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## **Vital Innovations Holdings Limited**

**維太創科控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6133)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The board (the “**Board**”) of directors (the “**Directors**” and each a “**Director**”) of Vital Innovations Holdings Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2020*

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2020</b>	2019
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
		<b>(Unaudited)</b>	(Unaudited)
Revenue	7	<b>355,001</b>	389,140
Cost of sales		<b>(416,077)</b>	(384,628)
		<hr/>	<hr/>
Gross (loss)/profit		<b>(61,076)</b>	4,512
Other gains and (losses)	8	<b>(311)</b>	1,556
Other income	9	<b>19</b>	7,007
Selling and distribution expenses		<b>(2,446)</b>	(2,536)
Administrative expenses		<b>(7,135)</b>	(7,751)
Finance costs	10	<b>(387)</b>	(469)
		<hr/>	<hr/>
(Loss)/profit before tax	11	<b>(71,336)</b>	2,319
Income tax expense	12	<b>–</b>	–
		<hr/>	<hr/>
(Loss)/profit and total comprehensive income for the period attributable to equity holders of the Company		<b>(71,336)</b>	2,319
		<hr/> <hr/>	<hr/> <hr/>
(Losses)/earnings per share (RMB per share)	13		
– Basic		<b>(8.39) cents</b>	0.27 cents
– Diluted		<b>(8.39) cents</b>	0.27 cents
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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Equipment		84	100
Right-of-use assets		685	1,577
		769	1,677
<b>Current assets</b>			
Inventories	15	2,071	5,384
Trade and other receivables	16	11,184	2,280
Prepayments	17	588,633	686,415
Pledged bank deposits		3,548	3,504
Cash and bank balances		79,099	51,207
		684,535	748,790
<b>Current liabilities</b>			
Trade payables	18	12,806	12,740
Bank loans	19	21,117	20,874
Accruals and other payables		38,864	38,747
Contract liabilities		19,780	13,127
Lease liabilities		713	1,443
Tax liabilities		3,531	3,531
		96,811	90,462
<b>Net current assets</b>		587,724	658,328
<b>Total assets less current liabilities</b>		588,493	660,005
<b>Non-current liabilities</b>			
Lease liabilities		–	176
<b>Net assets</b>		588,493	659,829
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		67,041	67,041
Share premium and reserves		521,452	592,788
<b>Total equity attributable to equity holders of the Company</b>		588,493	659,829

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 June 2020*

## 1. GENERAL INFORMATION

Vital Innovations Holdings Limited (the “Company”) was established in the Cayman Islands as an exempted company with limited liability on 12 August 2014. The immediate and ultimate holding company of the Company is Winmate Limited (“Wimate”) 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 and trading of Artificial Intelligence (“AI”) and other equipment in the PRC.

The condensed consolidated interim financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company. The condensed consolidated interim financial statements have been approved for issue by the Board on 31 August 2020.

## 2. BASIS OF PREPARATION

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

## 3. SIGNIFICANT EVENT IN THE CURRENT INTERIM PERIOD

The World Health Organisation declared Coronavirus Disease 2019 (“COVID-19”) a global health emergency on 30 January 2020. The significant event and transactions that have occurred since 31 December 2019 relate to the effects of the global pandemic on the Group’s condensed consolidated interim financial statements for the six months ended 30 June 2020 are summarised as follows.

### **Significant gross loss on AI and other equipment revenue stream**

Due to the outbreak of COVID-19, the market conditions and profitability of the AI and other equipment trading business worsened quickly after 31 December 2019. The Group recognised sales of certain AI and other equipment at an aggregate consideration of approximately RMB107,124,000 with an aggregate loss amounting to RMB62,970,000 during the period.

#### **4. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

##### **Changes in International Financial Reporting Standards (“IFRSs”)**

The IASB has issued the following amendments to IFRSs that are first effective for the current interim period of the Group:

Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in these condensed consolidated interim financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current interim period.

#### **5. USE OF JUDGEMENTS AND ESTIMATES**

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2019 annual financial statements.

## 6. SEGMENT REPORTING

The Group determines its operating segments base on the reports reviewed by the chief operating decision-maker (“CODM”) that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group’s reportable segments:

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

- Trading of mobile telecommunication devices
- Trading of AI and other equipment

Revenue reported below represents revenue generated from external customers. There were no inter-segment sales in both periods. The Group’s CODM has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the gross (loss)/profit of the Group’s operating segments separately when making decisions about allocating resources and assessing performance of the Group.

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

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

For the six months ended 30 June (unaudited)	Trading of mobile telecommunication devices		Trading of AI and other equipment		Total	
	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<u>247,877</u>	<u>389,140</u>	<u>107,124</u>	<u>–</u>	<u>355,001</u>	<u>389,140</u>
Segment results	<u>1,894</u>	<u>4,512</u>	<u>(62,970)</u>	<u>–</u>	<u>(61,076)</u>	<u>4,512</u>
Other (losses)/gains					(311)	1,556
Other income					19	7,007
Finance costs					(387)	(469)
Unallocated corporate expenses					<u>(9,581)</u>	<u>(10,287)</u>
(Loss)/profit before tax					<u>(71,336)</u>	<u>2,319</u>
<b>Time of revenue recognition</b>						
At a point in time	<u>247,877</u>	<u>389,140</u>	<u>107,124</u>	<u>–</u>	<u>355,001</u>	<u>389,140</u>

## 7. REVENUE

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

### Disaggregation of revenue from major products

The following table sets forth a breakdown of the Group's revenue from contracts with customers by major products during the six months ended 30 June 2020 and 2019.

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Recognised at a point in time</b>		
Mobile telecommunication devices	247,877	389,140
AI and other equipment	107,124	—
	<u>355,001</u>	<u>389,140</u>

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

**8. OTHER GAINS AND (LOSSES)**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Foreign exchange gains/(losses), net	<b>55</b>	(786)
Government grants	<b>107</b>	–
Reversal of impairment allowance on financial assets	–	20
Loss allowance (recognised on)/reversal of other receivables, pledged bank deposits and bank deposits	<b>(30)</b>	2,299
Others	<b>(443)</b>	23
	<b>(311)</b>	1,556

**9. OTHER INCOME**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Interest income on pledged bank deposits	<b>5</b>	1,448
Interest income on bank deposits	–	5,269
Interest income on bank balances	<b>2</b>	1
Others	<b>12</b>	289
	<b>19</b>	7,007

**10. FINANCE COSTS**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Interest on bank loans	<b>354</b>	388
Interest on lease liabilities	<b>33</b>	81
	<b>387</b>	469



**11. (LOSS)/PROFIT BEFORE TAX**

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Auditor's remuneration	<b>261</b>	250
Depreciation of equipment	<b>16</b>	18
Depreciation of right-of-use assets	<b>892</b>	892
Directors' emoluments	<b>1,833</b>	2,535
Other staff costs		
– salaries and other allowance	<b>3,142</b>	3,162
– retirement benefit schemes contribution	<b>221</b>	402
	<hr/>	<hr/>
Total staff costs	<b>5,196</b>	6,099
Cost of inventories recognised as an expense	<b>416,077</b>	384,628
Interest on lease liabilities	<b>33</b>	81
Short-term leases expenses	<b>448</b>	399
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## 12. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Income Tax	–	–
Deferred Tax	–	–
	<hr/>	<hr/>
	–	–
	<hr/> <hr/>	<hr/> <hr/>

The Company's subsidiaries 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 2020 and 2019.

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 2020 and 2019.

### 13. (LOSSES)/EARNINGS PER SHARE

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB cents</i>	<i>RMB cents</i>
Basic (losses)/earnings per share	(8.39)	0.27
Diluted (losses)/earnings per share	(8.39)	0.27

#### (a) Basic (losses)/earnings per share

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
(Losses)/earnings for the purposes of basic (losses)/earnings per share, representing (loss)/profit for the period attributable to equity holders of the Company	(71,336)	2,319

	Unaudited	
	Six months ended 30 June	
	2020	2019
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (losses)/earnings per share	850,000	850,000

#### (b) Diluted (losses)/earnings per share

The Company has no potential dilutive ordinary shares outstanding during the six months ended 30 June 2019 and 2020. Accordingly, the basic and diluted (losses)/earnings per share for both the periods are the same.

#### 14. DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends recognised as distribution during the period	—	—

The Board has resolved not to declare any dividend for the interim period for the six months ended 30 June 2020 (30 June 2019: Nil).

#### 15. INVENTORIES

	Unaudited	Audited
	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods	2,071	5,384

#### 16. TRADE AND OTHER RECEIVABLES

	Unaudited	Audited
	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	15,048	15,048
Less: impairment allowance	15,048	15,048
	—	—
Other receivables		
– Interest receivables	—	2
– Other PRC tax receivables	10,365	2,036
– Others	1,114	521
	11,479	2,559
Less: impairment allowance	295	279
	11,184	2,280
	11,184	2,280

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
Current	–	–
Less than 30 days	–	–
Within 30 days to 90 days	–	–
	<u>–</u>	<u>–</u>
	<u><u>–</u></u>	<u><u>–</u></u>

## 17. PREPAYMENTS

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
Prepayments to AI and other equipment suppliers ( <i>note i</i> )	<b>99,444</b>	376,000
Prepayments to mobile suppliers ( <i>note ii</i> )	<b>489,189</b>	310,415
	<u><b>588,633</b></u>	<u>686,415</u>
	<u><u><b>588,633</b></u></u>	<u><u>686,415</u></u>

*Notes:*

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

During the current interim period, RMB186,806,000 of the prepayments have been transformed into sales transactions, resulting in a loss of RMB63,235,000, which was recognised on completion of sales; and the remaining RMB189,194,000 has been refunded to the Group.

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

Subsequent to the period end, RMB212,371,000 has been refunded to the Group in August 2020 due to changes of business plan.

## 18. TRADE PAYABLES

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Trade payables	<b><u>12,806</u></b>	<u>12,740</u>

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within 90 days	<b>55</b>	–
91 to 180 days	–	–
181 days to 1 year	–	–
Over 1 year	<b><u>12,751</u></b>	<u>12,740</u>
	<b><u>12,806</u></b>	<u>12,740</u>

## 19. BANK LOANS

As at 30 June 2020, the Group had bank loans with amount equivalent to RMB21,117,000 (31 December 2019: RMB20,874,000). 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 and a pledged bank deposit of USD502,000 (approximately equivalent to RMB3,548,000).

## 20. RELATED PARTY TRANSACTIONS

### (a) Name and relationship

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

### (b) Related party transactions

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Premises lease payment charged by Tianyu	387	346
Premises interest on lease payment charged by Tianyu	7	28
Equipment lease payment charged by Benywave Technology	37	33
Equipment interest on lease payment charged by Benywave Technology	1	3
	<u>387</u>	<u>346</u>

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Short term employee benefits	2,519	2,423
Post-employment benefits	122	–
	<u>2,641</u>	<u>2,423</u>

## **MANAGEMENT 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, AI and other equipments 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.

### **WORSENING BUSINESS ENVIRONMENT**

With the Sino-American trade war in the back drop and the outbreak of the COVID-19 pandemic, the overall worldwide economy took a hit in 2020. In the first half of 2020, global smartphone shipments continued to slip quickly. According to the data released by International Data Corporation (IDC) on 14 June 2020, the global smartphone shipments in the first half of 2020 was 0.5 billion units, representing a year-on-year decrease of 18.2%, the third consecutive year of decline. The IDC indicated that the decrease was partially due to the problem of supply chain of the accessories affected by the outbreak of the COVID-19 pandemic and the weakening demand of smartphone stemmed from the poor economy. The IDC also reported an increase in 5G new smartphones models with attractive pricing of Chinese Brands which will help quicker recovery of the smartphone market in the second half of 2020 and 2021,

In the first half of 2020, the Group strove hard to maintain its customer base through innovation and efficiency. The management team continues to adjust the higher margin policy to high volume, lower gross margin in quoting business opportunities. The overall market was still tough. However, the Group was still able to deliver approximately 64 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 so as to 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.

Market competition was intensive in the upper mid-range and high-end segments in 2020 and vendors focused on bringing their latest technology to their consumers to justify the higher prices. The downturn in China market resulted in many of the Chinese brands to focus on their expansion in export, especially in Asian smartphone market. The Group strives to improve its market position in providing better services and working with more strategic partners. The Group’s results for the first half of 2020 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 of China.



With the advent of global unilateralism, Sino-American trade war and the outbreak of COVID-19 pandemic in 2020, 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 and challenging environment, the Company managed to minimize the adverse impact that were brought about to the business. Sales revenue from mobile telecommunication devices for the first half of 2020 dropped to RMB247.9 million from RMB389.1 million, a decrease of approximately 36.3%. 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 continued to drop under the competitive environment so to stay competitive with customers. The Group takes the strategy of staying relevant to the customers at the expense of margin. In addition, the Group incurred a loss of RMB63 million in relation to the sales of AI and other equipment due to the outbreak of COVID-19 pandemic globally and worsening trade environment, and the deteriorating trade war between China and USA.

Based on publicly available information, the number of confirmed COVID-19 cases had reached over 20 million. The world is trying very hard to get back on the right track. Central banks and governments worldwide have been taking all sorts of measures to bring the world back to normal. Despite the efforts, the world's economy was still seriously impacted and the hit was unprecedented for the last few decades. International trading has entered into freezing age and it is impossible to predict when it would resume back to the situation before the outbreak of the COVID-19 pandemic. The situation might never come back and it is likely that the world with pandemic would be prolonged and become normal societal status.

The global economic growth is expected to be negative for 2020. China is the only country that would still gain positive growth among the major economies. In this unpredictable and fast-changing business environment, the Group's mobile business has been adversely affected.

The sales revenue worsened during the first half for 2020. The Group's suppliers and customers were also in the same plight. For main business in smartphone servicing and trading, the Company was trying to leverage its capabilities to help in the ecosystem.

However, the mega trend is unchangeable. The Group could only adopt to the environment and the Company understands the uncertainty would continue to bring pressure to the Group's main business. At the moment there is no single best solution to tackle the issue which is highly dependable on the worldwide recovery for demand that is influenced by the new norm and business cycle after the outbreak of COVID-19 pandemic.

The Group has been trying hard to turn over a new leaf. The traditional business has been under pressure but the business related to fight against the pandemic and medical field have been entering their booming time.

Thus, the Group has been researching and trying to establish further business unit with the aim of diversification in business based on the Group's existing core competencies in advanced manufacturing and technology field. The medical supplies manufacturing equipment field is one of the possible directions for the Group to gain strategic direction.

## **BUSINESS OUTLOOK**

According to the forecast released on 14 June 2020, the global smartphone shipment will be dropped by 11.9% about 1.2 billion units. Situation is expected to be able to substantially improve in the second half of 2020 from the restarting of production and attractive pricing for smartphone.

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

China is determined to carry on its structural reform. And, she has managed to maintain a positive economic growth and delivered a promising growth rate at existing GDP scale of RMB99 trillion for the year of 2019. GDP per capita is over USD10,000. The ability to enlarge and rely on consumption would give a favorable environment for medical supplies manufacturing equipment business.

With the return of geopolitics, the Group believes the reform of China will bring great success in the long run due to China's 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. There are risks associated with the business on medical supplies manufacturing equipment.

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 new forecast for 5G shipment for 2020 will be 0.25 billion units and 70% is from Chinese Brand (Source: IDC). The Company will need to get prepared to capture that coming growth.

The Group is working with the above trend in mind and believes smartphone manufacturers will seek to form their own and new brand matrix in the future to please users in the future. The speed of upgrading mainstream with AI and mid-priced products will accelerate. The Group will introduce more Chinese brands of smartphone, IoT to new customers and focus on the new market such as Russia and Middle Asia for sales expansion. The Group believes that it can work well along with this strategy as the Group has its own infrastructure to support the change. The sales volume for the 2nd half of 2020 must be improved significantly.

Beforehand, the Group had long been considering and grabbing the opportunity for asset management in the Greater Bay Area. However, due to the outbreak of the COVID-19 pandemic, the Group believes it was not the right timing to conduct the business for the first half of 2020. The Group would continue to be prudently optimistic on the asset management issues and would also believe that in the long run the market and growth for asset management would be tremendous and would be proactively searching for the right angle and event to step in the field.

## **OPPORTUNITIES ON MEDICAL SUPPLIES MANUFACTURING EQUIPMENT FIELD**

The Group's strategic selection on exploring new business was made based on the Group's experience in mobile phone manufacturing. In particular, the Group has the expertise and advantages accumulated in technology field which could be transferred into integrated value and supply chain in medical supplies manufacturing equipment field. In the first half of 2020, the Company took the opportunity to provide, on a test basis, upgrading solution to Chinese manufacturers and Chinese exporters by providing medical supplies manufacturing equipment solution. The power of disruptive technology and integrated value and supply chain of China 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.

## FINANCIAL REVIEW

### Revenue

The Group's revenue generated from contracts with customers by major products decreased by RMB34.1 million or 8.8% to RMB355.0 million for the six months ended 30 June 2020 from RMB389.1 million for the six months ended 30 June 2019. The Group's revenue for the first six months of 2020 has decreased due to the relatively less active market and the pandemic. The following table sets out the breakdown:

	For the six months ended 30 June	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
Mobile telecommunication devices	247,877	389,140
AI and other equipment	107,124	—
	<u>355,001</u>	<u>389,140</u>

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

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			
	2020 (unaudited)		2019 (unaudited)	
	RMB'000	%	RMB'000	%
Hong Kong	247,877	69.8	389,140	100
The PRC	107,124	30.2	—	—
	<u>355,001</u>	<u>100%</u>	<u>389,140</u>	<u>100</u>

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.

The Group's revenue generated from sales in Hong Kong decreased from RMB389.1 million for the six months ended 30 June 2019 to RMB247.9 million for the six months ended 30 June 2020, representing a decrease of 36.3%. It was mainly due to the relatively less active market and the pandemic.

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

	For the six months ended 30 June			
	2020		2019	
	Gross profit/(loss)	Gross profit/(loss) margin	Gross profit	Gross profit margin
	(unaudited)	%	(unaudited)	%
	RMB'000	%	RMB'000	%
Mobile telecommunication devices	1,894	0.76	4,512	1.2
AI and other equipment	(62,970)	(58.8)	–	–
	<u>(61,076)</u>	<u>(17.2)</u>	<u>4,512</u>	<u>1.2</u>

Gross loss amounted to RMB61.1 million for the six months ended 30 June 2020, decreased by RMB65.6 million from a gross profit of RMB4.5 million for the six months ended 30 June 2019. The decrease in gross profit ratio of mobile telecommunication devices was mainly attributable to the adverse price competition.

The loss in AI and other equipment was due to worldwide pandemic, the worsening trading environment and deteriorating trade war between China and the USA which had adversely impacted the market demand in the Group's AI and other equipment trading business and its profitability.

### Other income

Other income mainly represented no interest income of the bank deposits for the six months ended 30 June 2020 and RMB7 million for the six months ended 30 June 2019. The decrease was mainly due to the matured bank deposits in May 2019 were not renewed.

### Continuing Connected Transactions

Pursuant to an equipment lease agreement made between Beijing Benywave Technology Co., Ltd. (“**Benywave Technology**”) and Beijing Benywave Wireless Communications Co., Ltd. (“**Benywave Wireless**”), Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. For the six months ended 30 June 2020, the equipment lease payment and interest on lease payment incurred by Benywave Wireless amounted to approximately RMB37,000 and RMB1,000, respectively.

Pursuant to a lease agreement made between Beijing Tianyu Communication Equipment Co., Ltd. (“**Tianyu**”) and Benywave Wireless, Tianyu has let the premises situated at Zone B, 4th Floor, No. 55, Jiachuang Second Road, Zhongguancun Science Park, OPTO-Merchatronics Industrial Park, Tongzhou District, Beijing, China to Benywave Wireless for carrying on its business. For the six months ended 30 June 2020, the lease payment and interest on lease payment incurred by Benywave Wireless amounted to approximately RMB387,000 and RMB7,000, respectively.

## **Taxation**

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

## **Liquidity, financial resources and source of funding**

The Group's total cash and bank balances increased by RMB27.9 million from RMB54.7 million as at 31 December 2019 to RMB82.6 million as at 30 June 2020.

As at 30 June 2020, 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 7.1 as compared with 8.3 as at 31 December 2019.

As at 30 June 2020, the Group had bank borrowings of approximately RMB21.1 million (31 December 2019: approximately RMB20.9 million). On the same date, the gearing ratio (calculated based on the borrowings as of the respective dates divided by the net assets as of the respective dates) of the Group was 3.59% as compared with 3.17% as at 31 December 2019.

## **Inventories**

The Group's total inventories decreased by RMB3.3 million from RMB5.4 million as at 31 December 2019 to RMB2.1 million as at 30 June 2020. In determining the write down of inventories, the Company's management considered the subsequent selling price and ageing of inventories.

## **Trade and other receivables**

Trade and other receivables mainly include the trade receivables and other receivables. As at 30 June 2020, the carrying amount of trade and other receivables were approximately RMB11.2 million, net of impairment allowance, representing a decrease of approximately RMB8.9 million as compared to the corresponding period in 2019.

In assessing the recoverability of trade receivables and determining the allowance for doubtful debts, the management adopted the expected credit losses model subject to impairment under IFRS9, including considering the default or delay in payments, subsequent settlements and ageing analysis of the trade receivables. On the basis of management estimation, the impairment allowance of trade receivables was approximately RMB15 million as at 30 June 2020.

## **Prepayments**

Prepayments mainly include prepayments paid to AI and other equipment suppliers and mobile suppliers. As at 30 June 2020, the Group has made prepayments amounting to RMB99.4 million (31 December 2019: RMB376.0 million) to AI and other equipment suppliers and RMB489.2 million (31 December 2019: RMB310.4 million) to mobile telecommunication devices suppliers.

### **Foreign exchange exposure**

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

### **Dividends**

For the six months ended 30 June 2020, the Board does not recommend the payment of an interim dividend (2019: Nil).

### **HUMAN RESOURCES**

As at 30 June 2020, the Group employed approximately 31 employees (30 June 2019: 38 employees) in Hong Kong and mainland China. The Group remunerated the employees based on their performance, experience and prevailing market practices.

### **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

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

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

As at 30 June 2020, the Company has complied with all the code provisions set out in the CG Code.

### **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “**Model Code**”) as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.



## **CHANGE OF DIRECTORS' INFORMATION**

Change in Director's biographical details since the date of the 2019 Annual Report and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

- Mr. Lam Yiu Kin has been appointed as an Independent non-executive Director of SHANGHAI FUDAN-ZHANGJIANG BIO-PHARMACEUTICAL CO., LIMITED 上海復旦張江生物醫藥股份有限公司 (a company listed on The Stock Exchange of Hong Kong Limited with code: 1349) (“**Fudan-Zhangjiang**”) since 9 October 2013. The A Shares of Fudan-Zhangjiang has been listed and commenced trading on the Sci-Tech Innovation Board of the Shanghai Stock Exchange on 19 June 2020 with Stock code: 688505.

## **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 2020.

## **MAJOR LITIGATION AND ARBITRATION PROCEEDINGS**

The Group had no major litigation or arbitration during the six months ended 30 June 2020.

## **SIGNIFICANT INVESTMENTS AND ACQUISITIONS**

The Group had no significant investment and acquisition of subsidiaries, associates or joint ventures during the six months ended 30 June 2020.

## **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.

## **AUDIT COMMITTEE**

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



The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2020 together with the management of the Group.

## **PUBLICATION OF FINANCIAL INFORMATION**

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.vitalinno.com](http://www.vitalinno.com)). The Company's interim report for the six months ended 30 June 2020 containing all information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 31 August 2020

*As at the date of this announcement, the Board comprises Ms. Rong Xiuli, Mr. Rong Shengli, Mr. Yin Xuquan and Mr. Wong Ho Chun as executive Directors, and Mr. Hon Kwok Ping Lawrence, Mr. Lam Yiu Kin and Mr. Han Xiaojing as independent non-executive Directors.*