties owned by two individuals connected to the Company.

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019	2018
	RMB'000	RMB'000
Financial assets at amortised cost		
Trade and other receivables	**244**	19,421
Pledged bank deposits	**3,504**	85,026
Bank deposits	**–**	678,223
Cash and cash equivalents	**51,207**	23,331
	54,955	806,001
Financial liabilities at amortised cost		
Other payables	**23,276**	6,016
Trade and bills payables	**12,740**	84,733
Bank loans	**20,874**	3,432
Lease liabilities	**1,619**	–
	58,509	94,181

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, pledged bank deposits, cash and bank balances, bank deposits, trade and bills payables, other payables and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (mainly currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk

Foreign currency risk

The Group undertakes certain operating transactions 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.

The carrying amounts of the Group's foreign currency denominated monetary assets (trade and other receivables, cash and bank balances and pledged bank deposits) and liabilities (trade payables and bank loans) at the end of each reporting periods are as follows:

	Assets		**Liabilities**	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**46,261**	21,129	**38,060**	5,452
HKD	**8,071**	85,356	**2,332**	–

Sensitivity analysis

The following tables detail the Group's sensitivity to a 5% increase and decrease in RMB against USD and HKD. 5% represents management's assessment of the reasonably possible change in the foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to USD at each period end for a 5% change in the foreign currency rate. A positive number below indicates an increase in post-tax profit or decrease in post-tax loss where RMB weakens 5% against the USD and HKD. For a 5% strengthening of RMB against the USD and HKD, there would be an equal and opposite impact on the profit or loss for the year, and the amounts below would be negative.

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

	2019	2018
	RMB'000	RMB'000
	Decease in loss for the year	Increase in profit for the year
USD	**410**	911
HKD	**287**	3,582

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank deposits and bank loans with variable interest rate (Note 24).

The Group manages its interest rate exposure based on the interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility of the interest rate. The Group currently does not have interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

The following table details the interest rate profile of the Group's bank deposits and borrowings at the end of the reporting period.

	2019		2018	
	Effective interest rate (%)	**RMB'000**	Effective interest rate (%)	RMB'000
Bank deposits and borrowings				
Pledged bank deposits	**0.3 to 1.65**	**3,504**	0.3 to 1.65	85,026
Bank deposits	**1.5 to 1.95**	**–**	1.5 to 2.25	678,223
Cash and bank balances	**Nil to 0.30**	**51,207**	Nil to 0.30	23,331
		54,711		786,580
Bank loans	**4.48**	**(20,874)**	4.78	(3,432)
		33,837		783,148

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Interest rate risk (continued)

Sensitivity analysis

At 31 December 2019, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease (2018: increase) the Group's loss (2018: profit) for the year and retained profits by approximately RMB338,370 (2018: RMB7,842,610). Other components of consolidated equity would increase by approximately RMB338,370 (2018: RMB7,842,610) in response to the general increase in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the bank deposits and borrowings in existence at that date. The 100 basis point increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

The analysis is performed on the same basis for 2018.

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, pledged bank deposits, bank deposits and cash and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019 and 2018. The Group has elected IFRS 9 simplified approach to calculate the ECLs:

	Expected loss rate (%)	**Gross carrying Amount (RMB'000)**	**Loss allowance (RMB'000)**
As at 31 December 2019			
Current (not past due)	**–**	**–**	**–**
1-30 days past due	**5.89%**	**–**	**–**
31-60 days past due	**5.89%**	**–**	**–**
61-90 days past due	**100%**	**–**	**–**
More than 90 days past due	**100%**	**15,048**	**15,048**
		15,048	**15,048**

	Expected loss rate (%)	Gross carrying Amount (RMB'000)	Loss allowance (RMB'000)
As at 31 December 2018			
Current (not past due)	–	–	–
1-30 days past due	0.51%	2,763	15
31-60 days past due	0.51%	2,349	13
61-90 days past due	100%	304	304
More than 90 days past due	100%	14,742	14,742
		20,158	15,074

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019	2018
	RMB'000	RMB'000
Balance at 1 January	**15,074**	20,351
Impairment losses recognised during the year	**–**	332
Recovery from impairment loss on trade receivables	**(26)**	(5,609)
Balance at 31 December	**15,048**	15,074

For other receivables, the Group made periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Group has based on 12-month ECLs as to whether there is significant increase in credit risk since initial recognition for measurement of ECLs of other receivables.

Movement in the loss allowance account in respect of other receivables during the year is as follows:

	2019	2018
	RMB'000	RMB'000
Balance at 1 January	**322**	380
Reversal of impairment losses during the year	**(43)**	(58)
Balance at 31 December	**279**	322

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

In order to minimise credit risk in respect of pledged bank deposits, bank deposits and cash and cash balances, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its deposits and cash balances and condition are performed on each and every bank periodically. These evaluations focus on the credit ratings of its bank, and take into account information specific to the bank as well as pertaining to the economic environment in which the bank operates.

In respect of bank deposits, the Group has significant amount of bank deposits with banks in the PRC which have moderate credit ratings.

The Group has based on 12-month ECLs as to whether there is significant increase in credit risk since initial recognition for measurement of ECLs of pledged bank deposits, bank deposits and cash and bank balances.

Movement in the loss allowance account in respect of pledged bank deposits, bank deposits and cash and bank balances during the year is as follows:

	2019 **RMB'000**	2018 RMB'000
Balance at 1 January	**4,032**	4,084
Reversal of impairment losses during the year	**(3,774)**	(52)
Balance at 31 December	**258**	4,032

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk

In management of liquidity risk, the Group's management monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance the Group's operations and mitigate the impacts of fluctuations in cash flows. The management monitors the utilisation of bank loans and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate RMB'000	**Carrying amount RMB'000**	**Total undiscounted cash flows RMB'000**	**On demand or within one year RMB'000**	**More than 1 year but less than 2 years RMB'000**
As at 31 December 2019					
Financial liabilities					
Other payables	**–**	**23,276**	**23,276**	**23,276**	**–**
Trade and bills payables	**–**	**12,740**	**12,740**	**12,740**	**–**
Bank loans	**4.48%**	**20,874**	**20,987**	**20,987**	**–**
Lease liabilities		**1,619**	**1,666**	**1,489**	**177**
Total		**58,509**	**58,669**	**58,492**	**177**

	Weighted average effective interest rate RMB'000	Carrying amount RMB'000	Total undiscounted cash flows RMB'000	On demand or within one year RMB'000	More than 1 year but less than 2 years RMB'000
As at 31 December 2018					
Financial liabilities					
Other payables	–	6,016	6,016	6,016	–
Trade and bills payables	–	84,733	84,733	84,733	–
Bank loans	4.78%	2,319	2,339	2,339	–
Total		93,068	93,088	93,088	–

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Fair value of financial instruments

There are no financial instruments measured at fair value or a recurring basis.

The fair values of financial assets and financial liabilities at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows from financing activities.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

Reconciliation of liabilities arising from financing activities

	Bank loans (Note 24) RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	3,432	20	–	–	3,452
Initial application of IFRS 9	–	–	–	3,361	3,361
Changes from cash flows:					
Proceeds from new bank loans	106,539	–	–	–	106,539
Repayment of loans	(89,456)	–	–	–	(89,456)
Payment of lease liabilities	–	–	–	(1,742)	(1,742)
Interest paid on lease payment	–	–	–	(138)	(138)
Dividend paid		–	(74,531)	–	(74,531)
Interest paid	(781)	(20)	–	–	(801)
Total changes from financing cash flows:	16,302	(20)	(74,531)	(1,880)	(60,129)
Exchange adjustments:	359	–	(217)	–	142
Other changes:					
Interest expenses	781	113	–	138	1,032
Dividend declared	–	–	75,000	–	75,000
Total other changes	781	113	75,000	138	76,032
At 31 December 2019	20,874	113	252	1,619	22,858

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

Reconciliation of liabilities arising from financing activities (continued)

	Bank loans (Note 24) RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Total RMB'000
At 1 January 2018	19,024	103	–	19,127
Changes from cash flows:				
Proceeds from new bank loans	101,515	–	–	101,515
Repayment of loans	(118,323)	–	–	(118,323)
Interest paid	(743)	(103)	–	(846)
Total changes from financing cash flows:	(17,551)	(103)	–	(17,654)
Exchange adjustments:	1,113	–	–	1,113
Other changes:				
Interest expenses	846	20	–	866
Total other changes	846	20	–	866
At 31 December 2018	3,432	20	–	3,452

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while to maximise the return to the owners of the Company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of net debt, which includes bank loans disclosed in Note 24, net of cash and cash equivalents and the management reviews the capital structure on a quarterly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on the recommendation of management, the Group will balance its overall capital structure through issue of new shares and new debts.

36. STATEMENT OF FINANCIAL POSITION AND MOVEMENT IN THE COMPANY'S RESERVES

Financial information of the Company at the end of the reporting period includes:

	2019 RMB'000	2018 RMB'000
Non-current asset		
Investment in a subsidiary	–	–
	–	–
Current assets		
Trade and other receivables	–	810
Amounts due from subsidiaries	294,831	277,267
Pledged bank deposits	–	84,993
Cash and bank balances	509	209
	295,340	363,279
Current liabilities		
Other payables	252	–
Amounts due to subsidiaries	4,289	7,008
	4,541	7,008
Net current assets	290,799	356,271
Net assets	290,799	356,271
Capital and reserves		
Share capital	67,041	67,041
Reserves	223,758	289,230
Total equity	290,799	356,271

36. STATEMENT OF FINANCIAL POSITION AND MOVEMENT IN THE COMPANY'S RESERVES (continued)

Details of movement in the Company's reserves are as follows:

	Total RMB'000
At 1 January 2018	278,361
Profit and total comprehensive income for the year	10,103
Recognition of equity-settled share-based payment	766
At 31 December 2018	289,230
Profit and total comprehensive expense for the year	9,528
Dividend declared	(75,000)
At 31 December 2019	223,758

37. SUBSIDIARIES

Details of the Company's subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid ordinary share capital/registered capital	Equity interest attributable to the Group	Principal activities
			2019	
			%	
Vital Mobile Limited ("Vital BVI" s)*	BVI	USD1	**100**	Investment holding
Vital Mobile (HK) Limited ("Vital HK")	Hong Kong	HKD1	**100**	Selling mobile telecommunication with added supply chain management services(ROM modification, other related mobile telecommunication functions development)
Beijing Benywave Wireless Communication Co., Ltd.+ ("Benywave Wireless")	PRC (wholly foreign-owned enterprise)	RMB100,000,000	**100**	selling mobile telecommunication services manufacturer, selling mobile telecommunication with added supply chain management services (ROM modification, other related mobile telecommunication functions development), sale of mobile telecommunication related components and accessories, targeting global markets excluding the PRC
Kerr Unit Inc ("Kerr")	The United States of America	USD300,000	**100**	Developing new sales channels in the United States of America
Vital Mobile D.O.O.	Slovenia	EUR10,000	**100**	Developing new sales channels in Eastern Europe
Vital Financial Holdings Limited ("Vital Financial")	Hong Kong	HKD1	**100**	Investment holding

Note:

* Directly held by the Company.

+ The English name is for identification only.

38. EVENT AFTER THE END OF REPORTING PERIOD

a) Acquisition of Lux Capital

As discussed in note 30, the Group has entered a sale and purchase agreement for acquiring 30% shareholdings of Lux Capital. On 2 January 2020, the Group has partially paid HKD693,000 (equivalent to RMB621,000) as deposit for 9.9% issued share capital. After completion of all required processes, the Group will pay remaining consideration for 20.1% issued share capital of Lux Capital.

Completion of acquisition for 30% shareholding is subject to the fulfilment of the following key conditions:

(i) Approval from the Securities and Futures Commission ("SFC") to become major shareholder of Lux Capital; and

(ii) Permissions and approvals on the sale and purchase agreement and this transaction from the listed regulatory and SFC.

The sale and purchase agreement grants an option to the Group for acquiring the remaining 70% issued share capital of Lux Capital within 1 year after the completion of 30% equity interest acquisition. No consideration has been agreed or pre-determined for the 70% share capital options in the sale and purchase agreement.

38. EVENT AFTER THE END OF REPORTING PERIOD (continued)

b) The assessment of the impact of the Coronavirus Disease 2019

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group will earnestly implement the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the PBC, the Ministry of Finance, the CBIRC, China Securities Regulatory Commission and State Administration of Foreign Exchange, and strengthen financial support for the epidemic prevention and control.

The COVID-19 has certain impacts on the business operation and overall economy in some areas or industries. This may affect the import and export trade market as well as mobile telecommunication devices export business of the Group in a degree, and the degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies.

In addition to the worldwide pandemic, the worsening trading environment and deteriorating trade war between China and the USA had adversely impacted, the market demand in the Group's AI and other equipment trading business. The market conditions and profitability of the AI and other equipment trading business worsened quickly after 31 December 2019. In relation to the prepayments amounting to RMB376,000,000 paid to two AI and other equipment suppliers as detailed in note 19, in April and June 2020, the Group signed sales agreements with four independently third parties for sales of certain AI and other equipment at an aggregate consideration of approximately RMB115,350,000 with an aggregate loss amounting to RMB71,456,000 to be recognised upon completion of the sales. In the early of June 2020, the Group entered into supplementary agreements with the AI and other equipment suppliers for the refund of the remaining prepayments amounting to RMB189,194,000 which had been received by the Group.

In relation to the prepayments amounting to RMB249,974,000 paid to a major mobile telecommunication devices supplier, in April 2020, the Group entered into supplementary agreement with the mobile telecommunication devices supplier for partial refund of prepayment amounting to RMB39,000,000 which had been received by the Group.

38. EVENT AFTER THE END OF REPORTING PERIOD (continued)

b) The assessment of the impact of the Coronavirus Disease 2019 (continued)

The Group will pay continuous attention to the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of approval of these consolidated financial statements, the assessment is still in progress.

Other than those disclosed above, the Group had no material events subsequent to 31 December 2019 and up to the date of approval of these consolidated financial statements for disclosures.

FINANCIAL SUMMARY – IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS					
Revenue	**815,940**	911,448	196,142	406,134	1,408,339
(Loss)/profit before tax	**(5,574)**	14,549	(107,729)	19,063	216,520
Income tax expense	**–**	–	(1,977)	(3,567)	(35,621)
(Loss)/profit and total comprehensive income/(expense) for the year attributable to equity holders of the Company	**(5,574)**	14,549	(109,706)	15,496	180,899

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**750,467**	881,167	916,546	1,373,386	1,986,947
Total liabilities	**(90,638)**	(140,764)	(186,994)	(522,316)	(1,129,963)
	659,829	740,403	729,552	851,070	856,984
Equity attributable to equity holders of the Company	**659,829**	740,403	729,552	851,070	856,984

VITAL
INNOVATIONS
Holdings Limited

維太創科
控股有限公司