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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHT

- Our revenue decreased from RMB294.1 million for the first half of 2016 to RMB27.5 million for the first half of 2017, representing a decrease of 90.6% or RMB266.6 million.

- Net loss of the Company attributable to shareholders amounted to RMB42.1 million for the first half of 2017 compared to net profit of RMB19.5 million for the first half of 2016, representing a decrease of 315.9% or RMB61.6 million.

- Basic loss per share for the six months ended 30 June 2017 was approximately RMB5.0 cents (basic earnings per share for the corresponding period in 2016: approximately RMB2.3 cents).

The board (the "Board") of directors (the "Directors" and each a "Director") of Vital Mobile Holdings Limited (the "Company") announced the unaudited condensed consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2017 together with the comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	4	**27,480**	294,073
Cost of sales		**(41,871)**	(273,897)
Gross (loss)profit		**(14,391)**	20,176
Other gains and losses	5	**(17,738)**	11,941
Other income		**4,035**	9,879
Research and development costs		**(1,153)**	(10,037)
Selling and distribution expenses		**(2,023)**	(4,430)
Administrative expenses		**(8,869)**	(5,719)
Interest expenses		**–**	(178)
(Loss)profit before tax	6	**(40,139)**	21,632
Income tax expense	7	**(1,982)**	(2,089)
(Loss)profit and total comprehensive (expense) income for the period attributable to equity holders of the Company		**(42,121)**	19,543
Basic (loss)earnings per share (RMB per share)	8	**(0.050)**	0.023

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	**As at 30 June 2017** *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Non-current assets			
Equipment		**89**	109
Intangible assets		**42,612**	44,895
Deferred tax assets		**–**	1,982
		42,701	46,986
Current assets			
Inventories		**15,293**	27,363
Trade and other receivables	10	**152,413**	376,213
Amount due from a related party	11	**12,586**	–
Pledged bank deposits		**185,257**	475,710
Bank deposits		**520,000**	430,857
Cash and bank balances		**116,651**	16,257
		1,002,200	1,326,400
Current liabilities			
Trade and bills payables	12	**188,099**	439,208
Accrual and other payables	13	**19,510**	20,601
Dividend payables		**14,754**	–
Deposits received from customers		**21,856**	16,133
Amount due to the controlling shareholder		**–**	30,521
Tax liabilities		**3,311**	13,389
Provision		**1,598**	2,464
		249,128	522,316
Net current assets		**753,072**	804,084
Total assets less current liabilities		**795,773**	851,070
Net assets		**795,773**	851,070
Capital and reserves			
Share capital		**67,041**	67,041
Share premium and reserves		**728,732**	784,029
Equity attributable to equity holders of the Company		**795,773**	851,070

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 Islands and is 90% and 10% owned by Ms. Rong Xiuli ("Ms. Rong") and Mr. Ni Gang ("Mr. Ni"), the husband of Ms. Rong, respectively.

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 ("PRC"). The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in mobile telecommunication services 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.

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

The application of the above amendments to IFRSs has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue

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

Segment information

The Group operates and manages its business as a single operating segment that engaged in developing, designing, production management and selling mobile telecommunication devices and mobile telecommunication related components and accessories, selling mobile telecommunication devices with software/application insertion ("ROM"), targeting global markets excluding the PRC.

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 is available for assessment of performance of different products, no segment information other than certain entity-wide disclosures are presented.

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 2017 and 2016.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Smart phones	**27,356**	273,430
Mobile device components	**124**	9,105
Smartphone component packs	**–**	11,538
	27,480	294,073

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Foreign exchange (loss)gain, net	**(15,906)**	11,741
Allowance in trade receivables	**(2,383)**	–
Others	**551**	200
	(17,738)	11,941

6. (LOSS)PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of equipment	**20**	26
Amortisation of intangible assets (included in cost of sales)	**2,283**	–
Directors' emoluments	**2,777**	1,705
Other staff cost		
– salaries and other allowance	**3,396**	7,228
– retirement benefit schemes contribution	**304**	1,290
– recognition of equity-settled share-based payment	**645**	–
Total staff costs	**7,122**	10,223
Cost of inventories recognised as an expense	**27,413**	265,031
Write down of inventories (included in cost of sales)	**12,175**	8,866
Operating lease rentals	**892**	1,133

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
– Hong Kong Profits Tax	**–**	3,654
Deferred Tax		
– Current year	**1,982**	(1,565)
	1,982	2,089

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 2017 and 2016.

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 2017.

8. (LOSS)EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)earnings for the purposes of basic (loss)earnings per share, representing (loss)profit for the period attributable to equity holders of the Company	**(42,121)**	19,543

	Six months ended 30 June	
	2017	2016
	'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.

9. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period	**14,754**	36,728

During the current interim period, a final dividend of HK2 cents per share in respect of the year ended 31 December 2016 (2016: HK5.055 cents per share in respect of the year ended 31 December 2015) 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 interim period amounted to HKD17,000,000 which approximated to RMB14,754,000 (2016: RMB36,728,000). The final dividends of the year ended 31 December 2016 were paid in July 2017.

The directors have determined that no dividend will be paid in respect of the interim period.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Trade receivables	**105,247**	118,141
Less: allowance for doubtful debts	**14,908**	12,525
	90,339	105,616
Other receivables		
– Advance to a major customer (i)	**19,866**	28,442
– Interest receivables	**3,921**	7,824
– Advance to a major supplier (i)	**–**	107,000
– Value added tax receivables	**–**	645
– Others	**224**	309
Prepayments to suppliers	**38,063**	126,377
	152,413	376,213

Note:

(i) The amount is non-trading in nature, unsecured and non-interest bearing. The amount will be repaid within one year.

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.

10. TRADE AND OTHER RECEIVABLES (Continued)

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.

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Within 60 days	**2,199**	6,601
61 to 180 days	**–**	17,992
181 days to 1 year	**24,444**	4,875
1 year to 2 years	**63,696**	76,148
	90,339	105,616

Included in the Group's trade receivable balance is debtors with aggregate carrying amount of RMB88,140,000 which are past due as at 30 June 2017 (31 December 2016: RMB99,015,000), for which the Group has not provided for impairment loss as there has not been a significant change in credit quality. After considering the subsequent settlement of the trade receivables and the repayment history of the debtors, the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 467 days as at 30 June 2017 (31 December 2016:413 days).

11. AMOUNT DUE FROM A RELATED PARTY

The balance represents an amount due from Henan Ketai Lexun Communication Equipment Industry Base Company Limited ("Henan Ketai") of RMB12,586,000 (2016: nil) which is non-trading in nature, unsecured, interest-free and repayable on demand.

12. TRADE AND BILLS PAYABLES

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Trade payables *(Note)*	**33,531**	47,820
Bills payables	**154,568**	391,388
	188,099	439,208

12. TRADE AND BILLS PAYABLES (Continued)

Note: As at 31 December 2016, the balances included the payables of RMB5,268,000 to Vanchip (Tianjin) Electronic Technology Co. Ltd ("Vanchip"), which is controlled by Ms. Gao Han, Ms. Rong's daughter. According to the tripartite agreement entered into among Benywave Wireless, Vanchip and Beijing Benywave Technology Co., Ltd. ("Benywave Technology") dated on 21 December 2015, a fellow subsidiary of the Company, Benywave Wireless repaid the debt to Benywave Technology on behalf of Vanchip in May 2017.

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 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**–**	40
91 to 180 days	**–**	3,297
181 days to 1 year	**3,185**	13,187
Over 1 year	**30,346**	31,296
	33,531	47,820

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 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**76,568**	43,333
91 to 180 days	**–**	83,055
181 days to 1 year	**78,000**	265,000
	154,568	391,388

13. ACCRUAL AND OTHER PAYABLES

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Payable for insurance premium and freights	**1,086**	1,934
Staff cost payable	**783**	1,143
Royalties payable	**13,210**	13,210
Value added tax payable	**1,867**	–
Others	**2,564**	4,314
	19,510	20,601

14. EVENT AFTER THE END OF THE REPORTING PERIOD

On 15 June 2017, Benywave Wireless (the "Purchaser"), Ketai Lexun (Beijing) Communication Equipment Company Limited (the "Vendor"), a wholly owned subsidiary of Beijing Tianyu Communication Equipment Co. Ltd ("Tianyu"), Ms. Rong, Tianyu and Henan Ketai (the "Target Company") entered into the equity transfer agreement ("Agreement").

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the sale interest, representing a 70% equity interest in the Target Company, at a total consideration of RMB213 million (equivalent to approximately HKD244.6 million), which will be settled on 10 November 2018 by offsetting the repayment obligations of the principal and interests under loan agreement signed between Tianyu and the Target Company on 2 June 2015 and loan agreement signed between the Vendor and the Target Company on 15 November 2016.

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

The acquisition constitutes a major transaction and a connected transaction for the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, shareholders and independent shareholders' approval requirements under the Listing Rules. The details of arrangement and the consideration have been disclosed in the announcement dated on 15 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the six months ended 30 June 2017, the macro-economy and global markets remained challenging along with currency fluctuations in emerging markets. These factors affected overall consumer demand which led to a continuing slower growth of worldwide smartphone and mobile device markets. The smart mobile phone market in 2016 has seen a big change in the market dynamics. The price reduction of branded mobile phones in 2016 was continuing in first quarter of 2017. We have seen that the price leaders were getting bigger market shares and other brands were following suit selling at prices that were below our costs. As a result, we had seen some mega mobile company failure just happened in second quarter of 2017. The market prices of mobile phone remained unhealthy. The ODM market was dominated by the big Chinese brands and these brands have been penetrating into most of our traditional export markets such as India, South America and Eastern Europe. It was reported that some of the top local kings in India have dropped out of the top 5 of local market. Some of our key customers were facing extreme pressure to compete with the Chinese leading brands. Amidst these market challenges, Vital Mobile has seen a reduction of revenue to a lower level. For the six months ended 30 June 2017, the Company's consolidated revenue reduced by 90.6 percent year-on-year to RMB27.5 million and the net loss incurred was RMB42.1 million. However, about RMB15.9 million losses suffered were due to adverse forex exchange loss and about RMB14.6 million of inventory write-down and allowance in trade receivable.

Over the past years, Vital Mobile had demonstrated a consistent and solid track record in delivering results through strong execution of its clear strategy to balance short-term results and long-term objectives. We were working on different geographic areas including US and Europe as we believed there was going to be a recovery of the market. Whilst we had taken the measure to work on providing software improvement and technical services for our traditional customers, we have seen most of them were not performing well. As a result, we have been working with a different group of mobile phone customers. We have faced another difficulty that the custom build software for the mobile phone market has slowed down as most of our ODM customers preferred to use standard software offered in the open market as a way to save cost because of the relentless price reduction by some of Chinese brands. Nevertheless, with the major failures announced on two of the Chinese brands, we believed the market we serve will gradually recovered from this pressure. We have been working with some existing and new customers to enable them to offer higher level of customized software and we hoped we could see some recovery towards the end of 2017.

We have been following up on our discussion with a few possible acquisition target companies to expand our business in the mobile device services with which we envisaged that we could improve our business situation. We had extended the negotiation period with a target we entered into negotiation in September 2016. Despite various attempts, we stopped the negotiation in April 2017. We had embarked to replace last year's merger target with a new one which we announced, as a possible merger transaction in April 2017.

We are still working on providing the Brand + strategy with this new endeavor. It will allow us to work with some of the acquired software to provide customers with custom and standard software for their mobile phones and mobile devices. The new acquisition target will provide not only new business and customers but also a new business model that can supplement our effort in selling to our existing and new customers in the mobile phones and mobile device market. Our team has been working with this target company and some of its customer to understand their needs and wants in the value chain service business that the target is providing. The value chain business model is a supplement on our Brand + strategy; it is to serve its customer on their business requirements across the whole ecosystem and not just the supply chain, as the target provides trading export capabilities that the Company presently lacks and the customer coverage would have increased.

In the effort of improving our fixed overhead costs, we have increased our outsourcing of some of our technical and service activities, however, we have kept our sales team intact so that we can keep our core capability of revenue generation. We have also taken the steps of re-evaluating our inventory to the current market level. In the second quarter, we have engaged Crowe Horwath to work with our Risk Management and Internal Control, and we have conducted a number of internal training for our teams to enhance the compliance management within our organization.

We have seen a slow recovery in the market and our team is capturing some new business in the second quarter and believe these will turn into higher volume business in the second half of 2017. These businesses will be a mixture of ODM and service business that will now form part of our core business activities.

Looking forward, the Company believes there will be some improvement on our ODM business towards the end of the year, whereas we are working with different groups of supplier customers to provide value added services to enable them to export their mobile phones and mobile devices to strategic key markets. The company is also working with outsource partners to enhance its product offerings to prepare ourselves to assist our customers. As our Chairperson puts it, Vital Mobile has been working on providing our customers with the best of Vital Mobile; we are embarking on the journey of providing the best of China Manufacturing and Value Chain to the world. It is our goal to consolidate our resources, firstly to get back and retain some of the ODM business and put our effort in developing a holistic approach in providing the value chain service for the smart phones and smart mobile device industry.

Sales and Marketing

Despite the adverse macro environment, we have been working hard to retain and develop new customers and new market segments. We have tried many ways to support our customers, such as extending credit lines and some selling at low profit margin and extending our value-chain services to some of the new supplier customers. In February, we participated in the GSMA Exhibition in Barcelona, Spain which is the largest meeting place for customers and suppliers in the mobile business world, it enabled our team to show our capabilities and meeting customers of new and old. We participated in the CES Show in LA, California again to display our phones and mobile devices.

We are now working with two groups of customers, the tier one and the emerging new challengers in the smartphones and smart mobile devices markets. We are providing these two groups mostly similar overall services. However, for the tier one customers, we provide one or a combination of our supply chain, technical services, marketing services, support services, logistic services and financial services. For the tier two customers, we mostly are providing the full services. The hardware and services will provide the company with a greatly expanded market size.

Business Outlook

Looking forward, the markets where the Company focuses in will continue to remain fast changing and competitive. The Company has taken decisive actions to implement the business realignment plan to ensure delivery of the planned synergy amidst the market challenges. The business realignment plan has been well executed during fiscal quarter two, which helps the Company to build a stronger foundation for future growth.

In respect of the market shifts and domination from a new breed of smartphone market leaders, the competitive pressure has forced the Company to meet pricing demands in order to secure new business in the market. The business in the next 6 months will still be an uphill battle, as we need to regain some of the momentum in the marketing and sales of our products and services. We have now managed to clean up our operation and management team.

With the management team's effort, we have managed to start working on design-in ODM projects for some of the current and new customers, we target to start receiving orders in the fourth quarter of this year. To develop the value chain service business, the Company has established its value chain eco-system which includes building up the supply chain, the partnership in financing, design, software development, packaging and marketing services; based on these activities, we will regain traction in getting some market share in the ODM and value chain services. However, as these are new business to us, it will take time to gain our operation efficiency.

The acquisition target we announced in June 2017 is one of the key strategic partnership that will help. The proposed merger with Henan Ketai will allow us to add some dimension in our service activities as well as providing some new customers.

Our target is to regain the market position and business volume and to improve our profitability over the next 12 months.

These fundamental changes the Company has made will position the company as a faster and stronger company. It will drive sustainable growth in revenue and profit amidst strong competition and market changes. Vital Mobile will continue to invest in areas it believes are important to its future success. Vital Mobile remains fully committed to its protect and attack strategy, supported by its well proven execution capabilities, to lead the Company on its ongoing journey towards building a respectable global leader in the smartphone business and the value chain service platform and to drive profitable growth that, in turn, creates better value for shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB266.6 million or 90.6% to approximately RMB27.5 million for the six months ended 30 June 2017 from approximately RMB294.1 million for the six months ended 30 June 2016. The following table sets forth the breakdown of the Group's revenue by product type:

	For the period ended 30 June			
	2017		2016	
	(unaudited)		(unaudited)	
	RMB'000	*%*	*RMB'000*	*%*
Smartphones	**27,356**	**99.5**	273,430	93.0
Mobile device components	**124**	**0.5**	9,105	3.1
Smartphone component packs	**–**	**–**	11,538	3.9
	27,480	**100.0**	294,073	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 smartphones decreased from approximately RMB273.4 million for the six months ended 30 June 2016 to approximately RMB27.4 million for the six months ended 30 June 2017, representing a decrease of 90.0%. During the six months ended 30 June 2017, the Group's revenue was mainly derived from 4G smartphones, the revenue of 4G smartphones decreased from approximately RMB253.6 million for the six months ended 30 June 2016 to approximately RMB25.8 million for the six months ended 30 June 2017, and the revenue of 3G smartphones decreased from approximately RMB19.8 million for the six months ended 30 June 2016 to approximately RMB1.6 million for the six months ended 30 June 2017.

The first 6 months of 2017 revenue has dropped significantly. The reasons attributed to this reduction of sales are as follows:-

1. Market situation – Unreasonable and unprofitable price competition. In the beginning of 2016, as the market competition intensified and inventory levels were high due to softening of the end markets because of economic and political reasons, a number of major mobile devices and smartphones suppliers had resorted to reducing the selling price in order to maintain the market share and cut their inventory. These activities spilled into first quarter of 2017. The Company and its ODM customers faced unprecedented price competition and profit erosion, to the extent, many of our end customers decided to wait out the competitive situation. We have lost a substantial amount of ODM and service business in many of the markets we served.

2. The rise of new China Brands – we have seen a steady improvement in the technical and features of some of the leading Chinese brands that had exponential growth in the past 12 months. So much so, we have witnessed seven out of the world top ten Smartphone suppliers are Chinese brands as opposed to only four 2 years ago. The strong Chinese brands and their aggressive selling tactics have eroded the market shares of the local brands that are our core target market.

3. Higher development cost and longer development cycle – The changes of design (customer needs) and technology translate to higher development costs and longer development cycle per model. We have lost some projects because our ODM customers were not willing to share the development costs as before as they do not want to take up the risk.

4. Transitional period – Since late last year, the Company has embarked to fine tune our business model. Whilst at the same time, the management team wants to contain the risk factors, we want to support our customers so that they can manage their risks. We are working on a new ODM and Supply Chain business model that in combination, we can deliver products to our customers with reduced risk and design and development cycles. We have been working with our customers and supply chain partners to work towards this goal.

The following table sets forth the breakdown of our revenue by geographical regions for the periods indicated:

	For the six months ended 30 June			
	2017		2016	
	(unaudited)		(unaudited)	
	RMB'000	*%*	*RMB'000*	*%*
Hong Kong	**23,603**	**85.9**	191,698	65.2
Other parts of Asia	**2,521**	**9.2**	4,363	1.5
Europe	**1,298**	**4.6**	10,035	3.4
Africa	**43**	**0.2**	9,286	3.2
South Asia	**15**	**0.1**	65,534	22.3
South America	**–**	**–**	11,536	3.9
North America	**–**	**–**	1,354	0.4
Southeast Asia	**–**	**–**	267	0.1
	27,480	**100.0**	294,073	100.0

Notes:

1. Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell smart phones 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.

6. South America includes Argentina.

7. North America includes USA.

8. Southeast Asia includes Philippines.

The Group's revenue generated from sales in Hong Kong decreased from approximately RMB191.7 million for the six months ended 30 June 2016 to approximately RMB23.6 million for the six months ended 30 June 2017, representing a decrease of 87.7%. It was mainly due to change of demand in software applications from design-in to standard.

The Group's revenue generated from sales in South Asia decreased from approximately RMB65.5 million for the six months ended 30 June 2016 to approximately RMB15,000 for the six months ended 30 June 2017, representing a decrease of almost 100.0%. The reasons were explained on page 16 of this announcement.

Gross profit and gross profit margin

	For the six months ended 30 June			
	2017		2016	
	(unaudited)		(unaudited)	
	RMB'000	*%*	*RMB'000*	*%*
Smartphones	**(14,380)**	**(52.6)**	27,349	10.0
Mobile device components	**(11)**	**(9.1)**	(3,148)	(34.6)
Smartphone component packs	**–**	**–**	(4,025)	(34.9)
	(14,391)	**(52.4)**	20,176	6.9

Negative gross profit amounted to approximately RMB14.4 million for the six months ended 30 June 2017, decreased by approximately RMB34.6 million or 171.3% from RMB20.2 million for the six months ended 30 June 2016. The gross profit ratio decreased from 6.9% for the six months ended 30 June 2016 to a negative 52.4% for the six months ended 30 June 2017. The decline in gross profit ratio of smartphones was mainly attributable to the significant decrease of sales volume, RMB12.2 million inventory write-down, RMB2.3 million Intellectual property amortization included plus lower profit margin for using standard software application instead of design-in smartphones.

Research and Development Costs

Research and development costs mainly include R&D staff costs (including salaries and allowances, staff welfare and other staff related expenses) and product test costs. Research and development costs amounted to approximately RMB1.2 million for the six months ended 30 June 2017, decreased by approximately RMB8.8 million or 88.0% from RMB10.0 million for the six months ended 30 June 2016. The decrease was mainly due to less staff cost from headcount reduction and less test materials consumed from projects reduction.

Selling and Distribution Expenses

Selling and distribution expenses mainly include sales staff costs and freight charges, office expenses, marketing expenses and others. Selling expenses amounted to approximately RMB2.0 million for the six months ended 30 June 2017, decreased by approximately RMB2.4 million or 54.5% from RMB4.4 million for the six months ended 30 June 2016. The decrease was primarily due to significant decrease of sales volume and headcount reduction.

Administrative Expenses

Administrative expenses mainly include staff costs for administrative employees and general office expenses. Administrative expenses amounted to approximately RMB8.9 million for the six months ended 30 June 2017, increased by approximately RMB3.2 million or 56.1% from RMB5.7 million for the six months ended 30 June 2016. The increase was primarily due to RMB1.1 million restricted share unit expense included and RMB0.9 million professional fee incurred for merger of a target company.

Other Income

Other income mainly represented an interest income of the pledged bank deposits and bank deposits amounting to RMB3.7 million and finance and support services income amounting to RMB0.3 million for the six months ended 30 June 2017.

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 2017.

Liquidity and Source of Funding

As at 30 June 2017, the Group's total cash and bank balances increased by RMB100.4 million from RMB16.3 million as at 31 December 2016 to RMB116.7 million. The variance of cash and bank balances for the period was due to investing activities, net cash used in operating activities and financing activities.

As at 30 June 2017, 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 4.0 as compared with 2.5 as at 31 December 2016.

Foreign Exchange Exposure

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

Material acquisitions and disposals

For the six months ended 30 June 2017, the Group had no material acquisitions or disposals.

Intangible Assets

The software technology is for the ROM business which is amortized over 10 years. During the period ended 30 June 2017, the directors determine that there are no impairments of the software because its recoverable amount of the cash generation of the ROM business is higher than the carrying amount.

Trade and other Receivables

Trade and other receivables mainly included the trade receivables, advance to a major customer and prepayments to suppliers. As at 30 June 2017, the carrying amount of trade and other receivables are approximately RMB152.4 million which is net of allowance of trade receivables, representing a decrease of approximately RMB223.8 million.

In assessing the recoverability of trade receivables and determining the allowance for doubtful debts, the management considers the credit history including 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 is approximately RMB14.9 million as at 30 June 2017. The amount of trade receivables over 60 days are approximately RMB88.1 million, which are past due but not provided for impairment loss.

Inventories

As at 30 June 2017, the Group's total inventories decreased by RMB12.1 million from RMB27.4 million (net of allowance RMB14.3 million) as at 31 December 2016 to RMB15.3 million (net of allowance RMB26.5 million). In determining the write down of inventories, the management considered the subsequent lower profit margin, the standards of smartphones and aging of inventories.

Contingent Liabilities and Commitments

The Group had no significant contingent liabilities or capital expenditure contracted for but not provided as at 30 June 2017.

Continuing Connected Transactions

Pursuant to an equipment lease agreement made between Benywave Technology and Benywave Wireless, Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. For the six months ended 30 June 2017, the equipment rental expenses incurred by Benywave Wireless amounted to RMB33,000.

Pursuant to a lease agreement made between Tianyu and Benywave Wireless, Tianyu has let the premises situated at Zone A, 4th Floor, No. 55, Jiachuang Second Road, Zhongguancun Science Park, OPTO-Merchatronics Industrial Park, Tongzhou District, Beijing, China to Benywave Wireless for carrying on its business. For the six months ended 30 June 2017, the rental expenses incurred by Benywave Wireless amounted to RMB367,000.

Related Party Transactions

Pursuant to a service agreement made between Henan Ketai and Benywave Wireless, Henan Ketai provided export tax declaration and refund service to Benywave Wireless for the oversea sales. For the six months ended 30 June 2017, the service expenses incurred were RMB181,000.

Pursuant to a service agreement made between Henan Ketai and Vital mobile (HK) limited("Vital HK"), Vital HK provides supply chain services for Henan Ketai. For the six months ended 30 June 2017, the service income incurred were RMB342,000.

Dividend

During the current 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 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 directors have determined that no dividend will be paid in respect of the interim period.

USE OF PROCEEDS

The shares of the Company were successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2015. The net proceeds received from the initial public offering ("IPO"), after deducting underwriting fees and other expenses in relation to the IPO, were approximately HKD484 million (equivalent to approximately RMB382 million). Such net proceeds were deposited at the Group's bank accounts. As at 30 June 2017, the net proceeds were used as follows:

Use:	**% of the total amount of the proceeds**	**Approximate amounts of the net proceeds** *in HKD million (RMB equivalent)*	**Approximate amounts utilized** *in HKD million (RMB equivalent)*	**Approximate remaining amounts** *in HKD million (RMB equivalent)*
Purchasing raw materials to expand our raw material sourcing capacity	45.5	220 (174)	220 (174)	0 (0)
Setting up overseas representative offices and/or establishing partnership with top local branded mobile handset suppliers or telecommunication operators in our key markets	27	131 (103)	2.5 (2)	128.5 (101)
Expanding our research and development capabilities	12.5	61 (48)	61 (48)	0 (0)
Setting up a new quality testing laboratory, employing additional quality testing personnel and purchasing additional quality testing equipment	5	24 (19)	0 (0)	24 (19)
General working capital	10	48 (38)	48 (38)	0 (0)
Total	100	484 (382)	331.5 (262)	152.5 (120)

HUMAN RESOURCES

As at 30 June 2017, the Group employed approximately 29 employees (30 June 2016: 71 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 6 June 2015.

As at the date of this announcement, 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.

Grant of restricted share units

Pursuant to the announcement dated 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 HKD0.10 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 Company or its subsidiaries, 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 Company and its subsidiaries 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.

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 terms, 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 RMB1,578,000 for the period ended 30 June 2017 (six months ended 30 June 2016: nil) in relation to the RSU Scheme granted by the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board acknowledges the importance of the highest 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 with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code"). As at 30 June 2017, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company's code of conduct, and the Company's compliance with the Code Provision and disclosure in this Interim Report.

Save as the deviation from the code provision E.1.2 of the CG Code, the Company has complied with the CG Code as at 30 June 2017.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board of directors should attend annual general meetings. Ms. Rong Xiuli, the chairperson of the Board ("Chairperson"), did not attend the annual general meeting held on 25 May 2017, as she had another engagement in Beijing that was important to the Company's business. Nevertheless, the chairperson appointed Mr. Rong Shengli, a Chief Executive Officer and executive Director, who is well versed in all business activities and operations of the Group, as her delegate to attend and chair at such general meeting on behalf of Ms. Rong Xiuli and to respond to shareholders' questions.

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 to 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 2017.

CHANGE OF DIRECTORS' INFORMATION

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

1. Mr. Lam Yiu Kin, retired as an independent non-executive director of Mason Group Holdings Limited (HK stock code: 273) with effect from 24 May 2017; and

2. Mr. Lam Yiu Kin has been appointed as an independent non-executive director of CITIC Telecom International Holdings Limited (HK stock code: 1883) with effect from 1 June 2017.

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 2017.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

Reference is made to the announcement of the Company dated 15 June 2017 with regard to a major and connected transaction in relation to the acquisition of 70% equity interest in the Henan Ketai. An extraordinary general meeting will be convened and held for the independent shareholders to consider and, if thought fit, approve the acquisition.

Apart from the above acquisition, the Group did not have any significant investments and acquisitions during the six months ended 30 June 2017.

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. 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 2017 together with the management of the Group.

PUBLICATION OF FINANCIAL INFORMATION

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.vital-mobile.com). The Company's interim report for the six months ended 30 June 2017 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 Mobile Holdings Limited
Rong Xiuli
Chairperson

Hong Kong, 24 August 2017

As at the date of this announcement, the Board comprises 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.