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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6133)

SUPPLEMENTAL ANNOUNCEMENT ON THE INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017

Reference is made to (i) the announcement of Vital Mobile Holdings Limited (the "**Company**") dated 24 August 2017 (the "**Results Announcement**") in relation to the interim results of the Company and its subsidiaries (together as the "**Group**") for the six months ended 30 June 2017 and (ii) the interim report dated 29 September 2017 of the Group for the six months ended 30 June 2017 (the "**Interim Report**"). Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Interim Report.

The Interim Report set out the financial performance, business review and financial review of the Group for the six months ended 30 June 2017. In addition to the information disclosed in the Interim Report, the Company would like to provide shareholders of the Company and the market with the following additional information.

REASONS ATTRIBUTED TO THE REDUCTION OF SALES

The reduction in sales was due to the structural change of the smartphone industry in China. The Company is one of the leading Original Design Manufacture (ODM) suppliers for the mid-market Chinese brands that produce low cost smartphones in China for years. In 2016, many large Chinese mobile supplier brands had shifted their strategies to offer their mobile products at a much lower and competitive price. This shift in strategy of the large Chinese mobile supplier brands had intensified the competition in the smartphone industry and had caused many of the existing customers of the Company, which focus in the second-tier market, to lose market shares.

It had come to the attention of the directors of the Company that some of our existing customers are now desiring to co-operate with the larger market players in China. As such, the Company is now working with the existing customers and/or finding new customers to identify the possibility to co-operate with second tier China brands in order to remain competitive in the industry.

Given the years of operation of the Company, its marketing experience in the mid-market and the well-established network that established with different local mobile brand suppliers, the Company believes that it can still remain competitive in the industry. By building and recapturing some of the customers and improving the product design and services offered, the directors of the Company believe that the sale will recover commencing from the first half of 2018.

DETAILED REASONS FOR THE GROSS LOSS POSITION

The Group's gross loss position is primarily attributable to (i) the decrease of sales volume and the reasons mentioned in the section headed "Reasons attributed to the reduction of sales" above; (ii) provision for inventories write-down; and (iii) intellectual property amortization plus lower profit margin for using standard software application instead of design-in smartphones. The Company is confident that the sale will recover starting in the fourth quarter of 2017 and such gross loss position is expected to turnaround commencing from the first half of 2018.

REASONS FOR GENERATING SIGNIFICANT LOSS 2 YEARS AFTER THE LISTING OF THE COMPANY

Please refer to the sections headed "Reasons attributed to the reduction of sales" and "Detailed reasons for the gross loss position" above regarding the reasons for the reduction of sales and loss generated. The directors of the Company would like to emphasize the following matters which had led to the turnaround of the financial performance of the Company subsequent to its listing:

- During the second half of 2015, due to the currency devaluation and economic downturn, a few of the existing customers of the Company were unable to fully settle their invoices. The customers of the Company had requested that unless a discount was provided to them, they would not be able to fulfil their original order placed to the Company. The Company considered that the amount of discount requested by its customers would have an adverse impact on the financial performance of the Company, the Company decided it would be in the best interest of the Company not to proceed in some of the orders that placed by its customers as opposed to providing discounts to its customers. Similar incidents had persisted until 2016.

- Many other industry players, including large Chinese mobile supplier brands, also faced a similar problem as mentioned above. Due to the extremely high inventory level of their products, these large Chinese mobile supplier brands are pressured to reduce the price of their products, and as a result, had created a ripple effect in the price reduction of the overall mobile industry in China and the Company was unable to follow suit.

- Due to the aggravation in competition of the Chinese mobile market, many large Chinese brand mobile suppliers had decreased their product prices in order to increase their product demand. The directors of the Company are of the view that in order to preserve cash for future expansion and market opportunities, the Company would selectively accept sales orders to avoid any loss-making sales.

- Some of the overseas ODM customers of the Company had experienced decline in their business due to the popularity of the Chinese brand mobile. The decline in the business of these overseas ODM customers had resulted in a substantial decrease in their orders to the Company.

- It has come to the attention of the Company that the average lifespan (replacement cycle) of mobile phones in the United States and Europe is becoming longer, hence, the overall mobile phone market was experiencing a decline in growth rate.

- Approximately 48% of the Group's revenue was generated from the sale of 3G smartphones during the financial year 2015, and this has dropped to 4% in 2016. As disclosed in the Company's prospectus dated 16 June 2015, it was expected that the revenue from the sale of the 3G smartphones would drop, however, as the Group's key customers migrated to 4G smartphone business quicker than the market did, the decrease was out of the range of the Company's expectation.

The Company is confident that the Group's financial performance is expected to turnaround commencing from the first half of 2018.

FUTURE PLANS AND STRATEGIES

Amid the structural change of the Chinese smartphone industry, the Company believes that there is a large demand from its customer base to cooperate with Chinese smartphone brands for exporting to the emerging markets. The Company is working with some of its existing customers to identify second-tier Chinese smartphone brands as a source of ODM supply base and is currently negotiating new terms with some of its existing major customers, which are wholesale distributors of the China brand mobile phone. Under the current terms of negotiation, should their orders be materialized, the turnover contributed by these wholesale distributors would increase by two-fold during the fourth quarter of 2017. In 2018, the Company will target to maintain the sales order amount and negotiate new products and terms with its existing customers.

NEW ACQUISITION TARGET

The new acquisition target disclosed in the Interim Report refers to the acquisition of 70% of the equity interest (the "**Acquisition**") in 河南科泰樂訊通訊設備產業基地有限公司 (Henan Ketai Lexun Communication Equipment Industry Base Company Limited) (the "**Target Company**"), please refer to the announcement of the Company dated 15 June 2017 for further details of the Acquisition.

The Target Company is principally engaged in the provision of supply chain and export services to assist its customers, consisting primarily of resellers, wholesalers and manufacturers of PRC mobile devices and smartphone devices, in managing their supply chain and sell their products in both the domestic and overseas markets.

Supply Chain

The supply chain services primarily involve (i) supply base management and material procurement, which includes the selection of suppliers, negotiation of prices and specifications, quality control for components, accessories and other related raw materials; (ii) products and applications engineering and testing for mobile devices and smartphone devices and monitoring of the production process; (iii) market services covering (a) product advices on product configurations, electrical requirements, local contents and intellectual property rights of the products manufactured by the relevant customers; (b) pricing advices on the pricing strategy of, and the costs expected to be incurred in, the products manufactured by the relevant customers; (c) providing advices on distribution channels for distributing the products manufactured by the relevant customers; and (d) promotion advices on advertising and promotion strategies of the products manufactured by the relevant customers; and (iv) assisting its customers in making prepayment to their relevant suppliers.

The target customers of the supply chain services are PRC mobile device and smartphone device suppliers, who seek to expand its business in both the domestic and overseas markets. Under the supply chain services, the Target Company charges its customers a service fee ranging from 1.5% to 2.0% using a cost plus approach with reference to numerous considerations including (i) the prevailing market pricing; (ii) relationship with the relevant customers; (iii) operational and administrative costs; and (iv) staff costs.

Export Services

The export services primarily involve the handling of export-related (i) customs clearance services; (ii) logistics and distribution services; (iii) warehousing services; and (iv) tax services.

The target customers are resellers and wholesalers who seek to export their products manufactured in the PRC to the overseas market. Under the export services, generally charge its customers a service fee ranging from 1.0% to 2.0% using a cost plus approach with reference to numerous considerations including (i) the prevailing market pricing; (ii) relationship with the relevant customers; (iii) operational and administrative costs; and (iv) staff costs.

Reasons for and benefits of the Acquisition

The Directors believe the Acquisition will enhance the export capability of the Company. The Target Company holds and maintains all export licences necessary for the trading export of mobile devices and smartphone devices which enable the Group to commence operation immediately without needing to spend time and resources to make application to obtain trading export qualification. The trading export licences possessed by the Target Company enable the Target Company to export non-processed products, whereas the manufacturing export licence held by the Group restricts the Group to only export products which have been designed, modified or manufactured by the Group. Furthermore, Target Company has the ability to obtain early tax rebate which is an advantage for cash flow management of the Group. The key management of the Target Company has maintained stable business relationship with its customers and suppliers and is in a strong position to source business with the leading brands of mobile devices and smartphones devices in the PRC.

The Target Company's trading export qualifications combining with the Company's licences and permits to export mobile devices and smartphone devices to oversea markets, enables the Group to leverage the comparative advantage and potential broad customer base of the Target Company. As such, the Directors are of the view that acquiring the Target Company would be more beneficial to the Group as opposed to the establishment of a new subsidiary for obtaining the export qualification since time and resources would be saved, and revenue can be generated immediately upon completion of the Acquisition, the Acquisition would also enable the Group to build business relationships with a wider network of suppliers along the supply chain and to understand the latest industry changes so as to increase the Group's competitiveness in the overseas markets. In addition, the Acquisition will strengthen and diversify the Group's business and further increase the Group's presence in the smartphone industry.

The additional information above does not affect other information contained in the Results Announcement and the Interim Report and the contents of the Results Announcement and Interim Report remain unchanged.

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

Hong Kong, 22 November 2017

As at the date of this announcement, the Board of the Company comprised Ms. Rong Xiuli, Mr. Rong Shengli and Mr. Tang Shun Lam as executive Directors; and Mr. Hon Kwok Ping, Lawrence, Mr. Lam Yiu Kin and Mr. Tsang Yat Kiang as independent non-executive Directors.