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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 2023

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 2023 (the “**Current Period**”) together with the comparative figures for the corresponding period in 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six months ended 30 June	
	<i>Notes</i>	2023	2022
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	6	351,773	698,911
Cost of sales		(350,431)	(696,356)
		<hr/>	<hr/>
Gross profit		1,342	2,555
Other gains, net	7	115	372
Other income	8	10	158
Selling and distribution costs		(2,723)	(3,922)
Administrative expenses		(7,079)	(7,682)
Finance costs	9	(506)	(293)
		<hr/>	<hr/>
Loss before tax	10	(8,841)	(8,812)
Income tax	11	–	–
		<hr/>	<hr/>
Loss and total comprehensive expense for the period		(8,841)	(8,812)
		<hr/>	<hr/>
Loss and total comprehensive expense for the period attributable to:			
Owners of the Company		(8,838)	(8,811)
Non-controlling interests		(3)	(1)
		<hr/>	<hr/>
		(8,841)	(8,812)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share	12		
Basic and diluted (RMB cents)		(1.04)	(1.04)
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	<i>Notes</i>	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Non-current assets			
Equipment		26	18
Right-of-use assets	18	1,143	1,776
		1,169	1,794
Current assets			
Inventories		7,307	8,014
Trade and other receivables	14	2,665	3,017
Prepayments	15	590,733	566,495
Pledged bank deposits		3,641	3,508
Cash and bank balances		19,109	37,583
		623,455	618,617
Current liabilities			
Trade payables	16	8,577	8,551
Bank loans	17	25,306	7,166
Accruals and other payables		56,620	56,336
Contract liabilities		14,151	18,899
Lease liabilities	18	1,012	1,270
Tax liabilities		3,531	3,531
		109,197	95,753
Net current assets		514,258	522,864
Total assets less current liabilities		515,427	524,658
Non-current liability			
Lease liabilities	18	173	563
Net assets		515,254	524,095
Capital and reserve			
Share capital		67,041	67,041
Share premium and reserves		448,273	457,111
Equity attributable to owners of the Company		515,314	524,152
Non-controlling interests		(60)	(57)
Total equity		515,254	524,095

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2023

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 “Stock Exchange”). 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 trading of mobile (including mobile telecommunication related components and accessories) and smart appliances 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 30 August 2023.

2. BASIS OF PRESENTATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 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 interim condensed consolidated financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the IASB.

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2022 except as disclosed below.

In the current interim period, the Group has applied the following new and 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 2023 for the preparation of the Group's interim condensed consolidated financial statements:

IFRS 17	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules

The application of the new and 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 interim condensed consolidated financial statements.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim 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 that applied to the Group's annual financial statements for the year ended 31 December 2022.

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 2023 and 2022, 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 assets and liabilities are not disclosed in these interim condensed consolidated financial information as they are not regularly provided to the CODM for the purposes of resource allocation and performance assessment.

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	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Segment revenue	<u>348,776</u>	<u>698,911</u>	<u>2,997</u>	<u>-</u>	<u>351,773</u>	<u>698,911</u>
Segment (losses) gains	<u>(615)</u>	<u>506</u>	<u>(766)</u>	<u>(1,873)</u>	<u>(1,381)</u>	<u>(1,367)</u>
Other gains, net					115	372
Other income					10	158
Finance costs					(506)	(293)
Unallocated corporate expenses					<u>(7,079)</u>	<u>(7,682)</u>
Loss before tax					<u>(8,841)</u>	<u>(8,812)</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment (losses) gains represents the (losses) gains 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.

6. REVENUE

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers within the scope of IFRS 15 are recognised at a point in time as follows:		
Mobile and smart appliances	348,776	698,911
AI and other equipment	2,997	–
	351,773	698,911

7. OTHER GAINS, NET

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Foreign exchange gains, net	110	88
Government grants	–	67
Others	5	217
	115	372

8. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income on pledged bank deposits	2	2
Interest income on bank balances	8	8
	10	10
Services income	–	148
	10	158

9. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest on bank loans	482	248
Interest on lease liabilities	24	45
	<u>506</u>	<u>293</u>

10. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Directors' emoluments	1,714	1,661
Other staff costs		
– salaries and other allowances	3,604	4,378
– retirement benefits schemes contributions (excluding directors)	178	174
Total staff costs	<u>5,496</u>	<u>6,213</u>
Auditor's remuneration	184	167
Cost of inventories recognised as an expense	350,431	696,356
Depreciation of equipment	2	19
Depreciation of right-of-use assets	633	633
Expenses related to short-term leases	442	455

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 generated during the six months ended 30 June 2023 and 2022.

The Company's subsidiaries incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% (2022: 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:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss:		
Loss for the purposes of basic and diluted loss per share, representing loss during the period attributable to the owners of the Company	(8,838)	(8,811)
	<u>(8,838)</u>	<u>(8,811)</u>
	Six months ended 30 June	
	2023	2022
	'000	'000
	(unaudited)	(unaudited)
Number of shares		
Number of ordinary shares for the purposes of basic and diluted loss per share	850,000	850,000
	<u>850,000</u>	<u>850,000</u>

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 2023 and 2022.

13. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

14. TRADE AND OTHER RECEIVABLES

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Trade receivables	40	40
Less: allowance for credit losses	—	—
	<u>40</u>	<u>40</u>
Other receivables		
– Other PRC tax receivables	2,039	2,039
– Others	615	967
	<u>2,654</u>	<u>3,006</u>
Less: allowance for credit losses	(29)	(29)
	<u>2,625</u>	<u>2,977</u>
Total trade and other receivables	<u><u>2,665</u></u>	<u><u>3,017</u></u>

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

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
More than 90 days	<u><u>40</u></u>	<u><u>40</u></u>

As at 30 June 2023, balance of trade receivables of approximately RMB40,000 was past due (31 December 2022: 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

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Prepayments to suppliers of:		
– Mobile and smart appliances (<i>Note (a)</i>)	438,713	413,495
– AI and other equipment (<i>Note (b)</i>)	152,020	153,000
	590,733	566,495

Notes:

- (a) As at 30 June 2023 and 31 December 2022, the Group had made prepayments to mobile and smart appliances suppliers to purchase mobile telecommunication related components and accessories.

During the six months ended 30 June 2023, approximately RMB20,776,000 of the prepayments brought forward from year ended 31 December 2022 for mobile and smart appliances were recognised as purchases upon the receipt of the goods from the suppliers and approximately RMB388,040,000 has been refunded to the Group.

As at 30 June 2023, the Group had made prepayments mainly to three independent suppliers to purchase mobile and smart appliances for trading business in a total of approximately RMB433,130,000.

- (b) As at 30 June 2023 and 31 December 2022, the Group had made prepayments to an independent supplier to purchase AI and other equipment.

During the six months ended 30 June 2023, approximately RMB152,020,000 brought forward from year ended 31 December 2022 has been refunded to the Group.

As at 30 June 2023, the Group had made prepayments to an independent supplier for purchase of AI and other equipment which amounted to approximately RMB152,020,000.

16. TRADE PAYABLES

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Trade payables	<u>8,577</u>	<u>8,551</u>

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

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Over 1 year	<u>8,577</u>	<u>8,551</u>

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

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Secured bank loans:		
– Trust receipt loans (<i>Note a</i>)	21,594	3,154
– Government guarantee instalment bank loan (<i>Note b</i>)	<u>3,712</u>	<u>4,012</u>
	<u>25,306</u>	<u>7,166</u>

As at 30 June 2023 and 31 December 2022, the Group's secured bank loans were repayable in accordance with scheduled repayment dates as follows:

	30 June 2023	31 December 2022
	RMB'000	RMB'000
	(unaudited)	(audited)
Carrying amount repayable:		
Within one year	<u>21,594</u>	<u>3,154</u>
Carrying amount of secured bank loans that contain a repayable on demand clause (shown under current liabilities) but repayable:		
Within one year	880	840
More than one year but not exceeding two years	911	869
More than two years but not exceeding five years	<u>1,921</u>	<u>2,303</u>
	<u>3,712</u>	<u>4,012</u>
	<u><u>25,306</u></u>	<u><u>7,166</u></u>

Note (a):

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

As at 30 June 2023	Maturity date	Carrying amount
		<i>RMB'000</i>
Variable-rate bank loans:		
Secured bank loan I	17 July 2023	3,623
Secured bank loan II	24 July 2023	3,627
Secured bank loan III	14 August 2023	3,584
Secured bank loan IV	14 August 2023	3,534
Secured bank loan V	25 August 2023	<u>7,226</u>
		<u><u>21,594</u></u>
As at 31 December 2022	Maturity date	Carrying amount
		<i>RMB'000</i>
Variable-rate bank loans:		
Secured bank loan I	13 February 2023	<u>3,154</u>

The secured bank loans I to secured bank loans V are charged at the United States Prime Rate, which ranges from 7.50% to 8.25% (31 December 2022: 3.25% to 7.50%) per annum.

The secured bank loans I to secured bank loans 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 USD504,000 (equivalent to approximately RMB3,641,000) (31 December 2022: (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 USD504,000 (equivalent to approximately RMB3,508,000)).

Note (b):

The terms and conditions of the government guarantee instalment bank loan (“secured instalment bank loan”) are set out below.

As at 30 June 2023	Carrying amount <i>RMB'000</i>
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Variable-rate bank loan:	
Secured instalment bank loan I	3,712

As at 31 December 2022	Carrying amount <i>RMB'000</i>
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Variable-rate bank loans:	
Secured instalment bank loan I	4,012

The last instalment of the secured instalment bank loan is on 6 June 2027.

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

The secured bank loan is secured by the guarantees provided by a director of the Company and the government of HKSAR under SME Financing Guarantee Scheme.

18. LEASES

(i) Right-of-use assets

The Group has lease contracts for properties, equipment and warehouse for its operations. The leases terms are generally a period of 3 years (2022: 3 years).

As at 30 June 2023, the carrying amount of right-of-use assets of approximately RMB1,143,000 (31 December 2022: RMB1,776,000) represents lease contracts for properties, equipment and warehouse used in its operations.

During the six months ended 30 June 2023, no additions to the right-of-use assets was recognised.

The depreciation of the Group for the six months ended 30 June 2023 was approximately RMB633,000 (six months ended 30 June 2022: RMB633,000).

(ii) Lease liabilities

As at 30 June 2023, the carrying amount of lease liabilities was approximately RMB1,185,000 (31 December 2022: RMB1,833,000).

During the six months ended 30 June 2023, no new lease agreements was entered into for office premises.

(iii) Amounts recognised in profit or loss

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	24	45
Expense relating to short-term leases	442	455
	<u>466</u>	<u>500</u>

(iv) Others

During the six months ended 30 June 2023, the total cash outflow for leases amounted to approximately RMB1,113,000 (six months ended 30 June 2022: RMB1,125,000).

19. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Beijing Rongheng Innovation Technology Co. Ltd. (“Rongheng”)* 北京榮恒創聯科技有限公司	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	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Premises rental expenses charged by Tianlang (<i>Note (ii)</i>)	94	94
Equipment rental expenses charged by Benywave Technology (<i>Note (i)</i>)	34	34
Management expenses charged by Zhuoyue Tianhe (<i>Note (ii)</i>)	39	32
Consultancy service received from Tianyu Operation (<i>Note (iii)</i>)	—	148
	<u> </u>	<u> </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 2023, the Group has made lease payment of approximately RMB34,000 (six months ended 30 June 2022: RMB34,000) to Benywave Technology.
- (ii) 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 2023, the Group has made the lease payment of approximately RMB94,000 (six months ended 30 June 2022: RMB94,000) to Tianlang where the lease is accounted for as a short-term lease. In addition, the Group made the management fee payment of approximately RMB39,000 (six months ended 30 June 2022: RMB32,000) to Zhuoyue Tianhe.
- (iii) In 2021, the Group entered into an agreement with Tianyu Operation related to consultancy service. The Group has provided professional advices for the planning, operation, promotion and marketing of the projects of Tianyu Operation. During the six months ended 30 June 2023, no consultancy service income was received from Tianyu operation (six months ended 30 June 2022: RMB148,000).

(c) Remuneration of key management personnel of the Group

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short term employee benefits	2,266	2,259
Post-employment benefits	104	78
	2,370	2,337

(d) Guarantee

As at 30 June 2023, a director of the Company has provided personal guarantees as part of the security for the bank loans of approximately RMB25,306,000 (31 December 2022: RMB7,166,000).

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.

The world economy entering a differential stage

Geopolitical uncertainties continue shaping the global business environment. China has come out of the historic pandemic with perfect results. Chinese people and the foundation for unending development are protected by different effective and efficient measures from the Chinese government. China continues its steps to the great renaissance.

One side, there are difficulties awaiting everyone to overcome.

First of all, the path to renaissance is not an easy one. Globalization’s pace has been intervened and slowed down. The global market and the industry supply chain are both less united. Thus, the worldwide demand for products and services still takes time and effort by the government to resume its growth. After a worldwide pandemic, the world is picking up its steps in a relatively weak momentum. The demand is weakening while the global liquidity has been tightening to tackle the post pandemic inflation.

Secondly, geopolitical conflict and tension remain intense. The competition between USA and China would be the main theme for the globe in foreseeable future. The management team believes that China would eventually achieve the Great Chinese Renaissance and China would get back to the centre of the world. However, it would require enterprises to continue meaningful innovations that bring the whole China with higher productivity in all industries. The AI breakthrough by ChatGPT has impressed the earth and people suddenly realize the age of general AI is closer than everyone expected. The competition between super powers for high-performance chips, algorithm and engineers would be the key to establish the real competencies in technological and military areas. National security would become a main driver for national development in a long period of time.

As the whole world lacks drivers to grow, the overall growth would slow down. Opportunities would only exist in a few industries that could bring higher productivity. A.I. is definitely one of the key machine’s ability to solve the problems in the future and ChatGPT is merely the beginning.

Worldwide smartphone shipments declined 14.6% year-over-year to 268.6 million units in the first quarter of 2023 (“**Q1 2023**”), according to the data from the International Data Corporation (“**IDC**”) Worldwide Quarterly Mobile Phone Tracker. This marks the seventh consecutive quarter of decline as the market continues to struggle with lukewarm demand, inflation and macro uncertainties. Canals’s latest research reveals that the worldwide smartphone market fell by 10% to 258.2 million units in the second quarter of 2023, showing a slowdown in decline.

Due to the worsening situation of the smartphone shipments in Q1 2023, our business growth was affected and dropped accordingly. The management team would adopt measures to achieve higher efficiency and adopted a defensive strategy to minimize the adverse impact that were brought about to our business. The management team took the strategy of staying relevant to the customers at the expense of margin and controlled the operating expenses tightly to survive in such tough period.

What would the future be?

The management team believes China will eventually pick up its growth and manage to continue its path for the great renaissance for Chinese people. Even though there is a hard time ahead of us due to the weakening global demand for smartphones, the management team will adopt strategies focusing in helping our suppliers and customers in a way that could share their difficulties to overcome this tough time together.

China has already delivered miracles in successfully overcoming the pandemic. Now, economic and technological growth is the newest targets for all enterprises in China.

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

BUSINESS OUTLOOK

While overall smartphone shipments are forecasted to decline in 2023, new forecast from IDC look for a 3.2% decline, smartphone shipments now are expected to total 1.17 billion units for 2023 that it expects a smartphone market recovery in 2024, with 6% year-over-year growth. One particular type of smartphone – the futuristic-looking foldable phones is continuing to develop more choices to consumers. The shipments are also forecasted to gradually recover as component shortages improve, supply chain disruptions decrease and device adoption grows in under penetrated markets.

The second half of 2023 is still expected to be a hard time. Therefore, the management team continues 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 management team will work with our strategic partners to expand the market in middle Asia, the Middle East and the Eastern Europe. The management team will also put more resources to sell the top and famous smartphones to our new customers in China in the second half of 2023.

Exploration in possible areas for potential growth for the future

The management team of the Group, 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 industries, the management team has been proactively looking for opportunities that the core competencies of the Group can be utilized. While applying the competitive advantages and solid experience of the Group in advanced manufacturing and technological servicing in mobile phone industry, the management team has spotted some potential opportunities. These opportunities include new energy, AI and electric vehicles. These are the strategic industries with tremendous scale and growth and are encouraged by the strategic policy of the Chinese Government. We believe they are the industries supporting the strategic growth of China for the coming decades.

The management team is seeking the opportunities to invest in related areas of technological fields that could reshape and strengthen our strategic position and open up new doors for future growth to suit the need and future of the world.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB347.1 million or 49.7% to approximately RMB351.8 million for the Current Period from approximately RMB698.9 million for the corresponding period of 2022. The following table sets forth the breakdown of the Group's revenue by product type: -

	For the six months ended	
	30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Mobile and smart appliances	348,776	698,911
AI and other equipment	2,997	—
	351,773	698,911

The revenue of mobile and smart appliances decreased significantly mainly due to the absence of 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			
	2023		2022	
	(unaudited) RMB'000	%	(unaudited) RMB'000	%
Hong Kong	348,776	99.1	364,501	52.2
China	2,997	0.9	334,410	47.8
	<u>351,773</u>	<u>100</u>	<u>698,911</u>	<u>100</u>

Gross profit and gross profit margin

	For the six months ended 30 June			
	2023		2022	
	Gross profit (unaudited) RMB'000	Gross profit margin %	Gross profit (unaudited) RMB'000	Gross profit margin %
Mobile and smart appliances	1,251	0.36	2,555	0.37
AI and other equipment	91	3.04	–	–
	<u>1,342</u>	<u>0.38</u>	<u>2,555</u>	<u>0.37</u>

Gross profit amounted to RMB1.3 million for the Current Period, compared with a gross profit of RMB2.6 million for the corresponding period of 2022. The gross profit margin for the Current Period was 0.38% and for the corresponding period of 2022 was 0.37%, which was basically flat.

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 2023, the Group had no significant contingent liabilities (31 December 2022: Nil).

Charge on Assets

Save as disclosed in note 17 in this announcement, as at 30 June 2023, the Group did not have any charges on assets.

Liquidity, financial resources and source of funding

The Group's total cash and bank balances decreased by RMB18.5 million from RMB37.6 million as at 31 December 2022 to RMB19.1 million as at 30 June 2023.

As at 30 June 2023, 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 5.7 as compared with 6.5 as at 31 December 2022.

As at 30 June 2023, the Group had bank borrowings of approximately RMB25.3 million (31 December 2022: approximately RMB7.2 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 4.91% as compared with 1.37% as at 31 December 2022.

Inventories

The Group's total inventories decreased by RMB0.7 million from RMB8.0 million as at 31 December 2022 to RMB7.3 million as at 30 June 2023. 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 2023, the Group has made prepayments amounting to RMB438.7 million (31 December 2022: RMB413.5 million) to mobile and smart appliances suppliers and RMB152.0 million (31 December 2022: RMB153.0 million) to an AI and other equipment supplier.

Trade and other receivables

As at 30 June 2023, the carrying amount of trade and other receivables were approximately RMB2,665,000, representing a decrease of approximately RMB352,000 as compared to 31 December 2022.

Contract liabilities

The Group's contract liabilities decreased by RMB4,748,000 from RMB18,899,000 as at 31 December 2022 to RMB14,151,000 as at 30 June 2023 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 2022: Nil).

HUMAN RESOURCES

As at 30 June 2023, the Group employed approximately 27 employees (30 June 2022: 28 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 Part 2 of 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 2023.

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 2023 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 (www.hkexnews.hk) and the Company (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, 30 August 2023

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.