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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 2022**

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 2022 (the “**Current Period**”) together with the comparative figures for the corresponding period in 2021.

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

*For the six months ended 30 June 2022*

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2022</b>	2021
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
		<b>(unaudited)</b>	(unaudited)
Revenue	6	<b>698,911</b>	325,472
Cost of sales		<b>(696,356)</b>	(324,440)
		<hr/>	<hr/>
Gross profit		<b>2,555</b>	1,032
Other gains, net	7	<b>372</b>	38
Other income	8	<b>158</b>	257
Selling and distribution costs		<b>(3,922)</b>	(2,554)
Administrative expenses		<b>(7,682)</b>	(7,645)
Finance costs	9	<b>(293)</b>	(111)
		<hr/>	<hr/>
Loss before tax	10	<b>(8,812)</b>	(8,983)
Income tax	11	<b>–</b>	–
		<hr/>	<hr/>
Loss and total comprehensive expense for the period		<b>(8,812)</b>	(8,983)
		<hr/> <hr/>	<hr/> <hr/>
Loss and total comprehensive expense for the period attributable to:			
Owners of the Company		<b>(8,811)</b>	(8,982)
Non-controlling interests		<b>(1)</b>	(1)
		<hr/>	<hr/>
		<b>(8,812)</b>	(8,983)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share	12		
Basic and diluted (RMB cents)		<b>(1.04)</b>	(1.06)
		<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Notes</i>	<b>30 June 2022 RMB'000 (unaudited)</b>	31 December 2021 RMB'000 (audited)
<b>Non-current assets</b>			
Equipment		19	38
Right-of-use assets	18	2,409	3,042
		<b>2,428</b>	3,080
<b>Current assets</b>			
Inventories		8,594	17,801
Trade and other receivables	14	2,615	16,115
Prepayments	15	535,859	573,678
Pledged bank deposits		3,378	3,234
Cash and bank balances		73,619	26,652
		<b>624,065</b>	637,480
<b>Current liabilities</b>			
Trade payables	16	8,716	10,698
Bank loans	17	20,856	12,279
Accruals and other payables		53,220	52,779
Contract liabilities		1,452	16,527
Lease liabilities	18	1,283	1,261
Tax liabilities		3,531	3,531
		<b>89,058</b>	97,075
Net current assets		<b>535,007</b>	540,405
Total assets less current liabilities		<b>537,435</b>	543,485
<b>Non-current liabilities</b>			
Bank loans	17	3,409	–
Lease liabilities	18	1,186	1,833
		<b>4,595</b>	1,833
<b>Net assets</b>		<b>532,840</b>	541,652
<b>Capital and reserve</b>			
Share capital		67,041	67,041
Share premium and reserves		465,847	474,658
Equity attributable to owners of the Company		<b>532,888</b>	541,699
Non-controlling interests		(48)	(47)
<b>Total equity</b>		<b>532,840</b>	541,652

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

*For the six months ended 30 June 2022*

## 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 (“Winmate”) which is incorporated in the British Virgin Islands (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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the interim report. The Company is principally engaged in investment holding and the principal activities of its subsidiaries (together with the Company collectively referred to as the “Group”) are principally engaged in mobile (including mobile telecommunication related components and accessories) and smart appliances export operations and trading of Artificial Intelligence (“AI”) and other equipment in the PRC.

The interim condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the same as the functional currency of the Company. The interim condensed consolidated financial information have been approved for issue by the board of directors on 25 August 2022.

## 2. BASIS OF PRESENTATION

The condensed consolidated financial information of the Group for the six months ended 30 June 2022 have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. This condensed consolidated financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the IASB.

### 3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2021 except as disclosed below.

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, plant and equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual improvements to IFRSs 2018 – 2020 cycle

The application of the amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### 4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these condensed consolidated financial information, 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 applied to the Group's annual financial statements for the year ended 31 December 2021.

### 5. SEGMENT INFORMATION

Information reported to the board of directors of the Company (the "Board"), being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of products sold.

During the six months ended 30 June 2022 and 2021, the Group has two reportable and operating 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:

- Trading of mobile (including mobile telecommunication related components and accessories) and smart appliances ("Trading of mobile and smart appliances")
- Trading of AI and other equipment

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

### Segment revenues and results

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

Six months ended 30 June (Unaudited)	Trading of mobile and smart appliances		Trading of AI and other equipment		Total	
	2022	2021	2022	2021	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	<u>698,911</u>	<u>313,945</u>	<u>-</u>	<u>11,527</u>	<u>698,911</u>	<u>325,472</u>
Segment gains (losses)	<u>506</u>	<u>(603)</u>	<u>(1,873)</u>	<u>(919)</u>	<u>(1,367)</u>	<u>(1,522)</u>
Other gains, net					372	38
Other income					158	257
Finance costs					(293)	(111)
Unallocated corporate expenses					<u>(7,682)</u>	<u>(7,645)</u>
Loss before tax					<u>(8,812)</u>	<u>(8,983)</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment gains (losses) represents the gains (losses) from each segment without allocation of other gains, net, other income, administrative expenses (unallocated) and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

There were no inter-segment sales in both periods.

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	<b>30 June 2022 RMB'000 (unaudited)</b>	31 December 2021 RMB'000 (audited)
<b>Segment assets</b>		
Trading of mobile and smart appliances	413,447	619,321
Trading of AI and other equipment	205,776	9,567
Unallocated	<u>7,270</u>	<u>11,672</u>
Total assets	<u><b>626,493</b></u>	<u>640,560</u>
<b>Segment liabilities</b>		
Trading of mobile and smart appliances	5,112	24,914
Trading of AI and other equipment	1,409	1,666
Unallocated	<u>87,132</u>	<u>72,328</u>
Total liabilities	<u><b>93,653</b></u>	<u>98,908</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain other receivables, pledged bank deposits and certain bank balances and cash as these assets are managed on a group basis; and
- all liabilities are allocated to operating segments other than certain trade payables, certain accruals and other payables, tax liabilities and bank loans.

## 6. REVENUE

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Revenue from contracts with customers within the scope of IFRS 15 are recognised at a point in time as follows:		
Mobile and smart appliances	<b>698,911</b>	313,945
AI and other equipment	<b>–</b>	11,527
	<b><u>698,911</u></b>	<b><u>325,472</u></b>

## 7. OTHER GAINS, NET

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Foreign exchange gains (losses), net	<b>88</b>	(224)
Government grants	<b>67</b>	42
Others	<b>217</b>	220
	<b><u>372</u></b>	<b><u>38</u></b>



## 8. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest income on pledged bank deposits	2	–
Interest income on finance lease	–	4
Interest income on bank balances	8	49
	<hr/>	<hr/>
	10	53
Services income	148	202
Others	–	2
	<hr/>	<hr/>
	158	257
	<hr/> <hr/>	<hr/> <hr/>

## 9. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest on bank loans	248	75
Interest on lease liabilities	45	36
	<hr/>	<hr/>
	293	111
	<hr/> <hr/>	<hr/> <hr/>

## 10. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Directors' emoluments	1,661	1,726
Other staff costs		
– salaries and other allowances	4,378	2,868
– retirement benefits schemes contributions (excluding directors)	174	388
	<u>174</u>	<u>388</u>
Total staff costs	<u>6,213</u>	<u>4,982</u>
Auditor's remuneration	167	240
Cost of inventories recognised as an expense	696,356	324,440
Depreciation of equipment	19	16
Depreciation of right-of-use assets	633	489
Expenses related to short-term leases	455	418
	<u>455</u>	<u>418</u>

## 11. INCOME TAX

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax was made as the Group did not have any assessable profits during the six months ended 30 June 2022 and 2021.

The Company's subsidiaries incorporated in Hong Kong are subject to the Hong Kong Profits Tax at 16.5% (2021: 16.5%).

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries are 25% from 1 January 2008 onwards.

## 12. LOSS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Loss:		
Loss for the purposes of basic and diluted loss per share, representing loss during the period attributable to the owners of the Company	<b>(8,811)</b>	<b>(8,982)</b>
	<b><u>(8,811)</u></b>	<b><u>(8,982)</u></b>
	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>'000</b>	<b>'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Number of shares		
Number of ordinary shares for the purposes of basic and diluted loss per share	<b>850,000</b>	<b>850,000</b>
	<b><u>850,000</u></b>	<b><u>850,000</u></b>

Diluted loss per share is equal to basic loss per shares as there were no dilutive potential ordinary shares in issue during the six months ended 30 June 2022 and 2021.

## 13. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

#### 14. TRADE AND OTHER RECEIVABLES

	<b>30 June 2022</b>	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
Trade receivables	<b>40</b>	2,500
Less: allowance for impairment losses	—	—
	<u><b>40</b></u>	<u>2,500</u>
Other receivables		
– Notes receivable	—	5,711
– Refundable deposit for a potential acquisition	—	5,000
– Other PRC tax receivables	<b>2,039</b>	2,057
– Others	<b>564</b>	875
	<u><b>2,603</b></u>	<u>13,643</u>
Less: allowance for impairment losses	<u><b>(28)</b></u>	<u>(28)</u>
Total trade and other receivables	<u><u><b>2,615</b></u></u>	<u><u>16,115</u></u>

The following is an ageing analysis of trade receivables net of impairment allowance presented based on the invoice dates.

	<b>30 June 2022</b>	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
0-30 days	—	2,500
31 to 90 days	—	—
91 to 180 days	<b>40</b>	—
	<u><b>40</b></u>	<u>2,500</u>
	<u><u><b>40</b></u></u>	<u><u>2,500</u></u>

As at 30 June 2022, there is no past due balance of trade receivables (2021: Nil).

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.

## 15. PREPAYMENTS

	<b>30 June 2022</b>	31 December 2021
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Prepayments to suppliers of:		
– Mobile and smart appliances ( <i>note (a)</i> )	<b>382,859</b>	573,678
– AI and other equipment ( <i>note (b)</i> )	<b>153,000</b>	–
	<b>535,859</b>	573,678

### Notes:

- (a) As at 30 June 2022 and 31 December 2021, the Group made prepayments to mobile and smart appliances suppliers to purchase mobile telecommunication related components and accessories.

During the six months ended 30 June 2022, approximately RMB368,960,000 of the prepayments for mobile and smart appliances were recognised as purchases upon the receipt of the goods from the suppliers.

As at 30 June 2022, the amounts mainly included the prepayments to an independent supplier to purchase mobile and smart appliances for trading business in a total sum of approximately RMB356,040,000.

- (b) During the six months ended 30 June 2022, the Group had made prepayments to an independent supplier for purchase of AI and other equipment amounting to approximately RMB153,000,000. As at 31 December 2021, the Group had no prepayments for purchase of AI and other equipment.

## 16. TRADE PAYABLES

	<b>30 June 2022</b>	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
Trade payables	<b>8,716</b>	10,698

The following is an ageing analysis of trade payables based on the invoice dates at the end of the reporting period:

	<b>30 June 2022</b>	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
Within 90 days	<b>180</b>	2,196
91 to 180 days	–	–
181 days to 1 year	–	–
Over 1 year	<b>8,536</b>	8,502
Total	<b>8,716</b>	10,698

The average credit period on purchases of goods is 30-90 days but the credit terms can be longer subject to individual supplier policy and the result of negotiation between the supplier and the Group. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 17. BANK LOANS

	<b>30 June 2022</b>	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
Secured bank loans:		
– Trust receipt loans (Note a)	<b>20,058</b>	12,279
– Government guarantee instalment bank loan (Note b)	<b>4,207</b>	–
	<u>24,265</u>	<u>12,279</u>
Less: Current portion	<u>(20,856)</u>	<u>(12,279)</u>
Non-current portion	<u><b>3,409</b></u>	<u>–</u>

The scheduled principal repayment dates of the bank loan with reference to the respective bank loan agreements are as follows:

	<b>30 June 2022</b>	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
Within one year	<b>20,856</b>	12,279
More than one year but not exceeding two years	<b>820</b>	–
More than two years but not exceeding five years	<b>2,589</b>	–
	<u>24,265</u>	<u>12,279</u>
Total	<u><b>24,265</b></u>	<u>12,279</u>

Note (a)

The terms and conditions of each trust receipt loans are set out below.

<b>As at 30 June 2022</b>	<b>Maturity date</b>	<b>Carrying amount</b> <i>RMB'000</i>
Variable-rate:		
Secured bank loan I	18 July 2022	<b>5,389</b>
Secured bank loan II	5 August 2022	<b>6,064</b>
Secured bank loan III	22 August 2022	<b>1,954</b>
Secured bank loan IV	19 August 2022	<b>2,648</b>
Secured bank loan V	22 August 2022	<b>4,003</b>
		<hr/>
		<b>20,058</b>
		<hr/> <hr/>

<b>As at 31 December 2021</b>	<b>Maturity date</b>	<b>Carrying amount</b> <i>RMB'000</i>
Variable-rate:		
Secured bank loan I	7 January 2022	1,933
Secured bank loan II	10 February 2022	2,561
Secured bank loan III	17 February 2022	1,932
Secured bank loan IV	17 February 2022	2,568
Secured bank loan V	18 February 2022	1,949
Secured bank loan VI	21 February 2022	1,336
		<hr/>
		12,279
		<hr/> <hr/>

The secured loans I to V carried interest at the United States Prime Rate, which is ranging from 3.25% to 4.75% (31 December 2021: 3.25%) per annum.

The secured loans I to V were jointly secured by (i) the properties owned by an individual, an independent third party to the Group, (ii) personal guarantee provided by a director of the Company; and (iii) a pledged bank deposit of approximately USD503,000 (equivalent to approximately RMB3,378,000) (31 December 2021: (i) the properties owned by an individual, an independent third party to the Group; (ii) personal guarantee provided by a director of the Company; and (iii) a pledged bank deposit of approximately USD503,000 (equivalent to approximately RMB3,208,000)).



*Note (b)*

The terms and conditions of the government guarantee instalment bank loan are set out below.

<b>As at 30 June 2022</b>	<b>Maturity date</b>	<b>Carrying amount RMB'000</b>
Variable-rate bank loans:		
Secured instalment bank loan I	6 July 2027	4,207
Less: current portion		<u>(798)</u>
Non-current portion		<u><u>3,409</u></u>

The Secured instalment bank loan I carries interest at 2.5% per annum below the Hong Kong Prime Rate.

The secured bank loans I is secured by guarantees provided by the director of the Company and the government of HKSAR.

## 18. LEASES

### (i) Right-of-use assets

The Group has lease contracts for properties, equipment and warehouse for its operations, generally for period of 3 years (2021: 3 years).

As at 30 June 2022, the carrying amount of right-of-use assets was approximately RMB2,409,000 (31 December 2021: RMB3,042,000) representing lease contracts for properties, equipment and warehouse used in its operations.

During the six months ended 30 June 2022, no addition to the right-of-use assets was recognised.

Additions to the right-of-use assets for the year ended 31 December 2021 amounted to approximately RMB3,581,000 due to new leases of office premises and warehouse. On the other hand, the right-of-use assets for the year ended 31 December 2021 amounted to approximately RMB191,000 were derecognised due to termination of lease contracts of office premises.

The depreciation of the Group for the six months ended 30 June 2022 is approximately RMB633,000 (six months ended 30 June 2021: RMB489,000).

### (ii) Lease liabilities

As at 30 June 2022, the carrying amount of lease liabilities was approximately RMB2,469,000 (31 December 2021: RMB3,094,000).

During the six months ended 30 June 2022, no new lease agreements was entered into for office premises (six months ended 30 June 2021: RMB1,574,000).

### (iii) Amounts recognised in profit or loss

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expense on lease liabilities	45	36
Expense relating to short-term leases	455	418
	<u>455</u>	<u>418</u>

### (iv) Others

During the six months ended 30 June 2022, the total cash outflow for leases amounted to approximately RMB1,125,000 (six months ended 30 June 2021: RMB942,000).

## 19. RELATED PARTY TRANSACTIONS

### (a) Name and relationship

<b>Name</b>	<b>Relationship</b>
Beijing Tianyu Communication Equipment Co. Ltd. (“Tianyu”)* 北京天宇朗通通信設備股份有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Rongheng Innovation Technology Co. Ltd. (“Rongheng”)* 北京榮恆創聯科技有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Tianlang Huigu Technology Co. Ltd. (“Tianlang”)* 北京天朗慧谷科技有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Zhuoyue Tianhe Management Co., Ltd. (“Zhuoyue Tianhe”)* 北京卓越天和運營管理有限公司	Company controlled by Ms. Rong
Beijing Benywave Technology Co., Ltd. (“Benywave Technology”)* 北京百納威爾科技有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Tianyu Operation Management Co., Ltd. (“Tianyu Operation”)* 北京天語運營管理有限公司	Company controlled by Ms. Rong and Mr. Ni

\* *The English name of the above companies are for reference only.*

(b) **Related party transactions**

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Premises rental expenses charged by Tianlang ( <i>Note (ii)</i> )	94	87
Premises rental expenses charged by Benywave Technology ( <i>Note (i)</i> )	34	39
Management expenses charged by Zhuoyue Tianhe ( <i>Note (ii)</i> )	32	29
Consultancy service received from Tianyu Operation	148	202
	<u>148</u>	<u>202</u>

*Notes:*

- (i) During the year ended 31 December 2020, the Group entered into a three-year lease in respect of certain equipment from Benywave Technology. The amount of rent payable by the Group under the lease is approximately RMB6,400 per month. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of approximately RMB216,000 respectively. During the six months ended 30 June 2022, the Group has made lease payment of approximately RMB34,000 (six months ended 30 June 2021: RMB39,000) to Benywave Technology.
- (ii) Since July 2020, the Group made the lease payment of approximately RMB136,000 to Rongheng, where the lease is accounted for as a short-term lease, for the year ended 31 December 2020. In November 2020, the Group entered into a tripartite agreement to cancel the previous agreement with Rongheng and entered a new agreement with Tianlang. During the six months ended 30 June 2022, the Group has made the lease payment of approximately RMB94,000 (six months ended 30 June 2021: RMB87,000) to Tianlang where the lease is accounted for as a short-term lease. In addition, the Group made the management fee payment of approximately RMB32,000 (six months ended 30 June 2021: RMB29,000) to Zhuoyue Tianhe.

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Short term employee benefits	<b>2,259</b>	1,892
Post-employment benefits	<b>78</b>	143
	<b><u>2,337</u></b>	<b><u>2,035</u></b>

(d) **Guarantee**

As at 30 June 2022, a director of the Company has provided a personal guarantee as part of the security for the bank loans of approximately RMB24,265,000 (31 December 2021: RMB12,279,000).

**20. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with current period's presentation.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group is primarily engaged in the provision of products and services including mobile phones, smartphones, Artificial Intelligence (“AI”) and other equipment 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.

#### **A radical changing situation once in a hundred years’ time**

Geopolitical uncertainty shaping difficult business environment, we are witnessing history in our normal days. Different influential events come together to shape the direction for the whole human being’s society. The change is fundamental, deep and worldwide.

Risks for military events have been increasing due to the geopolitical conflict and tension. Russia’s special military operation is still on going in Ukraine. China and Taiwan is also facing greater uncertainty at the same time. The USA’s containment strategy toward China and the competition between USA and China would be the main theme for the global for the next decades. The management believes that China would eventually achieve the Great Chinese Renaissance and China would get back to the centre of the world. However, the path ahead is difficult as different players on the stage would want to maintain the status quo and their interests. Thus, it is going to be a hard path. Political environment has been changed in a way that it would affect how companies will continue to further its development in the tough year of 2022.

The key is that, the development for any companies to continue their success would depend on whether it suits the future. We all need to answer what the future’s issues are and we would need to solve them.

The needs of China to advance its competitiveness and influence in technology field would shape all the business model for technological companies in China.

#### **Uncertainty of COVID-19 causing supply chain disruptions**

The Covid-19 pandemic (the “**Pandemic**”) is still adversely affecting the economic activities. The Chinese government is one of the very few governments that has delivered a miracle in the world.

For the globe, different governments in the world are still taking different measures to handle the Pandemic and these measures has inevitably limited the speed of the recovery for global demand. However, the situation has been improving so far.

For China, the situation changes radically. It seemed that the Pandemic was totally under control and then it broke out again in Shanghai and Shanghai was locked down for months. Given the unfailing efforts by the Chinese government, it has resumed normality. As entrepreneurs, we would need to cope with the changing situation to make sure the business is least affected.

### **Worldwide risks for tapering, inflation and recession**

The world's economy slows down, according to the latest forecast by IMF (International Monetary Fund). The slowing down in the demands is universal. We would see dropping orders for different commodities including our products and services. To make things worse, costs are increasing due to the past worldwide endless quantitative easing.

On the other hand, the US Federal Reserve, has been increasing its interest rates and starts tapering. The contractive monetary policies are expected to further weaken the global demands. It might cause chaos in exchange markets and equity markets due to the tightening liquidity and strong Dollar. Now the market is worrying for the possible recession for USA. In addition, the recovery for the demands in China is not up to expectation. The Chinese government is dealing with the situation by more appropriate fiscal and monetary policies.

Smartphone orders are expected to drop due to the worsening situation and it might affect our business growth. The management would adopt measures to achieve higher efficiency. Global smartphones shipments reached 311.2 million units in Q1 2022, down 12.6% year on year and the Q2 2022 was down 14.2% year on year due to unfavourable economic conditions and sluggish seasonal demand in the first quarter of 2022. (Source: Counterpoint 2022)

The management of the Company adopted a defensive strategy to minimize the adverse impact that were brought about to the business. The management of the Company takes the strategy of staying relevant to the customers at the expense of margin and control operating expenses to survive in such tough time while trying to achieve its strategic goal by seeking new opportunities to grow our domestic sales in China from selling the top and famous smartphones. The repositioning target set by the management has been met and our total sales increase 114.7% to approximately RMB700 million.

### **What would the future be?**

We believe China would eventually pick up its growth and manage to continue its path for the great renaissance for Chinese people.

History has proved that China is the only country that would record positive growth among the major economies when the Pandemic was spreading all over the world. We believe China would deliver miracles as always.

Thus, despite the adverse, fast-changing and difficult business environment, the Group would continue to look for related business opportunities in technological fields that could be explored by the resources, experience and competitiveness of our Company.

## **BUSINESS OUTLOOK**

Global smartphones shipments expected to decline 3.5% to 1.31 billion units in 2022 due to weak demand. (Source: IDC 2022) The decline has been attributed to “increasing challenges in both supply and demand.” As a result, original equipment manufacturers have cut back orders for the year of 2022.

However, this is expected to be a short term setback because the market is forecast to achieve a five-year compound growth rate (CAGR) of 1.9% through 2026. (Source: IDC 2022)

As mentioned, the world is changing in a way faster than any other periods in history.

Devotion in customers’ value is still the key to bring the Group to success by handling the changing world.

The management team of the Company is working on better strategic product mix as a new solution to the market by introducing more Chinese brands of smartphone and associated products as an ecosystem to new customers. The Company will work with our strategic partners to expand the market in middle Asia, middle East, southeast Asia, Africa, Europe and South America. We will put more resources to sell the top and famous smartphones to our new customers in China in the second half of 2022.

### **Continuing our exploration in possible areas for second growth curve**

The management team of the Company, after comprehensive research and analysis, has formulated a set of strategic objectives based on the resources and expertise of the Group. By having years of experience in advanced manufacturing and technological industry, our team has been proactively looking for opportunities which the core competencies of the Group can be utilized. Trying to apply the competitive advantages and solid experience of the Group in advanced manufacturing and technological servicing in mobile phone industry, our team has spotted some potential areas. These areas include new energy, artificial intelligence and electric vehicles. These are the strategic industries with tremendous scale and growth and they are encouraged by the strategic policy of the Chinese government and these will be the industries supporting the strategic growth of China for the coming decades.



## FINANCIAL REVIEW

### Revenue

The Group's revenue increased by approximately RMB373.4 million or 114.7% to approximately RMB698.9 million for the Current Period from approximately RMB325.5 million for the corresponding period of 2021. The following table sets forth the breakdown of the Group's revenue by product type: -

	For the six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Mobile and smart appliances	698,911	313,945
AI and other equipment	—	11,527
	<u>698,911</u>	<u>325,472</u>

The revenue of mobile and smart appliances increased significantly mainly due to the Company enhanced the sales of top and famous smartphones in China.

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			
	2022		2021	
	(unaudited) RMB'000	%	(unaudited) RMB'000	%
Hong Kong	364,501	52.2	325,472	100
China	334,410	47.8	—	—
	<u>698,911</u>	<u>100</u>	<u>325,472</u>	<u>100</u>

The Company explored the new sales of top and famous smartphones in China for the Current Period.

## Gross profit and gross profit margin

	For the six months ended 30 June			
	2022		2021	
	Gross profit (unaudited) RMB'000	Gross profit margin %	Gross profit (unaudited) RMB'000	Gross profit margin %
Mobile and smart appliances	2,555	0.37	1,012	0.32
AI and other equipment	—	—	20	0.17
	<u>2,555</u>	<u>0.37</u>	<u>1,032</u>	<u>0.32</u>

Gross profit amounted to RMB2.6 million for the Current Period, compared with a gross profit of RMB1.0 million for the corresponding period of 2021. The increase in gross profit was mainly attributable to the Company enhanced the sales of top and famous smartphones in China.

## **Taxation**

No provision for Hong Kong Profits Tax and Enterprise Income Tax was made as the Group did not have assessable profits during the Current Period.

## **Contingent liabilities**

As at 30 June 2022, the Group had no significant contingent liabilities (31 December 2021: Nil).

## **Charge on Assets**

Save as disclosed in note 17 bank loans, as at 30 June 2022, the Group did not have any charges on assets.

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

The Group's total cash and bank balances increased by RMB46.9 million from RMB26.7 million as at 31 December 2021 to RMB73.6 million as at 30 June 2022.

As at 30 June 2022, 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 7.01 as compared with 6.6 as at 31 December 2021.

As at 30 June 2022, the Group had bank borrowings of approximately RMB24.3 million (31 December 2021: approximately RMB12.3 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 4.55% as compared with 2.27% as at 31 December 2021.

## **Inventories**

The Group's total inventories decreased by RMB9.2 million from RMB17.8 million as at 31 December 2021 to RMB8.6 million as at 30 June 2022. In determining the write down of inventories, the Company's management considered the subsequent selling price and ageing of inventories.

## **Prepayments**

Prepayments mainly include prepayments for mobile and smart appliances suppliers and AI and other equipment supplier. As at 30 June 2022, the Group has made prepayments amounting to RMB382.9 million (31 December 2021: RMB573.7 million) to mobile and smart appliances suppliers and RMB153 million (31 December 2021: Nil) to an AI and other equipment supplier.

## **Trade and other receivables**

As at 30 June 2022, the carrying amount of trade and other receivables were approximately RMB2,615,000, mainly from other PRC tax receivables, representing a decrease of approximately RMB13,500,000 as compared to 31 December 2021.

### **Contract liabilities**

The Group's contract liabilities decreased by RMB15,075,000 from RMB16,527,000 as at 31 December 2021 to RMB1,452,000 as at 30 June 2022 due to less prepayment from customers for purchases of mobile and smart appliances.

### **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 of the Company 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 Current Period, the Board does not recommend the payment of an interim dividend (30 June 2021: Nil).

### **HUMAN RESOURCES**

As at 30 June 2022, the Group employed approximately 28 employees (30 June 2021: 30 employees) in Hong Kong and 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.

During the Current Period, 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 Current Period.

## **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 Current Period.

## **MAJOR LITIGATION AND ARBITRATION PROCEEDINGS**

The Group had no major litigation or arbitration during the Current Period.

## **SIGNIFICANT INVESTMENTS, DISPOSALS AND ACQUISITIONS**

The Group had no significant investment, disposals and acquisition of subsidiaries, associates or joint ventures during the Current Period. No future plans for material investments or capital assets additions of the Group as at 30 June 2022.

## **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 announcement, the Company has maintained sufficient public float as required under the Listing Rules.

## **SUBSEQUENT EVENTS**

No material events were undertaken by the Group subsequent to 30 June 2022 and up to the date of this announcement.

## **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. Leung Man Fai (Chairman), Mr. Wong Pong Chun, James and Mr. Han Xiaojing.

The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the Current Period 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 Current Period 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, 25 August 2022

*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. Leung Man Fai, Mr. Wong Pong Chun James and Mr. Han Xiaojing as independent non-executive Directors.*