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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Vital Innovations Holdings Limited (the “**Company**” or “**Vital Inno**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2022 together with the comparative figures for the year ended 31 December 2021, which have been reviewed by the Company’s audit committee (the “**Audit Committee**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue	3	1,092,200	672,651
Cost of sales		(1,087,499)	(673,137)
		<hr/>	<hr/>
Gross profit (loss)		4,701	(486)
Other gains (losses), net	4	703	1,392
Other income	5	213	686
Selling and distribution costs		(6,676)	(5,157)
Administrative expenses		(15,669)	(16,471)
Finance costs		(829)	(531)
		<hr/>	<hr/>
Loss before tax	6	(17,557)	(20,567)
Income tax	7	–	–
		<hr/>	<hr/>
Loss and total comprehensive expense for the year		(17,557)	(20,567)
		<hr/> <hr/>	<hr/> <hr/>
Loss and total comprehensive expense for the year attributable to:			
Owners of the Company		(17,547)	(20,505)
Non-controlling interests		(10)	(62)
		<hr/>	<hr/>
		(17,557)	(20,567)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share	8		
Basic and diluted (RMB cents)		(2.06)	(2.41)
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i>
Non-current assets			
Equipment		18	38
Right-of-use assets		<u>1,776</u>	<u>3,042</u>
		<u>1,794</u>	<u>3,080</u>
Current assets			
Inventories		8,014	17,801
Trade and other receivables	10	3,017	16,115
Prepayments	11	566,495	573,678
Pledged bank deposits		3,508	3,234
Cash and bank balances		<u>37,583</u>	<u>26,652</u>
		<u>618,617</u>	<u>637,480</u>
Current liabilities			
Trade payables	12	8,551	10,698
Bank loans		7,166	12,279
Accruals and other payables		56,336	52,779
Contract liabilities		18,899	16,527
Lease liabilities		1,270	1,261
Tax liabilities		<u>3,531</u>	<u>3,531</u>
		<u>95,753</u>	<u>97,075</u>
Net current assets		<u>522,864</u>	<u>540,405</u>
Total assets less current liabilities		<u>524,658</u>	<u>543,485</u>
Non-current liability			
Lease liabilities		<u>563</u>	<u>1,833</u>
Net assets		<u><u>524,095</u></u>	<u><u>541,652</u></u>
Capital and reserve			
Share capital		67,041	67,041
Share premium and reserves		<u>457,111</u>	<u>474,658</u>
Equity attributable to owners of the Company		<u>524,152</u>	541,699
Non-controlling interests		<u>(57)</u>	<u>(47)</u>
Total equity		<u><u>524,095</u></u>	<u><u>541,652</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 (“Wimate”) 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 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 trading of mobile and smart appliances and trading of Artificial Intelligence (“AI”) and other equipment in the PRC and Hong Kong.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time, which are mandatorily effective for the annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment 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

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

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts ¹
Amendments to IFRS 10 and IAS 28	Sale or Contributions of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to IAS 1	Non-current Liabilities with Covenants ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

The directors of the Company anticipate that the application of all the above new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENT INFORMATION

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers within the scope of IFRS 15 are recognised at a point in time as follows:		
Mobile and smart appliances	1,092,200	651,059
AI and other equipment	–	21,592
	<u>1,092,200</u>	<u>672,651</u>

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

During the years ended 31 December 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:

	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>1,092,200</u>	<u>651,059</u>	<u>–</u>	<u>21,592</u>	<u>1,092,200</u>	<u>672,651</u>
Segment profit (loss)	<u>431</u>	<u>(3,275)</u>	<u>(2,406)</u>	<u>(2,368)</u>	<u>(1,975)</u>	<u>(5,643)</u>
Other gains (losses), net					703	1,392
Other income					213	686
Finance costs					(829)	(531)
Unallocated corporate expenses					<u>(15,669)</u>	<u>(16,471)</u>
Loss before tax					<u><u>(17,557)</u></u>	<u><u>(20,567)</u></u>

Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of other gains (losses), 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 years.

Segment assets and liabilities

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Segment assets		
Trading of mobile and smart appliances	442,086	619,321
Trading of AI and other equipment	171,751	9,567
Unallocated	<u>6,574</u>	<u>11,672</u>
Total assets	<u><u>620,411</u></u>	<u><u>640,560</u></u>
Segment liabilities		
Trading of mobile and smart appliances	23,274	24,914
Trading of AI and other equipment	1,543	1,666
Unallocated	<u>71,499</u>	<u>72,328</u>
Total liabilities	<u><u>96,316</u></u>	<u><u>98,908</u></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.

Other segment information

	Trading of mobile and smart appliances	Trading of AI and other equipment	Unallocated	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Amounts included in the measurement of segments profit or loss or segment assets

Year ended 31 December 2022

Additions to non-current assets	7	–	–	7
Depreciation of equipment	23	4	–	27
Depreciation of right-of-use assets	1,194	72	–	1,266

	Trading of mobile and smart appliances	Trading of AI and other equipment	Unallocated	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Amounts included in the measurement of segments profit or loss or segment assets

Year ended 31 December 2021

Additions to non-current assets	3,581	–	–	3,581
Depreciation of equipment	29	2	–	31
Depreciation of right-of-use assets	819	117	–	936

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the external customers.

	Trading of mobile and smart appliances <i>RMB'000</i>	Trading of AI and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2022			
Hong Kong	726,757	–	726,757
The People's Republic of China (the "PRC")	365,443	–	365,443
Total	<u>1,092,200</u>	<u>–</u>	<u>1,092,200</u>

	Trading of mobile and smart appliances <i>RMB'000</i>	Trading of AI and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2021			
Hong Kong	636,416	–	636,416
The PRC	14,643	21,592	36,235
Total	<u>651,059</u>	<u>21,592</u>	<u>672,651</u>

The Group's operations and non-current assets are located in the PRC, including Hong Kong.

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Customer A ¹	578,347	568,112
Customer B ¹	334,410	–
	<u>912,757</u>	<u>568,112</u>

No other single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2022 and 2021.

¹ Revenue from trading of mobile and smart appliances segment.

4. OTHER GAINS (LOSSES), NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Foreign exchange gains, net	388	1,436
Government grants (note)	206	–
Write-off of trade and other payables	84	–
Gain on derecognition of lease liabilities	–	108
Loss on termination of a lease	–	(159)
Others	25	7
	<u>703</u>	<u>1,392</u>

Note: During the year ended 31 December 2022, the Group recognised government grants of approximately RMB206,000 in respect of COVID-19 related subsidies which was related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund.

5. OTHER INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest income on pledged bank deposits	3	4
Interest income on finance leases	–	3
Interest income on bank balances	<u>59</u>	<u>62</u>
	62	69
Services income	148	400
Others	<u>3</u>	<u>217</u>
	<u><u>213</u></u>	<u><u>686</u></u>

6. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Directors' emoluments	3,379	3,453
Other staff		
– salaries and other allowances	7,865	7,650
– retirement benefits schemes contributions (excluding directors)	<u>338</u>	<u>361</u>
Total staff costs	<u><u>11,582</u></u>	<u><u>11,464</u></u>
Auditor's remuneration – audit services	1,429	1,308
Cost of inventories recognised as an expense	1,087,499	673,137
Depreciation of equipment	27	31
Depreciation of right-of-use assets	1,266	936
Expenses related to short-term leases	910	1,418
Impairment losses recognised on other receivables	<u>1</u>	<u>–</u>

7. 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 generated for the years ended 31 December 2022 and 2021.

The Company's subsidiaries incorporated in Hong Kong is 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.

8. 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Loss:		
Loss for the purposes of basic and diluted loss per share, representing loss for the year attributable to owners of the Company	<u>(17,547)</u>	<u>(20,505)</u>
	2022 '000	2021 '000
Number of shares:		
Number of ordinary shares for the purposes of basic and diluted loss per share	<u>850,000</u>	<u>850,000</u>

Diluted loss per share is equal to basic loss per share as there were no dilutive potential ordinary shares in issue during the years ended 31 December 2022 and 2021.

9. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

10. TRADE AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	40	2,500
Less: allowance for credit losses	<u>—</u>	<u>—</u>
	40	2,500
Other receivables		
– Notes receivable (<i>Note a</i>)	—	5,711
– Refundable deposit for a potential acquisition (<i>Note b</i>)	—	5,000
– Other PRC tax receivables	2,039	2,057
– Others (<i>Note c</i>)	<u>967</u>	<u>875</u>
	3,006	13,643
Less: allowance for credit losses	<u>(29)</u>	<u>(28)</u>
	2,977	13,615
Total trade and other receivables	<u>3,017</u>	<u>16,115</u>

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

	2022	2021
	RMB'000	RMB'000
Within 30 days	–	2,500
31-60 days	–	–
61-90 days	–	–
More than 90 days	40	–
	<u>40</u>	<u>–</u>
	40	2,500
	<u>40</u>	<u>2,500</u>

The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

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.

Note a: The balance represented a bank's acceptance bill which had been fully settled during the year 2022.

Note b: On 16 December 2021, the Company entered into a non-legally binding memorandum of understanding ("MOU") with a vendor in relation to a possible acquisition by the Company (or its designated nominee) of a 70% to 90% equity interest in a company incorporated in the PRC from the vendor. On 22 December 2021, the Company paid a sum of RMB5,000,000, being a refundable earnest money to the vendor in accordance with the MOU. On 31 May 2022, the Company and the vendor entered into an agreement to terminate the MOU and the supplemental MOU. The deposit has been fully refunded during the year 2022.

Note c: As at 31 December 2022, approximately RMB61,320 included in others was paid to a related party, Beijing Tianlang Huigu Technology Co., Ltd.* (北京天朗慧谷科技有限公司) for premises rental deposit.

* The English name of the company is for reference only.

The following tables show reconciliation of allowance for credit losses that has been recognised for trade and other receivables:

	12-month ECL	
	2022	2021
	RMB'000	RMB'000
As at 1 January	28	28
Allowance for credit losses	1	–
	<u>1</u>	<u>–</u>
As at 31 December	29	28
	<u>29</u>	<u>28</u>

11. PREPAYMENTS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Prepayments to suppliers of:		
– AI and other equipment (<i>note (a)</i>)	153,000	–
– Mobile and smart appliances (<i>note (b)</i>)	413,495	573,678
	<u>566,495</u>	<u>573,678</u>

Notes:

- (a) As at 31 December 2021, the Group had no prepayments for purchase of AI and other equipment.

As at 31 December 2022, the Group had made prepayments to an independent supplier to purchase AI and other equipment. Due to the impact of Covid-19 pandemic outbreak in year 2022 affecting supply orders in year 2022 and delivery arrangements, the Group and the supplier entered into an agreement for the refund of a part of the prepayment amounting to RMB152,020,000 by the supplier. The prepayment of RMB152,020,000 has been refunded to the Group in March 2023.

- (b) As at 31 December 2022, the Group had made prepayments mainly to two independent suppliers to purchase mobile and smart appliances for trading business in a total of approximately RMB388,040,000. Due to the impact of Covid-19 pandemic outbreak in year 2022 affecting supply orders in year 2022 and delivery arrangements, the Group entered into an agreement for the refund of the prepayment with two independent suppliers. The prepayment amounting to RMB388,040,000 has been fully refunded to the Group in March 2023.

12. TRADE PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	8,551	10,698

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 90 days	–	2,196
91 to 180 days	–	–
181 days to 1 year	–	–
Over 1 year	8,551	8,502
Total	8,551	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.

Included in trade payables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entity:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
USD	703	2,839

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is primarily engaged in the provision of products and services including mobile phones, smartphones 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 competitive edges are servicing its diversified number of wholesalers and resellers with its extensive understanding of telecommunication technology, a large network of technological and service provider partners.

2022 is one of the most difficult years for all businesses in the last few decades. A set of different factors adversely affecting the economy was influencing the development of worldwide economy and Chinese economy. On the one hand, the pandemic hits the Chinese economy and sentiment in consumers market. The pace for the economic machine had been slowed down. Due to the precautions for pandemic, the economic downturn and worsening expectation for the growth of the economy, the sales of smartphone market continued to drop.

On the other hand, not only the Chinese entrepreneurs' confidence had been tested by the difficulty, but the worldwide liquidity provider, the US Fed had stepped into its plan for quantitative tapering by tremendously tightening the liquidity since 2008. The majority of the world was facing serious inflation pressure along with lowering economic growth.

Despite all these difficulties, the Chinese government still managed to lead our country to achieve a positive economic growth of 3%. It is a stunning number when there were all dimensional adverse factors dragging the whole economy to an economic downturn.

Worldwide smartphone shipments declined 18.3% year over year to 300.3 million units in the fourth quarter of 2022, according to International Data Corporation ("IDC") Worldwide Quarterly Mobile Phone Tracker. The drop marks the largest ever decline in a single quarter since 2013 and contributed to a steep 11.3% decline for the year. 2022 ended with shipments of 1.21 billion units, which represents the lowest annual shipments total since 2013 as a result of significantly dampened consumer demand, inflation, and economic uncertainties.

Facing with such situation, the management adopted a defensive strategy by controlling operating expenses to survive in such a tough time while trying to achieve its strategic goal of seeking new opportunities to grow our sales. By constant hard work of the management and staff members, the Group successfully maintained the operation in this extreme environment and strove hard to maintain its customer base through innovation and efficiency. The management continued to adjust the margin policy to upkeep sales volume and achieved a sales revenue of approximately RMB1,092.2 million, representing 62.4% increase of the sales on 2021 in such a tough year. The increased sales volume was contributed by the new domestic sales in China of the top and famous smartphones brands. Operating loss reduced from RMB20.6 million in 2021 to RMB17.6 million in 2022 resulting from the increase in domestic sales.

BUSINESS OUTLOOK

We predict, in 2023, the open of China will bring confidence back to the economy. The commercial connection between the world and China would soon get better and will bring in more capital and opportunities for international trade. The trade barriers caused by the precautions and controlling measures to handle the COVID-19 no longer exist since first quarter of 2023.

With people's life gradually back to normal, the Chinese government is determined and has already set the direction for 2023 to stride for economic development. We believe the business environment in 2023 would be better than that of 2022 due to less adverse factors affecting the economy.

Government's support and stimulus is expected to be stronger. International and domestic trade will be encouraged. The economic growth is expected to be even stronger than that of 2022. However, the smartphone market is expected to face pressure due to the maturity of smartphone innovation. In 2022, the new flagship products of different smartphone manufacturers could not bring fundamental innovation to improve the current smartphone and thus the sentiment to replace the existing smartphone had been weakened and this further gave pressure to worldwide sales of smartphone. We have confidence in China's future business environment but we believe the innovative breakthrough of smartphone may not necessarily happen in 2023 and the sales of the smartphone may still face difficulty. We anticipate that demand may be improved in many markets, and to some extent we are seeing increasing consumer interest in 5G, high-end and new form factors like foldable phones.

With smartphone shipment declined by more than 11% for the year of 2022, 2023 is set to be a year of caution as vendors will rethink their portfolio of devices while distributors will think twice before taking on excess inventory. However, on a positive note, consumers may find even more generous trade-in offers and promotions continuing well into 2023. The market participants will think of new methods to attract customers to upgrade their plans and to sell more devices, specifically high-end models.

IDC has revised its worldwide smartphone forecast due to a slower market recovery than previously expected. According to the latest Worldwide Quarterly Mobile Phone Tracker forecast, shipments of smartphones will decline by 1.1% in 2023 to 1.19 billion units, down from the 2.8% growth previously forecasted, as market continues to suffer from weak demand and ongoing macroeconomic challenges. Real market recovery is not expected to occur until 2024, when IDC expects 5.9% year-over-year growth followed by low single-digit growth leading to a five-year compound annual growth rate (CAGR) of 2.6%.

Moreover, if the worldwide economic recovery is to be negatively affected by the weakening expectation, the worldwide smartphone market might have a bigger negative impact.

The Group remains prudently optimistic for 2023 due to the ease off of COVID-19 pandemic controls all over the world. An improved consumer outlook, pent up demand from 2022 in large markets, such as China and India. International trade and production activities would resume normal in a large extent.

The Group will introduce more Chinese brands smartphones and the Artificial Intelligence of Things (“**AIoT**”) including low-end products to new customers and new markets such as Russia, Middle Asia, East Asia, South Asia, the Middle East and Africa, for sales expansion. The Group believes that it can work well with this strategy as the Group has the infrastructure to support the growth.

The Group will explore chances to invest in technological advancement projects related to 5G and AI, which is within the expertise and experience of the management team, to enhance the competitiveness and diversification for the Group to bring in financial and commercial values. The management team consists of IT professionals with more than 20 years of experiences and long-term reputation in the China market. This can easily be transformed into the competitive advantages that are long lasting and insight for judgement in different technological advancement projects.

It is expected that the year of 2023 would be an important year for growth of the China market and development of the Group for bright future.

FINANCIAL REVIEW

Revenue

The Group’s revenue increased by approximately RMB419.5 million or 62.4% to approximately RMB1,092.2 million for the year ended 31 December 2022 from approximately RMB672.7 million for the year ended 31 December 2021. The following table sets forth the breakdown of the Group’s revenue by product type:

	For the year ended	
	31 December	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
Mobile and smart appliances	1,092,200	651,059
AI and other equipment	—	21,592
	<u>1,092,200</u>	<u>672,651</u>

The revenue of mobile and smart appliances increased mainly due to the Group 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 year ended 31 December 2022 and 2021:

	For the year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Hong Kong	726,757	66.5	636,416	94.6
The PRC	365,443	33.5	36,235	5.4
	<u>1,092,200</u>	<u>100</u>	<u>672,651</u>	<u>100</u>

The Company explored the new sales of top and famous smartphones in China for the year ended 31 December 2022.

Segment profit (loss) and profit margin

	For the year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Mobile and smart appliances	431	0.04	(3,275)	–
AI and other equipment	(2,406)	–	(2,368)	–
	<u>(1,975)</u>		<u>(5,643)</u>	

The mobile and smart appliances recognised segment profit of approximately RMB431,000 compared with segment loss of approximately RMB3.3 million for the year ended 31 December 2021. The increase in segment profit was mainly attributable to the Group enhanced the sales of top and famous smartphones in China. The segment loss of AI and other equipment of approximately RMB2.4 million for the year ended 31 December 2022 was attributed by the promotion fee of sales of AI and other equipment.

Other income

Other income mainly represented interest income on bank balances and other services income. The Group's other income decreased from RMB686,000 for the year ended 31 December 2021 to RMB213,000 for the year ended 31 December 2022. The decrease was mainly due to less consultancy services income incurred.

Taxation

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax was made as the Group did not have any assessable profits generated for the year ended 31 December 2022 and 2021.

Trade and other receivables

As at 31 December 2022, the carrying amount of trade and other receivables were approximately RMB3,017,000, representing a decrease of approximately RMB13,098,000 as compared to the corresponding period in 2021 mainly due to notes receivable and a refundable deposit for a potential acquisition was settled during the year 2022.

Prepayments

As at 31 December 2022, the prepayments were approximately RMB566,495,000 which was decreased by RMB7,183,000 as compared with 2021. Prepayments are related to mobile and smart appliances and AI and other equipment.

Inventories

The Group's total inventories decreased by RMB9,787,000 from RMB17,801,000 as at 31 December 2021 to RMB8,014,000 as at 31 December 2022 due to the absence of AI and other equipment. In determining the write down of inventories, the Company's management considered the subsequent selling price and return price.

Trade payable

The Group's trade payable decreased by RMB2,147,000 from RMB10,698,000 as at 31 December 2021 to RMB8,551,000 as at 31 December 2022 due to less purchases of mobile and smart appliances.

Bank loans

The Group's bank loans decreased by RMB5,113,000 from RMB12,279,000 as at 31 December 2021 to RMB7,166,000 as at 31 December 2022 due to less invoice incurred for financing for mobile and smart appliances.

Contract liabilities

The Group's contract liabilities increased by RMB2,372,000 from RMB16,527,000 as at 31 December 2021 to RMB18,899,000 as at 31 December 2022 due to more prepayment from customers for purchases of mobile and smart appliances.

Liquidity and source of funding

As at 31 December 2022, the Group's total cash and bank balances increased by approximately RMB10,931,000 from approximately RMB26,652,000 to approximately RMB37,583,000.

As at 31 December 2022, the Group had unutilised bank facilities related to bank loans of RMB17.74 million. These credit facilities could be drawn down by the Group to finance its operation. Based on the working experience and the communication with the bank, the Board believes that the Group has the ability to renew or secure banking facilities upon maturity.

As at 31 December 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 6.5 compared with 6.6 as at 31 December 2021.

As at 31 December 2022, the Group had bank loans of approximately RMB7,166,000 (2021: approximately RMB12,279,000). On the same date the gearing ratio (calculated based on the bank loans as of the respective dates divided by the net asset as of the respective dates) of the Group was 1.37% as compared with 2.27% as at 31 December 2021.

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.

Future plans for material investment or capital assets

Saved as disclosed in this announcement, the Directors confirmed that as at the date of this announcement, there are no current plans to acquire any material investment or capital assets other than in the Group's ordinary business development.

Material acquisitions and disposals

Saved as disclosed in this announcement, the Group has no material acquisitions and disposals of subsidiaries, associates and joint ventures for the year ended 31 December 2022.

Significant investments

Saved as disclosed in this announcement, the Company had no significant investment held during the year ended 31 December 2022.

Contingent liabilities and commitments

At the end of the year 2022, the Group did not have any significant contingent liabilities and commitments.

Dividends

No dividend was paid, declared or proposed during the year ended 31 December 2022, nor had any dividend been proposed for the year ended 31 December 2022 (2021: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had approximately 29 employees. The Group provides competitive remuneration packages to employees with the share option scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

CHARGES ON ASSETS

As at 31 December 2022, the Group had no charge of assets (2021: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a solid, transparent and sensible framework of corporate governance for the Company and its subsidiaries and will continue to review its effectiveness.

The Company has adopted the Code Provisions (the “Code Provisions”) as stated in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as the corporate governance code of the Company. 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 year under review, the Company has complied with the Code Provisions 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 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 for the year ended 31 December 2022.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2022.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Group had no major litigation or arbitration during the year ended 31 December 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 31 December 2022 and up to this announcement.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive Directors of the Company. The Audit Committee has adopted terms of reference which are in line with the CG Code. The Audit Committee has reviewed the Company and its subsidiaries' audited results for the year ended 31 December 2022 and agreed with the accounting treatment adopted. The Audit Committee is satisfied with the Company and its subsidiaries' internal control procedure and financial reporting disclosures.

SCOPE OF WORK OF CONFUCIUS INTERNATIONAL CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group's auditor, Confucius International CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2022. The work performed by Confucius International CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, or the Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Confucius International CPA Limited on this announcement.

PUBLICATION OF FINANCIAL INFORMATION

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.vitalinno.com). The Company's annual report for 2022 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 31 March 2023

As at the date of this announcement, the Board of the Company comprises Ms. Rong Xiuli, Mr. Rong Shengli, Mr. Yin Xuquan and Mr. Wong Ho Chun as executive Directors; and Mr. Han Xiaojing, Mr. Wong Pong Chun James, and Mr. Leung Man Fai as independent non-executive Directors.