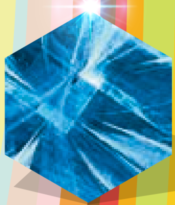
Vital Mobile Holdings Limited
維太移動控股有限公司

(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

2018
INTERIM REPORT
中期報告



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Rong Xiuli *(Chairperson)*
Rong Shengli *(Chief executive officer)*
Yin Xuquan
(President, appointed on 1 February 2018)
Tang Shun Lam

Independent Non-executive Directors

Hon Kwok Ping, Lawrence
Lam Yiu Kin
Tsang Yat Kiang

COMPANY SECRETARY

Chui Man Lung, Everett

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Tsang Yat Kiang
Hon Kwok Ping, Lawrence

REMUNERATION COMMITTEE

Tsang Yat Kiang *(Chairman)*
Hon Kwok Ping, Lawrence
Lam Yiu Kin
Rong Xiuli

NOMINATION COMMITTEE

Tsang Yat Kiang *(Chairman)*
Hon Kwok Ping, Lawrence
Lam Yiu Kin
Rong Xiuli

RISK MANAGEMENT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Rong Xiuli
Chui Man Lung, Everett

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Shanghai Commercial Bank
China Everbright Bank
Bank of China (Hong Kong)

LEGAL ADVISERS

As to Hong Kong Law

Sidley Austin

As to PRC Law

Commerce & Finance Law Offices

As to Cayman Islands Law

Conyers Dill & Pearman

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS AND OPERATING HEAD OFFICE IN CHINA

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

Corporate Information (continued)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRARS

Principal Share Registrar and Transfer Office
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

6133

COMPANY'S WEBSITE

www.vital-mobile.com

Management Discussion and Analysis

BUSINESS REVIEW

Vital Mobile Holdings Limited (the "Company", and together with its subsidiaries, the "Group") is one of the leading smartphone and mobile phone related products suppliers. The Group is primarily engaged in the ODM of mobile phone business which encompassed research and development, design, engineering, material sourcing, supply chain management, logistic, provision of manufacture and sales of mobile phones, smartphones and the related accessories for the markets outside of China. The Group has its focus on the mid to high-end products primarily selling to the markets outside of China, as the Company's controlling shareholders have undertaken not to compete, directly or indirectly, with the Group's overseas business since the listing of the shares of the Company on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Over the years, the Group has developed a large number of stakeholders from the supply side as well as customers in both the emerging markets and some key America and European countries. The Group is able to work with many of its customers to satisfy their specific needs, both technical and marketing, so that they can sell into their local markets. These include a large network of local wholesalers, retailers and trading partners with whom the Group provides the smartphones to meet their market needs.

The smartphone market has shown slight improvement from 2017's down trend. Even though the market has recorded a 3% and 1.8% year on year decrease in the first and second quarter of 2018, respectively. (Sources: Counterpoint and IDC)

The key issue of the slow-down in smartphone demand is due to a slow-down in some of the key markets where replacement cycles are lengthening with overall smartphone features and design reaching its peak. Nevertheless, the Group is of the view that the emerging markets still offer a sizeable opportunity for smartphone business to expand and grow as smartphone penetration by users is still only around 45%. The average selling price of smartphones is increasing too in emerging markets where users are upgrading from entry level to the mid smartphone segment. Another trend continued from 2017 is that the market structure has been dominated by the top 10 smartphone brands with a 76% world market share (Source: Counterpoint).

Since 2018, the Group has attempted an alternative market strategy to focus expansion in parts of Europe, Russia and the APAC region to capture the growing demand in financial year 2018. The Group has been focusing on the Brand+ strategy since 2017. The Brand+ strategy focuses in working with best smartphone brands and the Group has been successful in developing business with some of the Chinese leading brands.

The Group believes that with the saturation of the China smartphone market (Source: IDC), it will force the Chinese smartphone players to invest and expand beyond their home market. It creates an opportunity for the Group to provide value added services for its customers. The efforts have been realized as the performance of Chinese brands in Middle East and Africa, Europe and the rest of the Asian markets have been improving.

Management Discussion and Analysis (continued)

The ideal smartphone market for Chinese brands are the emerging smartphone markets, such as East Asia and Middle East & Africa, where LTE is being launched for the first time or the network is expanding to more covered geographies. The North America market has been problematic for Chinese brands and the ban on certain brands will further reduce their share in that region.

The Group's warehouse facility in Hong Kong has been functioning well. Apart from the basic logistic functions, the Group has managed to use it as a support operation which it can upgrade mobile telecommunication devices' hardware and software and provides packaging services and this has provided better turnaround time for smartphone business. The Shenzhen operation that the Group has set up in the third quarter of 2017 is working smoothly. Whilst its primary function is to improve the sales and marketing effort, it has also established supply chain providers to support customers for export markets, including mobile telecommunication devices' hardware and software upgrade, sourcing, logistic, tax support functions. The Group has been using this facility to set up third party capabilities to supplement its technical capabilities in Shenzhen and other strategic locations including those in Europe.

The Group has successfully increased the sales of smartphones through the network of resellers and wholesalers. The Group's total sales increased from RMB27.5 million for the six months ended 30 June 2017 to RMB415.8 million for the six months ended 30 June 2018. Gross margin has improved to RMB7.1 million from negative RMB14.4 million for the six months ended 30 June 2018.

The Group has recorded a net profit of approximately RMB9.8 million for the six months ended 30 June 2018 as compared to a net loss of RMB42.1 million for the six months ended 30 June 2017 and an increase in the Group's revenue from RMB27.5 million for the six months ended 30 June 2017 to approximately RMB415.8 million for the corresponding period in 2018 together with an improvement from a negative gross margin of RMB14.4 million to a positive gross margin of approximately RMB7.1 million.

The improvement in the Group's results for the six months ended 30 June 2018 was attributable to: (i) the improvement in sales for branded smartphone for the six months ended 30 June 2018; and (ii) a combined effect contributed by (a) an one-off reversal of bad debts provision in the amount of approximately RMB5.6 million for the six months ended 30 June 2018; (b) an increase in interest income of pledged bank deposits and bank deposits of the Group from RMB3.7 million for the six months ended 30 June 2017 to approximately RMB7.8 million for the corresponding period in 2018 primarily due to better interest rate being offered; and (c) a turnaround to an exchange gain for the six months ended 30 June 2018 as compared to an exchange loss for the correspondingly period in 2017.

Management Discussion and Analysis (continued)

DISTRIBUTION CHANNELS

The Group has established sales channels in the Southeast Asia, Africa, and markets such as Bangladesh. The Group has been working on expanding the distribution network in Europe. In June 2018, the Group commenced the setting up of a subsidiary in Slovenia, where the Group expected to sign a distribution agreement with one of the leading brands in July 2018. This allows the Group to sell into and provide value added services to the European Union and nearby European countries. To enable improved services and sales effort, the Group plans to setup a distribution logistic center with a third party logistics partner in Italy in the second half of 2018.

The Group is also negotiating with a leading smartphone brand which will allow the Group to market its brand globally. The Company anticipates a distribution agreement may materialise and be entered into in the fourth quarter of 2018.

OUTLOOK

The smartphone has become one of the indispensable devices. In recent years, the Group has seen cities that public phone booths are diminishing, and offices and homes that no longer have landlines. With the new 5G technology, the Group will see a three years fast growth for smartphones, and smart gadgets are springing up to complement smartphones. From our sources/market information (Sources: IDC, Counterpoint), it is forecasted that the market will experience a 3% compound annual growth rate from 2018 to 2023; the Group believes that the smartphone market will track back to grow healthily. The Group believes the setting up of the distribution network will help to expand the Brand+ business and in turn the Group can use this customer base and the new 5G opportunities to penetrate the ODM business. The Company believes that it has to be prepared and therefore it has invested time and resources trying to catch up with the growth trend. The Group anticipates that the market will be dominated by relative few players and its decision in moving into different segment of business will prove to be successful. The Company will continue to engage with its existing and past customers in developing its new business endeavors. With the development of distribution network, the Group foresees that the volume of its trading business will be increasing gradually.

On one hand, the Group has continuously enhanced its technical capabilities, increased its capital expenditure spending and to upgrade its support capabilities in mobile telecommunication devices' software and hardware upgrade, product packaging and supply chain services. The Company has also embarked on designing niche smartphones focusing in different market niches so as not to sell with pricing strategy alone. This includes high security smartphones and Internet of Things ("IoT") wearable integrated smartphones. The Group has also started to explore the IoT market both complete products and subsystem products covering, smart-anywhere/smart-everything products, and the wireless and smart devices including drones and wireless smart home networks and its components and accessories. The Company believes the smartphone market has entered into an era that it becomes a necessity but not a commodity. A lot of new innovation will come, such as the 5G technology is just round the corner, the interactive and self-drive automotive, smart home/appliance.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by RMB388.3 million or 14.1 times to RMB415.8 million for the six months ended 30 June 2018 from RMB27.5 million for the six months ended 30 June 2017.

The following table sets forth the breakdown of the Group's revenue by product type:

	For the period ended 30 June			
	2018 (unaudited)		2017 (unaudited)	
	RMB'000	**%**	RMB'000	%
Mobile telecommunication devices	**415,839**	**100.0**	27,356	99.5
Mobile device components	**–**	**–**	124	0.5
	415,839	**100.0**	27,480	100.0

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

The Group's revenue generated from sales of mobile telecommunication devices increased from RMB27.4 million for the six months ended 30 June 2017 to RMB415.8 million for the six months ended 30 June 2018, representing an increase of 14.2 times.

The Group's revenue for the first six months of 2018 has increased significantly. The reasons attributed to this increase of sales are as follows:

1. The rise of new Chinese Brands – As the market structure has been dominated by the top 10 smartphone brands, with a 76% world market share (Source: Counterpoint), we are working on a new ODM and Supply Chain business model that in combination, we can deliver products to our new customers group, which competes effectively in some of emerging market.

2. Utilization of our network – we could make use of our network and focus on the Brand+ strategy with some of the Chinese leading brands in the emerging market with profits.

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

	For the six months ended 30 June			
	2018		2017	
	(unaudited)		(unaudited)	
	RMB'000	%	RMB'000	%
Hong Kong	**415,390**	**99.9**	23,603	85.9
Other parts of Asia	**449**	**0.1**	2,521	9.2
Europe	**–**	**–**	1,298	4.6
Africa	**–**	**–**	43	0.2
South Asia	**–**	**–**	15	0.1
	415,839	**100.0**	27,480	100.0

Notes:

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

2. Other parts of Asia include Taiwan and Pakistan.

3. Europe includes France, Portugal, Cyprus and Czech.

4. Africa includes South Africa and Algeria.

5. South Asia includes India.

The Group's revenue generated from sales in Hong Kong increase from RMB23.6 million for the six months ended 30 June 2017 to RMB415.4 million for the six months ended 30 June 2018, representing 16.6 times increase. It was mainly due to change of the Brand+ strategy in working with best smartphones brand especially the Chinese leading brands.

Management Discussion and Analysis (continued)

Gross Profit and Gross Profit Margin

	For the six months ended 30 June			
	2018		2017	
	Gross profit (unaudited) RMB'000	**Gross profit margin %**	Gross profit (unaudited) RMB'000	Gross profit margin %
Mobile telecommunication devices	**7,064**	**1.7**	(14,380)	(52.6)
Mobile device components	**–**	**–**	(11)	(9.1)
	7,064	**1.7**	(14,391)	(52.4)

Gross profit amounted to RMB7.1 million for the six months ended 30 June 2018, increased by RMB21.5 million from negative RMB14.4 million for the six months ended 30 June 2017. The increase in gross profit ratio of mobile telecommunication devices was mainly attribute to the selling of Chinese leading brands with profit and sales volume and RMB12.2 million inventory write-down and RMB2.3 million intellectual property amortization in 2017 were not incurred in 2018.

Other Income

Other income mainly represented an interest income of the pledged bank deposits and bank deposits amounting to RMB8 million for the six months ended 30 June 2018 and RMB4 million for the six months ended 30 June 2017. The increase was mainly due to higher interest rate for the bank deposit in 2018.

Continuing Connected Transactions

Pursuant to an equipment lease agreement made between Beijing Benywave Technology. Co., Ltd. ("Benywave Technology") and Beijing Benywave Wireless Communications Co., Ltd. ("Benywave Wireless"), Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. For the six months ended 30 June 2018, the equipment rental expenses incurred by Benywave Wireless amounted to RMB33,000.

Pursuant to a lease agreement made between Beijing Tianyu Communication Equipment Co., Ltd. ("Tianyu") and Benywave Wireless, Tianyu has let the premises situated at Zone A, 4th Floor, No. 55, Jiachuang Second Road, China to Benywave Wireless for carrying on its business. For the six months ended 30 June 2018, the rental expenses incurred by Benywave Wireless amounted to RMB369,000.

Taxation

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

Material acquisitions and disposals

For the six months ended 30 June 2018, the Group had no material acquisitions or disposals.

Liquidity and source of funding

The Group's total cash and bank balances decreased by RMB15.1 million from RMB42.5 million as at 31 December 2017 to RMB27.4 million as at 30 June 2018.

As at 30 June 2018, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 5.3 as compared with 4.9 at 31 December 2017.

Inventories

The Group's total inventories increased by RMB13.6 million from RMB41.1 million (net of allowance RMB31.0 million) as at 31 December 2017 to RMB54.7 million as at 30 June 2018 (net of allowance RMB28.8 million). In determining the write down of inventories, the management considered the subsequent selling price and aging of inventories.

Trade and other receivables

Trade and other receivables mainly include the trade receivables, other receivables and prepayments to suppliers. As at 30 June 2018, the carrying amount of trade and other receivables were approximately RMB64.4 million, which was net of allowance of trade receivables, representing a decrease of approximately RMB10.1 million as compared to the corresponding period in 2017.

In assessing the recoverability of trade receivables and determining the allowance for doubtful debts, the management adopted the expected credit losses model subject to impairment under IFRS9, including considering the default or delay in payments, subsequent settlements and aging analysis of the trade receivables. On the basis of management estimation, the allowance of trade receivables was approximately RMB2.4 million as at 30 June 2018.

Management Discussion and Analysis (continued)

Contingent Liabilities and Commitments

As at 30 June 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which amounted to RMB4.9 million. The operating lease payments commitments represent rental payable by the Group for offices, warehouses and equipment rental. The lease was negotiated for lease terms of one to three years. Monthly rental was fixed for certain lease.

Foreign exchange exposure

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

Dividends

For the six months ended 30 June 2018, the Directors do not recommend the payment of an interim dividend.

Other Information

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

As at 30 June 2018, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or 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 and class of securities[1]	Approximate percentage of issued share capital of the Company[3]
Rong Xiuli ("Ms. Rong") [2]	Interest in a controlled corporation Personal interest	568,480,000 (L)	66.88%
Rong Shengli	Personal interest	3,720,000 (L)	0.44%
Tang Shun Lam	Personal interest	3,400,000 (L)	0.40%
Hon Kwok Ping Lawrence	Personal interest	310,000 (L)	0.04%
Lam Yiu Kin	Personal interest	310,000 (L)	0.04%
Tsang Yat Kiang	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 30 June 2018, the issued share capital is 850,000,000 shares.

(ii) Interest in associated corporation of the Company

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

Note: As at 30 June 2018, Winmate held more than 50% of the Shares. Therefore, the Company was a subsidiary of Winmate, and Winmate was the holding company and an associated corporation of the Company.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or 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.

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

As at 30 June 2018, 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 would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follow:

Long positions:

Ordinary shares of HK$0.1 each of the Company

Name of Shareholder	Nature of interest	Number of and class of securities[1]	Approximate percentage of issued share capital of the Company[5]
Winmate	Beneficial owner	480,624,000 (L)	56.54%
Ms. Rong [2]	Interest in a controlled corporation	568,480,000 (L)	66.88%
	Beneficial owner		
Mr. Ni [2]	Interest in a controlled corporation	568,480,000 (L)	66.88%
	Spouse of Ms. Rong		
Yardley Finance Limited [3]	Person having a security interest in shares	533,480,000 (L)	62.76%
Mr. Chan Kin Sun [4]	Interest in a controlled corporation	533,480,000 (L)	62.76%

Other Information (continued)

Notes:

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

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

(3) Yardley Finance Limited ("Yardley") is deemed to be interested in 533,480,000 shares of which 480,624,000 shares were charged by Winmate.

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

(5) As at 30 June 2018, the issued share capital is 850,000,000 Shares.

Save as disclosed above, as at 30 June 2018, 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 would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or 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 "Listing"). The net proceeds received from the initial public offering, after deducting underwriting fees and other expenses in relation to the Listing, were approximately HKD484 million (equivalent to approximately RMB406 million). Such net proceeds were deposited, with any unutilized amount remained to be deposited, at the Group's bank accounts. As at 30 June 2018, the net proceeds were utilized as follows:

Use:	% of the total amount of the proceeds	Approximate amounts of the net proceeds in HKD million (RMB equivalent)	Approximate amounts utilized in HKD million (RMB equivalent)	Approximate amounts unutilized in HKD million (RMB equivalent)
Purchasing raw materials to expand our raw material sourcing capacity	45.5	220 (185)	220 (185)	Nil
Setting up overseas representative offices and/or establishing partnership with top local branded mobile handset suppliers or telecommunication operators in our key markets	27	131 (110)	2.52 (2.12)	128.48 (107.88)
Expanding our research and development capabilities	12.5	61 (51)	61 (51)	Nil
Setting up a new quality testing laboratory, employing additional quality testing personnel and purchasing additional quality testing equipment	5	24 (20)	0 (0)	24 (20)
General working capital	10	48 (40)	48 (40)	Nil
Total	100	484 (406)	331.52 (278.12)	152.48 (127.88)

HUMAN RESOURCES

As at 30 June 2018, the Group employed approximately 36 employees (30 June 2017: 29 employees) in Hong Kong and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 9 June 2015 as an incentive to the Group's employees and business associates (the "Scheme"). Subject to the provisions for early termination of the Scheme, the Scheme shall be valid for a period of ten years from that date. Details of the Scheme are set out in the section headed "Statutory and General Information – E. Share Option Scheme" in Appendix IV to the prospectus of the Company dated 16 June 2015 and the annual report of the Company for the year ended 31 December 2017.

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

RESTRICTED SHARE UNIT SCHEME

The Company adopted Restricted Share Unit ("RSU") Scheme (the "RSU Scheme") on 9 June 2015. Details of the RSU Scheme are set out in the section headed "Statutory and General Information – D. RSU Scheme" in Appendix IV to the prospectus of the Company dated 16 June 2015 and the annual report of the Company for the year ended 31 December 2017.

Grant of Restricted Share Units

Pursuant to the announcement dated on 2 November 2016, the Company has granted 32,300,000 RSUs to the grantees (the "Grantees"), subject to the acceptance of the Grantees. Details of the RSUs granted to the Grantees are as follows:

Date of grant	Vesting date	Number of RSUs granted	Number of underlying Shares involved
2 November 2016	2 November 2016	10,766,655	10,766,655
2 November 2016	2 November 2017	10,766,655	10,766,655
2 November 2016	2 November 2018	10,766,690	10,766,690
Total		32,300,000	32,300,000

An award of RSUs under the RSU Scheme gives the respective Grantees a conditional right when the granted RSUs vests to obtain either ordinary shares of HK$0.10 each in the Company (the "Shares") or an equivalent value in cash with reference to the value of the Shares on or about the date of vesting, as determined by the Board in its sole discretion.

Connected Grantees

An aggregate of 32,300,000 RSUs were granted to the Grantees, of which 8,050,000 RSUs in aggregate were granted to five Directors (the "Connected Grantees") who are the connected persons of the Company pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), and 24,250,000 RSUs were granted to the remaining Grantees who are not Directors, chief executive, or substantial shareholder of the Group, nor an associate (as defined in the Listing Rules) of any of them. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the remaining Grantees are third parties independent of the Company and its connected persons. Details of the RSUs granted to the Connected Grantees are as follows:

Name of Connected Grantees	Position	Number of RSUs granted
Mr. Rong Shengli	Chief executive officer and executive Director	3,720,000
Mr. Tang Shun Lam	Executive Director	3,400,000
Mr. Lam Yiu Kin	Independent non-executive Director	310,000
Mr. Hon Kwok Ping Lawrence	Independent non-executive Director	310,000
Mr. Tsang Yat Kiang	Independent non-executive Director	310,000

In accordance with the RSU Scheme, the grants of the RSUs to the above Directors have been approved by all the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of such RSUs).

Each of the Connected Grantees has declared his interest in the grants of the RSUs to himself and abstained from voting on the relevant board resolutions in relation thereto.

Under the RSU Scheme, the maximum number of Shares underlying RSUs permitted to be granted shall not exceed 32,300,000 Shares (excluding Shares underlying RSUs that have lapsed or been cancelled in accordance with the RSU Scheme) (the "RSU Limit"). Consequently, RSUs have been granted up to the full RSU Limit.

Reasons for and Benefits of the Grant of Restricted Share Units

The purposes of RSU Scheme are (i) to recognize the contributions of the RSU grantees to the Group or its business; (ii) to give incentives to the RSU grantees in order to retain them for the continual operation and development of the Group; and (iii) to attract suitable personnel for the development of the Group. An aggregate of 32,300,000 RSUs were granted to the Grantees since the Grantees have made valuable contributions to the Group which should be recognized and (where applicable) should be provided with incentives for their continuing contribution to the Group.

Other Information (continued)

In respect of the grant of RSUs to the Grantees (including Connected Grantees), the independent non-executive Directors, having considered the aforesaid reasons, are of the view that the grant of RSUs to the Grantees (including Connected Grantees) are transactions entered into on normal commercial teams, which are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

The Group recognised the share base payment expense of RMB300,000 for the period ended 30 June 2018 (six months ended 30 June 2017: RMB1,578,000) in relation to the RSU Scheme granted by the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Board is responsible for performing the corporate governance functions in accordance with the applicable code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board is committed to complying with the code provisions as stated in the CG Code to the extent that the Directors consider it is applicable and practical to the Company.

As at 30 June 2018, the Company has complied with all the code provisions in the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

CHANGE OF DIRECTOR'S INFORMATION

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

- Mr. Yin Xuquan has been appointed as a president and executive Director of the Company with effect from 1 February 2018.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Group had no major litigation or arbitration during the six months ended 30 June 2018.

SUFFICIENCY OF PUBLIC FLOAT

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

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

Reference is made to the announcement of the Company dated 15 June 2017 in relation to the major and connected transaction relating to the acquisition of 70% equity interest in a company principally engaged in the provision of supply chain services (the "Acquisition") and the announcement of the Company dated 29 March 2018 in relation to termination of the Acquisition.

As one or more of the conditions precedent to the Acquisition could not be fulfilled, on 29 March 2018, the parties agreed to terminate the equity transfer agreement to the Acquisition and entered into a termination agreement (the "Termination Agreement").

Pursuant to the Termination Agreement, the equity transfer agreement shall terminate and no party to the equity transfer agreement shall have any claim against the other, including without limitation any claim for liquidated damages pursuant to the equity transfer agreement.

The Board considered that the termination of the Acquisition does not have any material adverse impact on the business operation and financial position of the Group.

Save as disclosed in this interim report, the Group has no material acquisitions and disposals of subsidiaries, associates and joint ventures during the period under review.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2018 together with the management of the Group.

APPRECIATION

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

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

Hong Kong, 28 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	NOTES	Six months ended 30 June **2018** **RMB'000** **(Unaudited)**	 2017 RMB'000 (Unaudited)
Revenue	4	**415,839**	27,480
Cost of sales		**(408,775)**	(41,871)
Gross profit (loss)		**7,064**	(14,391)
Other gains and losses	5	**8,017**	(17,738)
Other income	6	**7,960**	4,035
Research and development costs		**(115)**	(1,153)
Selling and distribution expenses		**(3,521)**	(2,023)
Administrative expenses		**(9,320)**	(8,869)
Interest expenses		**(319)**	–
Profit (loss) before tax	7	**9,766**	(40,139)
Income tax expense	8	**–**	(1,982)
Profit (loss) and total comprehensive income (expense) for the period attributable to equity holders of the Company		**9,766**	(42,121)
Basic earnings (losses) per share (RMB per share)	9	**0.01**	(0.05)

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	NOTES	**As at 30 June 2018 RMB'000 (Unaudited)**	As at 31 December 2017 RMB'000 (Audited)
Non-current assets			
Equipment		**163**	197
		163	197
Current assets			
Inventories	11	**54,704**	41,128
Trade and other receivables	12	**64,371**	74,499
Pledged bank deposits		**82,234**	88,230
Bank deposits		**681,700**	670,000
Cash and bank balances		**27,397**	42,492
		910,406	916,349
Current liabilities			
Trade and bills payables	14	**88,463**	92,175
Bank loans	15	**19,752**	19,024
Accrual and other payables		**20,499**	23,614
Deposits received from customers		**–**	48,650
Contract liabilities		**38,706**	–
Tax liabilities		**3,531**	3,531
		170,951	186,994
Net current assets		**739,455**	729,355
Total assets less current liabilities		**739,618**	729,552
Net assets		**739,618**	729,552
Capital and reserves			
Share capital		**67,041**	67,041
Share premium and reserves		**672,577**	662,511
Equity attributable to equity holders of the Company		**739,618**	729,552

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Equity attributable to equity holders of the Company						
	Share capital	Share premium	Share-based payment reserve	Special reserve	Other reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018 (audited)	67,041	311,580	2,352	275,060	15,957	57,562	729,552
Profit and total comprehensive income for the period	–	–	–	–	–	9,766	9,766
Recognition of equity-settled share-based payment (Note 16)	–	–	300	–	–	–	300
Balance at 30 June 2018 (unaudited)	67,041	311,580	2,652	275,060	15,957	67,328	739,618
Balance at 1 January 2017 (audited)	67,041	311,580	3,921	275,060	11,398	182,070	851,070
Loss and total comprehensive expense for the period	–	–	–	–	–	(42,121)	(42,121)
Recognition of equity-settled share-based payment	–	–	1,578	–	–	–	1,578
Dividends recognised as distribution (Note 10)	–	–	–	–	–	(14,754)	(14,754)
Balance at 30 June 2017 (unaudited)	67,041	311,580	5,499	275,060	11,398	125,195	795,773

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(37,528)**	(179,551)
Investing activities		
Withdrawal of bank deposits	**670,000**	430,857
Withdrawal of pledged bank deposits	**88,230**	378,757
Repayment of the advance to a major customer	**14,261**	–
Interests income received	**13,134**	7,596
Placement of bank deposits	**(681,700)**	(520,000)
Placement of pledged bank deposits	**(82,234)**	(88,304)
Purchase of property, plant and equipment	**(5)**	–
Repayment of the advance to a major supplier	**–**	107,000
Repayment of the advance to a major customer	**–**	8,576
Net cash from investing activities	**21,686**	324,482
Financing activities		
Net proceeds from borrowings	**19,752**	–
Repayment of bank borrowings	**(19,024)**	–
Interest paid	**(422)**	–
Repayment of the amount due to the controlling shareholder	**–**	(30,521)
Interest paid	**–**	(178)
Net cash from (used in) financing activities	**306**	(30,521)
Net (decrease) increase in cash and cash equivalents	**(15,536)**	114,410
Effect of foreign exchange rate changes	**441**	(14,016)
Cash and cash equivalents at 1 January	**42,492**	16,257
Cash and cash equivalents at 30 June, represented by cash and bank balances	**27,397**	116,651

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. GENERAL INFORMATION

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 Xiuli ("Ms. Rong") and Mr. Ni Gang ("Mr. Ni"), the husband of Ms. Rong, respectively.

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

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. The condensed consolidated financial statements have been approved for issue by the Board on 28 August 2018. The condensed consolidated financial statements have not been audited or reviewed by the external auditor.

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IAS (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources: 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.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for discounts and sales related taxes.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below:

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 15

The impact of transition to IFRS 15 on retained profits at 1 January 2018 and the impact of applying IFRS 15 on the Group's condensed consolidated statement of profit or loss and other comprehensive income for the current interim period is immaterial.

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying Amounts Previously reported at 31 December 2017	Reclassification	**Carrying amounts under IFRS 15 at 1 January 2018**
	RMB'000	RMB'000	**RMB'000**
Current liabilities			
Contract liability	–	48,650	**48,650**
Deposits received from customers	48,650	(48,650)	**–**

At the date of initial application, included in deposits received from customers, RMB48,650,000 were reclassified to contract liabilities upon application of IFRS 15.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 15 (Continued)

The following tables summarise the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	Note as reported	Reclassification	**Amounts without application of IFRS 15**
	RMB'000	RMB'000	**RMB'000**
Current liabilities			
Contract liability	38,706	(38,706)	**–**
Deposits received from customers	–	38,706	**38,706**

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognized financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- 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.

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group considers that default has occurred when the instrument is past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables the corresponding adjustment is recognized through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9

There was no impact of transition of IFRS 9 on reclassification of the condensed consolidated statement of financial position at 1 January 2018.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the credit-quality level of the counterparties. The credit risk on the trade receivables had not increased significantly since the initial recognition.

Loss allowances for other financial asset at amortised cost mainly comprise of pledged bank deposits, cash and bank balances, bank deposits and other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the Group's average loss rate when considering the impairment of financial assets is insignificant, and no additional credit loss allowance was recognised.

4. REVENUE AND SEGMENT INFORMATION

Revenue

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

Segment information

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

4. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major products

The following table sets forth a breakdown of the Group's revenue by major products during the six months ended 30 June 2018 and 2017.

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mobile telecommunication devices	**415,839**	27,356
Mobile device components	**–**	124
	415,839	27,480

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Foreign exchange gain(loss), net	**441**	(15,906)
Reversal of impairment (impairment loss) recognised on trade receivables	**5,609**	(2,383)
Others	**1,967**	551
	8,017	(17,738)

6. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income on pledged bank deposits	**676**	3,133
Interest income on bank deposits	**7,145**	551
Interest income on bank balances	**47**	9
Others	**92**	342
	7,960	4,035

7. PROFIT(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation of equipment	**39**	20
Amortisation of intangible assets (included in cost of sales)	**–**	2,283
Directors' emoluments	**2,333**	2,777
Other staff cost		
– salaries and other allowance	**3,836**	3,396
– retirement benefit schemes contribution	**483**	304
– recognition of equity-settled share-based payment (Note 16)	**60**	645
Total staff costs	**6,712**	7,122
Cost of inventories recognised as an expense	**408,775**	41,871
(Reversal of) write down of inventories (included in cost of sales)	**(2,215)**	12,175
Operating lease rentals	**1,308**	892

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Deferred Tax	**–**	1,982
	–	1,982

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

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the income tax rate of Beijing Benywave Wireless Communication Co., Ltd. ("Benywave Wireless") is 25%. Since Benywave Wireless is recognised as "New and High Technology Enterprises" in 2015 and therefore it is entitled to apply a preferential tax rate of 15% for the six months ended 30 June 2018 and 2017.

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

9. EARNINGS(LOSSES) PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings (losses) for the purposes of basic earnings(losses) per share, representing profit (loss) for the period attributable to equity holders of the Company	**9,766**	(42,121)

9. EARNINGS(LOSSES) PER SHARE (Continued)

	Six months ended 30 June	
	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**850,000**	850,000

There are no dilutive potential shares for both periods.

10. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period	**–**	14,754

During the previous interim period, a final dividend of HK2 cents per share in respect of the year ended 31 December 2016 was declared to those shareholders whose names appear on the register of members of the Company at the close of business on Monday, 5 June 2017. The aggregate amount of the final dividend declared in the previous interim period amounted to HKD17,000,000 which approximated to RMB14,754,000. The final dividends of the year ended 31 December 2016 were paid in July 2017.

The Board has resolved not to declare any dividend for the interim period for the six months ended 30 June 2018 (30 June 2017: Nil).

11. INVENTORIES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Finished goods	**54,704**	41,128
	54,704	41,128

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade receivables	**5,680**	20,351
Less: allowance for doubtful debts	**(2,386)**	(20,351)
	3,294	–
Other receivables		
– Interest receivables	**3,433**	8,699
– Others	**392**	387
– Advance to a major customer	**–**	14,261
Prepayments to suppliers	**57,252**	51,152
	64,371	74,499

The Group assesses the customer's credit quality by evaluating their historical credit records and defines credit limits for each customer. Recoverability and credit limit of the existing customers are reviewed by the management regularly.

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

12. TRADE AND OTHER RECEIVABLES (Continued)

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 60 days	**3,294**	–
	3,294	–

13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the condensed consolidated statement of financial position as of 30 June 2018 (including trade receivables, other receivables, bank deposits, pledged bank deposits and bank balances and cash).

The directors of the Company consider (i) trade receivables from customers and other receivables having a low default risk and a strong capacity to meet contractual cash flows as performing; (ii) bank deposits and pledged bank deposits with a high credit rating and secured by high-credit-quality commercial banks during the reporting period and (iii) bank balances and cash that are deposited with high-credit-quality banks or financial institutions to be low credit risk financial assets. The management of the Group considers these assets are short-term in nature and does not expect any losses from non-performance by these counterparties, and accordingly, no loss allowance was recognized during the reporting period.

There has been no change in the estimation techniques or significant assumptions made throughout the reporting period.

14. TRADE AND BILLS PAYABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade payables	**18,463**	15,477
Bills payables	**70,000**	76,698
	88,463	92,175

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 90 days	**3,800**	–
Over 1 year	**14,663**	15,477
	18,463	15,477

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 90 days	**70,000**	–
91 to 180 days	**–**	3,271
181 days to 1 year	**–**	73,427
	70,000	76,698

15. BANK LOANS

During the current interim period, the Group renewed bank loans with amount equivalent to RMB19,752,000(31 December 2017: RMB19,024,000). The loans carry interest at variable market rates charged at the United States Prime Rate, which were jointly secured by the properties owned by two individuals connected to the Company.

16. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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 December 31, 2016, the Nominee holds 3.8% of the total shares of the Company, represents 32,300,000 shares. Ms. Rong is the settlor of the Trust.

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

16. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

The Group recognised the share base payment expense of RMB300,000 for the period ended 30 June 2018 (six months ended 30 June 2017: RMB1,578,000) in relation to the RSU Scheme granted by the Company.

17. OPERATING LEASES COMMITMENTS

The Group as lessee

During the current interim period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

Minimum lease payments under operating leases:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Within one year	**2,722**	832
In the second to third year	**2,175**	–

18. RELATED PARTY TRANSACTIONS

(a) Name and relationship

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

(b) Related party transactions

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Premises rental expense charged by Tianyu	**369**	367
Equipment rental expense charged by Benywave Technology	**33**	33
Service expense charged by Henan Ketai	**–**	181
Service income charged to Henan Ketai	**–**	342

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (Continued)

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short term employee benefits	**2,107**	2,043
Equity-settled share-based payments	**240**	933
Post-employment benefits	**134**	124
	2,481	3,100

19. EVENT AFTER THE END OF THE REPORTING PERIOD

Subsequent to 30 June 2018, there are no significant events occurred.

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