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## **SPROCOMM INTELLIGENCE LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1401)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **FINANCIAL HIGHLIGHTS**

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
Revenue ( <i>RMB'000</i> )	<b>2,182,038</b>	3,117,648
Gross profit ( <i>RMB'000</i> )	<b>193,423</b>	227,153
Gross profit margin (%)	<b>8.9%</b>	7.3%
Net profit for the year ( <i>RMB'000</i> )	<b>30,684</b>	37,763
Earnings per share		
– Basic ( <i>RMB cents</i> )	<b>3.09</b>	4.98
– Diluted ( <i>RMB cents</i> )	<b>3.09</b>	4.98

The board (the “**Board**”) of directors (the “**Directors**”) of Sprocomm Intelligence Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020. These results 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 2020*

	<i>Notes</i>	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	<u>3</u>	<b>2,182,038</b>	3,117,648
Cost of sales		<u><b>(1,988,615)</b></u>	<u>(2,890,495)</u>
Gross profit		<b>193,423</b>	227,153
Other gains and income	<u>5</u>	<b>58,977</b>	59,103
Selling expenses		<b>(38,108)</b>	(41,756)
Administrative and other expenses		<b>(62,355)</b>	(76,203)
Research and development expenses		<b>(112,803)</b>	(111,923)
Finance costs		<u><b>(5,483)</b></u>	<u>(11,960)</u>
<b>Profit before tax</b>		<b>33,651</b>	44,414
Income tax expenses	<u>6</u>	<u><b>(2,967)</b></u>	<u>(6,651)</u>
<b>Profit for the year</b>	<u>7</u>	<b>30,684</b>	37,763
Other comprehensive income for the year: <i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translating foreign operations		<u><b>1,470</b></u>	<u>3,614</u>
Total comprehensive income for the year		<u><b>32,154</b></u>	<u>41,377</u>
Profit (loss) attributable to:			
Owners of the Company		<b>30,879</b>	38,998
Non-controlling interests		<u><b>(195)</b></u>	<u>(1,235)</u>
		<u><b>30,684</b></u>	<u>37,763</u>
Total comprehensive income (expenses) attributable to:			
Owners of the Company		<b>32,349</b>	42,610
Non-controlling interests		<u><b>(195)</b></u>	<u>(1,233)</u>
		<u><b>32,154</b></u>	<u>41,377</u>
Earnings per share			
Basic and diluted (RMB cents)	<u>9</u>	<u><b>3.09</b></u>	<u>4.98</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION***AS AT 31 DECEMBER 2020*

	<i>Notes</i>	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Non-current Assets</b>			
Property, plant and equipment		<b>139,564</b>	127,913
Right-of-use assets	<u>10</u>	<b>7,007</b>	17,345
Intangible assets		<b>6,233</b>	6,391
Deferred tax asset		<b>795</b>	707
		<u><b>153,599</b></u>	<u>152,356</u>
<b>Current Assets</b>			
Inventories	<u>11</u>	<b>319,386</b>	283,956
Trade and bills receivables	<u>12</u>	<b>339,218</b>	622,161
Financial assets at fair value through profit or loss	<u>14</u>	–	285,650
Prepayments and other receivables	<u>13</u>	<b>101,673</b>	73,995
Pledged bank deposits		<b>251,071</b>	81,165
Restricted deposits		<b>16,210</b>	–
Bank balances and cash		<b>26,327</b>	126,682
		<u><b>1,053,885</b></u>	<u>1,473,609</u>
<b>Current Liabilities</b>			
Trade and bills payables	<u>15</u>	<b>591,972</b>	876,707
Accruals and other payables	<u>16</u>	<b>84,585</b>	115,641
Contract liabilities	<u>16</u>	<b>93,317</b>	63,331
Borrowings		<b>34,463</b>	184,153
Lease liabilities	<u>10</u>	<b>6,484</b>	11,962
Deferred income		<b>6,012</b>	5,228
Income tax payable		<b>4,907</b>	5,151
		<u><b>821,740</b></u>	<u>1,262,173</u>
<b>Net current assets</b>		<u><b>232,145</b></u>	<u>211,436</u>
<b>Total assets less current liabilities</b>		<u><b>385,744</b></u>	<u>363,792</u>

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
<b>Capital and Reserves</b>			
Share capital		<b>8,945</b>	8,945
Reserves		<b>324,391</b>	292,042
Equity attributable to owners of the Company		<b>333,336</b>	300,987
Non-controlling interests		<b>1,811</b>	2,006
<b>Total Equity</b>		<b>335,147</b>	302,993
<b>Non-current liabilities</b>			
Deferred income		<b>16,777</b>	22,167
Deferred tax liability		<b>14,596</b>	10,846
Lease liabilities	<u>10</u>	<b>169</b>	5,682
Borrowings		<b>19,055</b>	22,104
		<b>50,597</b>	60,799
		<b>385,744</b>	363,792

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands as an exempted company with limited liability on 15 August 2018 and its shares have been listed on Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 13 November 2019 (the “**Listing**”). The ultimate controlling parties are Mr. Li Chengjun and Mr. Xiong Bin (the “**Controlling Shareholders**”).

The address of the registered office is located in P.O. BOX 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands and the principal place of business and headquarter of the Company is located at 5D-506, F1.6 Block, Tianfa Building, Tianan Chegongmiao Industrial Park, Futian District, Shenzhen, China.

The Company is an investment holding company. The principal activities of its subsidiaries are designing, manufacturing and sales of mobile phones and printed circuit board assembly (“**PCBA**”) and internet of things (“**IOT**”) related products and investment holding.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for the financial assets at fair value through profit or loss which have been measured at fair value.

The consolidated financial statements are presented in RMB which is also the functional currency of the Company, and all values are rounded to the nearest thousands, except when otherwise indicated.

#### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures.

***New and amendments to HKFRSs in issue but not yet effective***

The Group has not early applied the following new and amendment to HKFRSs that have been issued but are not yet effective.

HKFRS 17	Insurance Contracts and related Amendments <sup>5</sup>
Amendments to HKFRS 3	Reference to Conceptual Framework <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between in Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause <sup>5</sup>
Amendments to HKAS 16	Property, plant and Equipment: Proceeds before Intended Use <sup>3</sup>
Amendments to HKAS 37	Onerous Contract – Cost of Fulfilling a Contract <sup>3</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>1</sup>
Amendments to HKFRS 16	COVID-19 Related Rent Concessions <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 cycle <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2023.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the results and financial position of the Group.

**3. REVENUE**

Revenue represents revenue arising on sales of goods in the normal course of business, net of discounts and sales related taxes. The Group's revenue for the year is recognised at a point in time.

An analysis of revenue from contracts with customer disaggregated by major product types is as follows:

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Mobile phones	<b>1,483,386</b>	2,410,583
PCBAs	<b>103,532</b>	471,862
IOT related products	<b>480,950</b>	127,697
Others	<b>114,170</b>	107,506
	<b><u>2,182,038</u></b>	<u>3,117,648</u>

#### 4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers, review the Group's internal reporting in order to assess performance and allocate resource. The Group is principally engaged in designing, manufacturing and sales of mobile phones and PCBA and IOT related products. Information reported to the chief operating decision makers, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Company as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

##### Geographical information

The Group's operations are mainly located in the People's Republic of China (the "PRC") (the place of domicile of the Group's operation).

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

	Revenue from external customers	
	2020 RMB'000	2019 RMB'000
India	1,011,279	1,392,492
Algeria	22,935	275,305
The PRC	919,927	1,167,572
Pakistan	56,749	67,889
People's Republic of Bangladesh	170,764	111,789
Other regions	384	102,601
	<b>2,182,038</b>	<b>3,117,648</b>

The Group's non-current assets are all located in the PRC.

##### Information about major customers

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

	2020 RMB'000	2019 RMB'000
Customer A	511,520	581,357
Customer B	N/A*	395,416

\* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

**5. OTHER GAINS AND INCOME**

	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
Bank interest income	<b>4,229</b>	853
Reversal of provision for social insurance	<b>8,384</b>	–
Exchange gain, net	–	8,532
Gain arising from change in fair value of financial assets at FVTPL	<b>7,305</b>	10,099
Government subsidies ( <i>Note</i> )	<b>29,209</b>	30,945
Amortisation of government grant	<b>6,010</b>	5,920
Sundry income	<b>3,840</b>	2,754
	<b>58,977</b>	59,103

*Note:* The government subsidies represent the one-off government grants that were received from local government authorities of which the entitlements were unconditional and were therefore immediately recognised as other income.

**6. INCOME TAX EXPENSES**

	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
PRC Enterprise Income Tax (“EIT”)		
– Current income tax	<b>880</b>	3,114
– <u>(Overprovision) underprovision</u> in prior year	<b>(1,576)</b>	744
Deferred tax:		
charge to current year	<b>3,663</b>	2,793
Income tax expenses	<b>2,967</b>	6,651

**7. PROFIT FOR THE YEAR**

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	<b>1,981</b>	1,731
Salaries, allowances and other benefits (excluding directors' emoluments)	<b>135,857</b>	122,372
Contributions to retirement benefits scheme (excluding directors' emoluments)	<b>6,016</b>	21,077
	<u><b>143,854</b></u>	<u>145,180</u>
Total staff costs		
Auditors' remuneration	<b>1,000</b>	920
Listing expenses	–	18,073
Amortisation of intangible assets	<b>932</b>	728
Amount of inventories recognised as an expense	<b>1,757,285</b>	2,890,495
Net foreign exchange losses (gains)	<b>3,362</b>	(8,532)
Depreciation of property, plant and equipment	<b>18,778</b>	16,745
Depreciation of right-of-use assets	<b>11,259</b>	8,498
Gains on disposal of property, plant and equipment	–	(59)
Impairment loss recognised in respect of trade and bills receivables	<b>2,170</b>	1,733
Loss on written off of property, plant and equipment	<b>95</b>	–
Provision for litigation	<b>326</b>	742
	<u><b>326</b></u>	<u>742</u>

**8. DIVIDEND**

No dividend was paid or proposed during the years ended 31 December 2020 and 2019, nor has any dividend been proposed since the end of the year ended 31 December 2020.

**9. EARNINGS PER SHARE**

The calculation of the basic earnings per share during the reporting period is based on the profit attributable to the owners of the Company and the weighted average number of ordinary shares in issue.

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	<b>30,879</b>	38,998
	<u><b>30,879</b></u>	<u>38,998</u>
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,000,000</b>	783,562
	<u><b>1,000,000</b></u>	<u>783,562</u>

The weighted average number of ordinary shares for the year ended 31 December 2019 has been adjusted for the capitalisation issue on 13 November 2019.

### Diluted earning per share

Diluted earnings per share is same as basic earnings per share for the year ended 31 December 2019 as there were no outstanding dilutive potential ordinary shares.

The Company's potentially dilutive ordinary shares comprise share options. Performance-related employee share options are treated as contingently issuable shares. Contingently issuable shares are considered outstanding and where applicable, included in the calculation of diluted earnings per share as if the conditions of the contingency are deemed to have been met, based on the information available, at the end of reporting period.

As at 31 December 2020, none of the performance conditions of the share options were met, and thus the dilutive potential ordinary shares as none of the performance conditions of the share options were met. As a result, diluted earnings per share is the same as basic earnings per share for the year ended 31 December 2020.

## 10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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

	<b>31 December 2020</b>	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Machines	<b>1,902</b>	3,313
Buildings	<b>5,105</b>	14,032
	<b>7,007</b>	17,345

The Group has lease arrangements for buildings and machines. The lease terms range from one to six years.

In respect of lease arrangements for machines which are under hire purchase, the ownership of the machines will be transferred to the Group by the end of the lease terms. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

### (ii) Lease liabilities

	<b>31 December 2020</b>	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portion	<b>169</b>	5,682
Current portion	<b>6,484</b>	11,962
	<b>6,653</b>	17,644

**11. INVENTORIES**

	<b>2020</b>	2019
	<b>RMB'000</b>	<i>RMB'000</i>
Raw materials	<b>211,366</b>	131,373
Work in progress	<b>59,684</b>	15,380
Finished goods	<b>48,336</b>	137,203
	<u><b>319,386</b></u>	<u>283,956</u>

**12. TRADE AND BILLS RECEIVABLES**

	<b>2020</b>	2019
	<b>RMB'000</b>	<i>RMB'000</i>
Trade receivables	<b>333,696</b>	604,316
Bills receivables	<b>10,521</b>	20,674
Less: Loss allowance	<b>(4,999)</b>	(2,829)
	<u><b>339,218</b></u>	<u>622,161</u>

The gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB344,217,000 as at 31 December 2020 (2019: RMB624,990,000).

The Group allows credit period of 30–90 days to its trade customers depending on creditability of the customers. The Group does not hold any collateral over its trade and bills receivables. The following is an ageing analysis of trade and bills receivables, net of allowance for impairment of trade and bills receivables, presented based on invoice dates, which approximates the respective revenue recognition dates, at the end of the reporting period:

	<b>2020</b>	2019
	<b>RMB'000</b>	<i>RMB'000</i>
Within 30 days	<b>261,873</b>	459,100
31 to 60 days	<b>34,177</b>	91,441
61 to 90 days	<b>24,672</b>	25,784
Over 90 days	<b>18,496</b>	45,836
	<u><b>339,218</b></u>	<u>622,161</u>
Total	<u><b>339,218</b></u>	<u>622,161</u>

**13. PREPAYMENTS AND OTHER RECEIVABLES**

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Prepayments	<b>36,664</b>	38,221
Deposits	<b>1,776</b>	1,255
Other tax recoverable	<b>59,343</b>	29,417
Others	<b>3,890</b>	5,102
	<b>101,673</b>	73,995

*Note:* Included in prepayments and other receivables are other receivables and refundable deposits of approximately RMB5,666,000 as at 31 December 2020 (2019: RMB6,357,000). These balances have low risk of default or have not been a significant increase in credit risk since initial recognition and no impairment loss is recognised.

**14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Structured deposits stated at fair value	–	285,650

The financial assets at FVTPL as at 31 December 2019 represented contracts of principal guaranteed structured deposits with banks in the PRC which are presented as current assets since their maturities are within 12 months from the end of the reporting period based on the contract terms.

Pursuant to the relevant agreements, these structured deposits carry interest at a variable rate per annum with reference to the performance of foreign currency or interest rate during the investment period and the principal sums are denominated in RMB. The directors of the Company consider the fair values of the structured deposits, which are based on the prices provided by the counterparty banks representing the prices they would pay to redeem the deposits, approximate to their carrying values on the same day. During the year ended 31 December 2020, the Groups financial assets at FVTPL had been fully redeemed upon maturity. The Group had no outstanding financial assets at FVTPL as at 31 December 2020.

Management has assessed the credit quality of the financial institution and considered the credit risk to be not significant.

**15. TRADE AND BILLS PAYABLES**

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Trade payables	<b>333,546</b>	446,297
Bills payables	<b>258,426</b>	430,410
Trade and bills payables	<b>591,972</b>	876,707

The following is an ageing analysis of trade and bills payables presented based on invoice date at the end of the reporting period.

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Within 30 days	<b>286,118</b>	496,730
31 to 60 days	<b>158,663</b>	78,763
61 to 90 days	<b>53,480</b>	58,727
Over 90 days	<b>93,711</b>	242,487
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Total	<b>591,972</b>	876,707
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The average credit period on purchases of goods is ranging from 30 to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## **16. ACCRUALS AND OTHER PAYABLES AND CONTRACT LIABILITIES**

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Salary payable	<b>52,926</b>	64,988
Other payables ( <i>Note (i)</i> )	<b>13,719</b>	21,654
Consideration payable for acquisition of non-controlling interest	–	625
Accrued listing expenses	–	231
Government subsidies in advance ( <i>Note (ii)</i> )	<b>12,357</b>	11,813
Other tax payables	<b>5,583</b>	16,330
	<hr/>	<hr/>
	<b>84,585</b>	115,641
	<hr/>	<hr/>
Contract liabilities ( <i>Note (iii)</i> )	<b>93,317</b>	63,331
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*Notes:*

- (i) As at 31 December 2020, included in other payables was provision for litigations of approximately RMB2,093,000 (2019: RMB1,767,000).
- (ii) Government subsidies in advance included in accruals and other payables are mainly related to the capital expenditure incurred for property and equipment, leasehold improvement and subsidies for recruitment of certain number of workers for factory operation, before fulfilling certain conditions under the terms of the government subsidies. The government subsidies received may need to be refunded if the subsidiary failed to fulfill the attached conditions within the stipulated time. Upon fulfillment of those conditions, government subsidies related to compensation of expenses are credited to the profit or loss in the year the Group complied with the conditions attached to the subsidies, whereas assets-related subsidies are reclassified to deferred income and credited to the profit or loss on a straight-line basis over the expected lives of the related assets.
- (iii) Contract liabilities as at 31 December 2020 amounted to approximately RMB93,317,000 (2019: RMB63,331,000), which represented receipts in advance from customers.

## **17. LITIGATIONS**

During the reporting period, there were legal claims arising from the normal course of business being lodged against the Group and no specific claim amount has been specified in the applications of these claims except as detailed below. In the opinion of the directors of the Company and after consulting the legal professional advice, the ultimate liability under these claims would not have a material adverse impact on the financial position or results of the Group.

On 7 May 2019, an independent factoring company (the “**Plaintiff**”) filed a lawsuit at Beijing Haidian District People’s Court against Shenzhen Sprocomm Telecommunication Technology Co., Ltd. (the “**Shenzhen Sprocomm**”) and a customer of Shenzhen Sprocomm owing the factored accounts receivable (the “**First Defendant**”) for the repayment of the outstanding accounts receivable under the factoring agreement in the amount of RMB29,200,000 (the “**Relevant Sum**”) and the relevant interests.

Based on the legal opinion from the PRC lawyer which considered the Relevant Sum and previous payments from First Defendant to the Plaintiff, the directors of the Company estimated that the outstanding liability of Shenzhen Sprocomm amounted to be RMB17,073,000 (which is included in borrowings in the consolidated statement of financial position) plus the relevant interest, legal costs and court fees of an aggregate of approximately RMB 2,093,000 (31 December 2019: RMB1,767,000).

In December 2020, Shenzhen Sprocomm has received the judgement of the first trial from the District Court ruling it to repay the factored loan amount at approximately RMB26,805,000 and the relevant interest at approximately RMB3,303,000. Subsequent to the end of the reporting period, Shenzhen Sprocomm filed an appeal to the First Intermediate People’s Court of Beijing Municipality in February 2021 and the court hearing date is not yet fixed.

During the year ended 31 December 2020, the legal proceeding is still in progress and additional provision of RMB326,000 was made by the directors of the Company, with reference to legal opinion obtained and available information. The provision was recognised in the administrative expenses in the consolidated statements of profit or loss and other comprehensive income and other payable in the consolidated statements of financial position.

As at 31 December 2020, the Group had provision for litigation of approximately RMB2,093,000 (31 December 2019: RMB1,767,000) included in other payables in the consolidated statement of financial position.

As at 31 December 2020, aggregate bank balances of approximately RMB16,210,000 in Shenzhen Sprocomm were being frozen by banks as the respective banks had received notice from court with regard to the litigation claim. Such bank balances were included in restricted deposits in the consolidated statement of financial position.

As at the date of this announcement, the legal proceeding is still in progress. The directors of the Company, with reference to the legal opinion obtained and available information, considered that the provision has adequately covered the maximum exposure including of total claims and legal cost of the case. In addition, in connection with the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, a deed of indemnity was signed on 18 October 2019, pursuant to which the Controlling Shareholders, irrecoverably and unconditionally undertakes to jointly pay up the entire sum or the shortfall and other costs and expenses which may be made, suffered, or incurred in relation to this litigation in progress.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS OVERVIEW**

During the year ended 31 December 2020, the outbreak of the novel coronavirus (the “**COVID-19**”) caused significant adverse impact on the global economy and consumer confidence. The worldwide smartphone market was also affected as the production capacities and schedules of the mobile phone manufacturers were interrupted by lockdown measures and consumers were more conscious on their spending.

The Group, as one of the leading ODM mobile phone suppliers based in China, continues to focus on the research and development, designing, manufacturing and sale of mobile phones, PCBAs for mobile phones and IoT related products, targeting emerging markets. Since the outbreak of COVID-19, a number of provinces and municipalities in China have taken emergency public health measures and various actions to prevent the spread of the COVID-19, including imposing restriction on resumption date of production after the Chinese New Year Holidays. Under these public health measures, the Group experienced delays in the supply of raw materials from its suppliers and certain workers had difficulties to return to work as usual. The Group halted production at its production plants in Shenzhen and Luzhou for a few weeks and production was gradually resumed by end of February. As a result of the aforesaid, the Group’s original production plans and production capacity were significantly affected, leading to late delivery of products in the first half of 2020. The Group has taken corresponding actions to mitigate the adverse impact arising from COVID-19, including prioritisation of sales orders, regular communications with customers to secure the sales orders, close monitoring and follow up on the delivery schedule of raw materials and rescheduling production plans to speed up the production process and meet the customer demand. Amid the outbreak of COVID-19, the Group’s revenue for the year ended 31 December 2020 decreased by 30.0% to RMB2,182.0 million from RMB3,117.6 million for the year ended 31 December 2019, primarily attributed to the decrease in sales of mobile phones. The Group’s net profit for the year ended 31 December 2020 also decreased by 18.8% to RMB30.7 million from RMB37.8 million for the year ended 31 December 2019.

### **OUTLOOK AND BUSINESS STRATEGY**

Going forward, China’s ODM mobile phone market will be filled with challenges and opportunities. While the global economy still requires some time to recover, the Group will take this opportunity to solidify its leading market position. Further, the Directors consider that the rapid roll-out of 5G telecommunication network in different parts of the world will drive the demand for smartphones and IoT products.

Leveraging on strong research and development ability, the Group successfully entered into framework sales agreement with Ant Financial (Hainan) Digital Technology Limited Company\* (螞蟻金服(海南)數字技術有限公司, “**Ant Financial**”) for product validation and supply of Ali-POS (point of sales) devices supported with facial recognition feature (face ID) in 2019. The cooperation with Ant Financial stimulated the Group’s revenue from IoT related products for the year ended 31 December 2020, which significantly increased by 2.8 times to RMB481.0 million from RMB127.7 million for the year ended 31 December 2019.

In order to capture the potential market opportunities and maximise the interests of the Company and its shareholders, the Group will continue to strengthen its cooperation with Ant Financial and it will adopt a prudent approach to develop its business and gradually expand its production capacity, enhance its research and development capability, enrich its product portfolio and increase its sales and marketing effort to diversify its geographical locations.

## FINANCIAL REVIEW

### Revenue

#### *Revenue by product categories*

The Group’s product portfolio includes smartphones, feature phones, PCBAs for mobile phones and IoT related products. The Group mainly derives its revenue from the sales of smartphones and IoT products. Set out below is a breakdown of the Group’s total revenue by product categories and the revenue generated from each product category as a percentage of total revenue for the year ended 31 December 2020 and 2019:

	Year ended 31 December			
	2020		2019	
	<i>RMB’000</i>	<i>% of total revenue</i>	<i>RMB’000</i>	<i>% of total revenue</i>
Mobile phones				
– Smartphones	<b>1,186,640</b>	<b>54.4</b>	2,053,460	65.9
– Feature phones	<b>296,746</b>	<b>13.6</b>	357,123	11.4
Sub-total:	<b>1,483,386</b>	<b>68.0</b>	2,410,583	77.3
PCBAs	<b>103,532</b>	<b>4.7</b>	471,862	15.1
IoT related products	<b>480,950</b>	<b>22.0</b>	127,697	4.1
Others ( <i>Note</i> )	<b>114,170</b>	<b>5.3</b>	107,506	3.5
Total	<b>2,182,038</b>	<b>100.0</b>	<b>3,117,648</b>	<b>100.0</b>

*Note:* Others mainly include revenue from the sales of mobile device components used for after sales-services and the provision of research and development and technical services for mobile phones, PCBAs and cloud related products.

The Group's total revenue decreased by 30.0% to RMB2,182.0 million for the year ended 31 December 2020 from RMB3,117.6 million for the year ended 31 December 2019, primarily attributed to the decreased sales of mobile phones amid the outbreak of COVID-19, but partially offset by the increased sales of IoT related products.

Revenue from mobiles phones decreased by 38.5% to RMB1,483.4 million for the year ended 31 December 2020 from RMB2,410.6 million for the year ended 31 December 2019, primarily attributed to the decrease in sales of smartphones to India, Algeria and PRC amid the outbreak of the COVID-19.

Revenue from PCBAs decreased by 78.1% to RMB103.5 million for the year ended 31 December 2020 from RMB471.9 million for the year ended 31 December 2019, primarily attributed to the decrease in demand on PCBAs for mobile phones.

Revenue from IoT related products increased by 2.8 times to RMB481.0 million for the year ended 31 December 2020 from RMB127.7 million for the year ended 31 December 2019, primarily attributed to the increase in sales of (i) Ali-POS (point of sales) devices supported with facial recognition feature (face ID); and (ii) smart locks.

### ***Revenue by geographical regions***

The Group's products are sold worldwide with strategic focus on emerging markets which have high population and growing demands on mobile phones. Set out below is a breakdown of the Group's total revenue by geographical region and the revenue generated from each region as a percentage of total revenue for the year ended 31 December 2020 and 2019:

	<b>Year ended 31 December</b>			
	<b>2020</b>		<b>2019</b>	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
<b>Emerging Asia</b>				
India	<b>1,011,279</b>	<b>46.3</b>	1,392,492	44.7
Pakistan	<b>56,749</b>	<b>2.6</b>	67,889	2.2
Bangladesh	<b>170,764</b>	<b>7.8</b>	111,789	3.6
The PRC	<b>919,927</b>	<b>42.2</b>	1,167,572	37.4
Sub-total:	<b>2,158,719</b>	<b>98.9</b>	2,739,742	87.9
<b>Other regions</b>				
Algeria	<b>22,935</b>	<b>1.0</b>	275,305	8.8
Others	<b>384</b>	<b>0.1</b>	102,601	3.3
Sub-total:	<b>23,319</b>	<b>1.1</b>	377,906	12.1
Total	<b>2,182,038</b>	<b>100.0</b>	3,117,648	100.0

Revenue from India decreased by 27.4% to RMB1,011.3 million for the year ended 31 December 2020 from RMB1,392.5 million for the year ended 31 December 2019 as the outbreak of COVID-19 caused delays in the Group's production schedules and delivery of products to customers. Revenue from India in the second half of 2020 significantly improved as compared with the first half of 2020.

Revenue from Bangladesh increased by 52.8% to RMB170.8 million for the year ended 31 December 2020 from RMB111.8 million for the year ended 31 December 2019, primarily attributed to increase in demand for smartphones.

Revenue from the PRC decreased by 21.2% to RMB919.9 million for the year ended 31 December 2020 from RMB1,167.6 million for the year ended 31 December 2019, primarily attributed to decrease in sales of mobile phones, but partially offset by the increase in sales of IoT-related products.

Revenue from Algeria decreased by 91.7% to RMB22.9 million for the year ended 31 December 2020 from RMB275.3 million for the year ended 31 December 2019, primarily attributed to the decrease in purchase orders for smartphones from one of the Group's major customers.

### **Gross profit and gross profit margin**

Gross profit decreased by 14.9% to RMB193.4 million for the year ended 31 December 2020 from RMB227.2 million for the year ended 31 December 2019, primarily due to the decreased sales of mobile phones. Gross profit margin improved to 8.9% for the year ended 31 December 2020 from 7.3% for the year ended 31 December 2019. The increase in gross profit margin was primarily attributed to the increase in proportion of sales of IoT related products which had a higher gross profit margin than other products.

### **Other gains and income**

Other gains and income mainly include comprises government subsidies and amortisation of government subsidies, net exchange gain, reversal of provision for social insurance, gain arising from change in fair value of financial assets at fair value through profit and loss, bank interest income and sundry income. The Group's other gains and income slightly decreased to RMB59.0 million for the year ended 31 December 2020 from RMB59.1 million for the year ended 31 December 2019.

### **Selling expenses**

Selling expenses mainly represent transportation and custom declaration expenses, salaries and employee benefits of our sales and marketing staff, business-related travelling and entertainment expenses. Selling expenses for the year ended 31 December 2020 decreased by 8.9% to RMB38.1 million from RMB41.8 million for the year ended 31 December 2019 because the higher proportion of sales to the PRC for the year ended 31 December 2020 reduced the transportation and custom declaration expenses incurred by the Group.

### **Administrative and other expenses**

Administrative and other expenses mainly represent salaries and benefits of our administrative and management staff, depreciation, amortisation of intangible assets, general office expenses, legal and professional fees, rental expenses, insurance expenses, bank charges, exchange losses, listing expenses and other miscellaneous administrative expenses. Administrative expenses for the year ended 31 December 2020 decreased by 18.1% to RMB62.4 million from RMB76.2 million for the year ended 31 December 2019. The significant decrease in administrative expenses for the year ended 31 December 2020 was primarily attributed to the recognition of a one-off listing expenses of RMB18.1 million for the year ended 31 December 2019.

### **Research and development expenses**

Research and development expenses for the year ended 31 December 2020 were maintained stable at RMB112.8 million as compared with RMB111.9 million for the year ended 31 December 2019.

### **Finance costs**

Finance costs mainly represent interests on discounted bills, interest portion of lease liabilities, bank borrowings and factoring loans. The Group's finance costs for the year ended 31 December 2020 decreased by 54.2% to RMB5.5 million from RMB12.0 million for the year ended 31 December 2019 as the Group recorded a decrease in finance costs on discounted bills financing and factoring loans resulting from the decrease in sales to countries outside the PRC.

### **Income tax expenses**

For the year ended 31 December 2020, the Group's income tax expenses amounted to RMB3.0 million as compared with RMB6.7 million for the year ended 31 December 2019. The decrease in income tax expenses was primarily attributed to the decrease in assessable profits for the year ended 31 December 2020. The Group's effective income tax rate for the year ended 31 December 2020 decreased to 8.8% from 15.0% for the year ended 31 December 2019 as the Group had a one-off listing expenses of RMB18.1 million that were non-deductible for tax purpose.

### **Net profit**

As a result of the above factors, the Group's net profit for the year ended 31 December 2020 was RMB30.7 million, representing a decrease of 18.8% as compared with the year ended 31 December 2019. Net profit margin for the year ended 31 December 2020 slightly increased to 1.4% from 1.2% for the year ended 31 December 2019.

## **Dividend**

The Board does not recommend the payment of dividend for the year ended 31 December 2020 (2019: nil).

## **Trade and bills receivables**

As at 31 December 2020, the Group's trade and bills receivables amounted to RMB339.2 million (31 December 2019: RMB622.2 million). The Group generally grants credit period ranging from 30 to 90 days to its customers and allows its PRC customers to settle their purchases by way of bills with maturity period ranging from three to six months.

In order to minimise credit risk, the Group carefully assesses the background information and credit worthiness of its customers before it decides to grant them credit periods. Further, the Group also closely monitors the payment record of its customers and regularly reviews the credit terms granted to them. The Group's credit assessment is based on various factors, including but not limited to the financial strength, size of the business and payment history of customers and length of their business relationship with the Group.

The Group's average trade and bills receivables turnover days for the year ended 31 December 2020 were 80.4 days (2019: 60.8 days), which were within the range of credit periods normally offered by the Group to its customers. The decrease in the Group's trade and bills receivables as at 31 December 2020 and the lengthened average trade and bills receivables turnover days for the respective year were primarily attributed to the decreased sales for the year ended 31 December 2020. Based on the dates of the relevant sales invoices, 5.5% of the Group's trade and bills receivables aged within 90 days and the Group did not notice any substantial long outstanding balances.

## **Trade and bills payables**

As at 31 December 2020, the Group's trade and bills payables amounted to RMB592.0 million (31 December 2019: RMB876.7 million). Suppliers generally grant the Group credit period ranging from 30 to 60 days, with certain suppliers require the Group to make advance payment before product delivery. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. Certain suppliers allow the Group to settle its purchases by way of bank acceptance bills and the Group may also endorse certain bills receivables to its suppliers in order to settle the trade payable due to them.

The Group's average trade and bills payables turnover days for the year ended 31 December 2020 were 134.8 days (2019: 96.2 days). The decrease in the Group's trade and bills payables as at 31 December 2020 and the lengthened average trade and bills payables turnover days for the respective year were primarily attributed to the decreased purchases for the year ended 31 December 2020.

## **CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING**

The Company's shares were successfully listed on the Main Board of the Stock Exchange on 13 November 2019 (the "**Listing Date**"). There has been no change in the capital structure of the Group since then. The Group mainly funds its business and working capital requirements by using a balanced mix of internal resources, borrowings and funds from the global offering.

The funding mix will be adjusted depending on the costs of funding and the actual needs of the Group. For the year ended 31 December 2020, the Group recorded a positive operating cash flow before working capital changes of RMB25.6 million (Year ended 31 December 2019: RMB36.2 million).

As at 31 December 2020, the Group had net current assets of RMB232.1 million (31 December 2019: RMB211.4 million), cash and cash equivalents amounted to RMB26.3 million (31 December 2019: RMB126.7 million), pledged bank deposits of RMB251.1 million (31 December 2019: RMB81.2 million) and borrowings amounted to RMB53.5 million (31 December 2019: RMB206.3 million). The Group's cash and cash equivalents and bank borrowings as at 31 December 2020 were mainly denominated in RMB.

As at 31 December 2020, the Group had borrowings of RMB31.4 million (31 December 2019: RMB181.1 million) subject to fixed interest rates and borrowings of RMB22.1 million (31 December 2019: RMB25.2 million) subject to variable interest rates. As at 31 December 2020, the Group had a current ratio of 1.3 times (31 December 2019: 1.2 times) and gearing ratio of 0.2 (calculated by dividing total debt by total equity) (31 December 2019: 0.7).

As at 31 December 2020, the Group's unutilised borrowing facilities amounted to RMB148.7 million. As at 31 December 2019, the Group's borrowing facilities were fully utilised.

## **CAPITAL COMMITMENTS**

As at 31 December 2020, the Group did not have capital commitments in relation to the purchase of property, plant and equipment (31 December 2019: nil).

## **CONTINGENT LIABILITIES**

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees (31 December 2019: nil).

## **PLEDGE OF ASSETS AND RESTRICTED DEPOSIT**

As at 31 December 2020, the Group pledged trade and bills receivables with carrying amount of RMB9.7 million (31 December 2019: RMB30.0 million), bank deposits with carrying amount of RMB251.1 million (31 December 2019: RMB81.2 million) and land and building with carrying amount of RMB56.8 million (31 December 2019: RMB59.9 million) to secure its borrowings and banking facilities.

As at 31 December 2020, the Group's financial assets at fair value through profit or loss (“**financial assets at FVTPL**”) amounted to nil (31 December 2019: RMB285.7 million). The Group's financial assets at FVTPL as at 31 December 2019 have been pledged to certain banks for the issuance of bank acceptance bills to the Group's suppliers for the settlement of purchases of raw materials and components.

As at 31 December 2020, the Group had restricted deposit of RMB16.2 million (31 December 2019: nil), representing bank balances frozen by banks that had received notice from court with regard to the litigation claim detailed in note [17](#) of this announcement.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

During the year ended 31 December 2020 and 2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

## **SIGNIFICANT INVESTMENTS HELD BY THE GROUP**

During the year ended 31 December 2020, the Group invested some of its funds in the structured deposits of PRC licensed commercial banks, which were principal guaranteed and carried interest at a variable rate per annum with reference to the performance of foreign currency or interest rate during the investment period. These structured deposits were classified as financial assets at FVTPL in the Group's consolidated financial statements. As at 31 December 2020, the Group's financial assets at FVTPL amounted to nil as they have been fully redeemed upon maturity (31 December 2019: RMB285.7 million). The Group's financial assets at FVTPL as at 31 December 2019 represented 17.6% of the Group's total assets, and they have been pledged to certain banks for the issuance of bank acceptance bills to the Group's suppliers for the settlement of purchases of raw materials and components. During the year ended 31 December 2020, the realised gain arising from change in fair value of financial assets at FVTPL amounted to RMB7.3 million (2019: RMB10.1 million) and no interest income and dividend (2019: nil) were derived from these financial assets.

The following sets forth the fair value of the Group's financial assets at FVTPL by the respective issuing bank as at 31 December 2020 and 2019:

<b>Issuing Bank</b>	<b>31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
The Bank of East Asia (China) Limited	–	245,460
Bank of Ningbo	–	24,790
China Merchants Bank	–	15,400
	<hr/>	<hr/>
	–	285,650
	<hr/> <hr/>	<hr/> <hr/>

The Group adopts prudent and pragmatic investment strategies. The Group purchases principal guaranteed financial assets at FVTPL from sizable PRC licensed commercial banks with good credit ratings. Further, the Group has implemented the following internal controls to minimise the potential risks for investing in financial assets:

- all the existing financial assets shall be closely monitored by the Group’s finance controller;
- no new investments can be made unless it is principal guaranteed;
- all investments shall be assessed by the Group’s finance controller after taking into account the maturity term, expected rate of return and features of proposed investments and analysis on impact on working capital and cashflow, identification of any legal risks from reviewing the terms with the assistance of any external legal advisers as the Group’s finance controller considers appropriate;
- the Group’s finance controller shall prepare an assessment report stating the factors considered as stated above to be submitted to the Group’s chief executive officer for approval shall he considers appropriate; and
- single investment with principal amount exceeding RMB50 million or any new investments which would result in the outstanding principal sum of the financial assets exceeding RMB100 million which are endorsed by the Group’s chief executive officer shall be further approved by the audit committee who would re-assess the risks involved.

Saved as disclosed herein, the Group did not make any other significant investments during the year ended 31 December 2020.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

The Group set out its future plans in its prospectus dated 30 October 2019 (the “**Prospectus**”). As part of its future plans, the Group will acquire new SMT lines to expand its SMT production capacity. The Group will also devote more resources into research and development to enrich its product offering on both mobile phone related products and IoT related products. These future plans will be funded by a balanced mix of internal resources, borrowings and proceeds from the global offering. To further enhance the value the Group and its shareholders, the Group will also consider potential investment opportunities when they arise.

On 26 November 2020, Sprocomm Intelligence Limited (“**Sprocomm Intelligence**”), an indirect wholly-owned subsidiary of the Company, entered into an investment agreement with the Management Committee of New Lingang Area of PRC (Shanghai) Pilot Free Trade Zone\* (中國(上海)自由貿易試驗區臨港新片區管理委員會) (the “**Lingang Committee**”), pursuant to which, among others, (i) Sprocomm Intelligence agreed to set up a smart device R&D headquarters at New Lingang Area with an investment of fixed assets of not less than

RMB120 million (equivalent to approximately HK\$142 million); and (ii) Lingang Committee agreed to provide various kinds of support and subsidy to Sprocomm Intelligence. As at 31 December 2020, the aforesaid investment was still in a preliminary planning stage. For the investment amount and schedule and other details of this investment agreement, please refer to the Company's announcement dated 26 November 2020.

## **FOREIGN EXCHANGE RISKS**

For the year ended 31 December 2020, the Group derived 57.8% (2019: 55.5%) of its total revenue from export sales and these export sales were principally denominated in USD. As at 31 December 2020, the Group had USD-denominated monetary assets with carrying amount of RMB201.4 million (31 December 2019: RMB269.4 million) and USD-denominated monetary liabilities of RMB19.1 million (31 December 2019: RMB188.0 million). The Group is exposed to foreign exchange risk arising from its export sales, monetary assets and liabilities denominated in foreign currencies. Any appreciation of RMB against USD will have a negative impact on the Group's profit margin. Management of the Group regularly reviews the impact of exchange risk exposure on the Group's financial performance and may use foreign exchange hedging instruments to reduce the Group's exchange risk exposure if appropriate.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 December 2020, the Group had 1,836 employees (31 December 2019: 1,400 employees), whose remunerations and benefits are determined based on market rates, government policies and individual performance. For the year ended 31 December 2020, the Group's total staff costs amounted to RMB143.9 million (2019: RMB145.2 million). The Group provides comprehensive training and development opportunities to its employees on a regular basis. The trainings are arranged according to needs of employees, which are identified annually by individual departments.

## **USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING**

Shares of the Company were listed on the Main Board of the Stock Exchange on 13 November 2019. The net proceeds from the initial public offering (the "IPO"), net of underwriting commissions and other relevant expenses, amounted to approximately HK\$84.4 million. The Group will apply such proceeds in accordance with the section headed "Future plans and use of proceeds" set out in the Prospectus.

The use of the net proceeds from the Listing Date up to 31 December 2020 had been applied as follows:

	Planned use of net proceeds (approximately)	Utilised net proceeds from IPO as at 31 December 2020 (approximately)	Unutilised net proceeds from IPO as at 31 December 2020 (approximately)	Expected timeline for unutilised net proceeds from IPO
Enhance SMT production capacity	HK\$38.8 million	HK\$33.8 million	HK\$5.0 million	By 31 December 2021
Enhance research and development capabilities	HK\$14.2 million	HK\$9.5 million	HK\$4.7 million	By 31 December 2021
Enhance sales and marketing force to diversify customer base	HK\$8.6 million	HK\$6.6 million	HK\$2.0 million	By 31 December 2021
Upgrade enterprise planning resource system	HK\$5.7 million	HK\$3.2 million	HK\$2.5 million	By 30 June 2021
Repayment of bank loans	HK\$8.8 million	HK\$6.6 million	HK\$2.2 million	By 30 June 2021
General working capital	HK\$8.3 million	HK\$8.3 million	–	N/A
<b>Total</b>	<b><u>HK\$84.4 million</u></b>	<b><u>HK\$68.0 million</u></b>	<b><u>HK\$16.4 million</u></b>	

#### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

For the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS**

Apart from the Group's business, none of the Directors, the Controlling Shareholders (including Mr. Li, Leap Elite, Mr. Xiong and Beyond Innovation) or any of their respective close associates was engaged in or had any interest in any business that competes or may compete with the principal business of the Group, or has any other conflict of interest with the Group during the year ended 31 December 2020 and up to the date of this announcement.

## **SHARE OPTION SCHEME**

The Company conditionally adopted a share option scheme (the "**Share Option Scheme**") on 18 October 2019 ("**Adoption Date**"), which become effective on the Listing Date. The purpose of which is to motivate the eligible participants to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The eligible participants include any full-time or part-time employees, executives or officers, directors, advisers, consultants, suppliers, customers and agents of the Company or any of its subsidiaries; and such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the shares in issue as at the Listing Date (i.e. 100,000,000 shares) unless approved by the shareholders of the Company. Such limit represented 10% of the shares of the Company in issue as at the date of this announcement.

Unless approved by shareholders of the Company in general meeting in the manner stipulated in The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the maximum entitlement for each eligible participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the total number of shares in issue as at the date of grant.

**(i) Outstanding options**

During the year ended 31 December 2020, the Company granted 69,100,000 share options and no share options were exercised and 3,300,000 share options were lapsed. Details of the Company's share options from 1 January 2020 to 31 December 2020 are as follows:

	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding as at 1 January 2020	Number of share options granted	Number of share options exercised	Number of share options lapsed	Outstanding as at 31 December 2020
<b>Category 1: Directors</b>									
Mr. Li Hongxing									
Tranche 1	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2021	1 July 2021 to 13 April 2025	-	2,700,000	-	-	2,700,000
Tranche 2	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2022	1 July 2022 to 13 April 2025	-	2,700,000	-	-	2,700,000
Tranche 3	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2023	1 July 2023 to 13 April 2025	-	3,600,000	-	-	3,600,000
Subtotal					-	9,000,000	-	-	9,000,000
Mr. Guo Qinglin									
Tranche 1	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2021	1 July 2021 to 13 April 2025	-	1,050,000	-	-	1,050,000
Tranche 2	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2022	1 July 2022 to 13 April 2025	-	1,050,000	-	-	1,050,000
Tranche 3	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2023	1 July 2023 to 13 April 2025	-	1,400,000	-	-	1,400,000
Subtotal					-	3,500,000	-	-	3,500,000

	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding as at 1 January 2020	Number of share options granted	Number of share options exercised	Number of share options lapsed	Outstanding as at 31 December 2020
<b>Category 2: Employees</b>									
Tranche 1	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2021	1 July 2021 to 13 April 2025	-	16,980,000	-	(990,000)	15,990,000
Tranche 2	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2022	1 July 2022 to 13 April 2025	-	16,980,000	-	(990,000)	15,990,000
Tranche 3	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2023	1 July 2023 to 13 April 2025	-	22,640,000	-	(1,320,000)	21,320,000
Subtotal					-	56,600,000	-	(3,300,000)	53,300,000
<b>Total</b>					<b>-</b>	<b>69,100,000</b>	<b>-</b>	<b>(3,300,000)</b>	<b>65,800,000</b>

As at the date of this announcement, the number of shares of the Company available for issue under the Share Option Scheme upon the exercise of all above outstanding share options was 65,800,000, representing 6.58% of the total issued shares of the Company.

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The minimum period for which an option must be held before it can be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted.

The exercise price of share option granted under the Share Option Scheme shall be a price solely determined by the Board and shall be at least highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of a share.

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from the Adoption Date. As at 31 December 2020, the remaining life of the Share Option Scheme is approximately eight years and 9.5 months.

For further details on the principal terms of the Share Option Scheme, please refer to the paragraph headed “Statutory and General Information – Other Information – 1. Share Option Scheme” in Appendix IV to the Prospectus.

**(ii) Valuation of share options**

- (1) The following significant assumptions were used to derive the fair value of the share options using the Binominal Options pricing model:

	<b>Tranche 1</b>	<b>Tranche 2</b>	<b>Tranche 3</b>
Date of grant	14 April 2020	14 April 2020	14 April 2020
Fair value at grant date	HK\$0.211	HK\$0.220	HK\$0.227
Share price	HK\$0.51	HK\$0.51	HK\$0.51
Exercise price	HK\$0.51	HK\$0.51	HK\$0.51
Expected volatility	53.00%	53.00%	53.00%
Expected life	5 years	5 years	5 years
Exercise period	1 July 2021 to 13 April 2025	1 July 2022 to 13 April 2025	1 July 2023 to 13 April 2025
Risk-free rate	0.580%	0.580%	0.60%
Expected dividend yield	–	–	–

- (2) Expected volatility was determined by calculating the historical volatility of the price of listed companies with businesses similar to the Group. The expected dividend yield is determined by the directors based on the expected future performance and dividend policy of the Group.
- (3) No share-based payment expense was recognised for the year ended 31 December 2020 (2019: nil) in relation to share options granted by the Company as the performance condition was not satisfied.

**MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2020 and up to the date of this [announcement](#).

## **CORPORATE GOVERNANCE**

The Company has adopted a set of corporate governance practices which aligns with the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) since the Listing Date. Except for code provision A.2.1, the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2020.

Code provision A.2.1 of the CG Code states that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the current organisation structure of the Company, Mr. Li Chengjun is the Group’s chief executive officer, and he also performs as the chairman of the Board as he has considerable experience in the mobile communication industry. The Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group.

Although Mr. Li Chengjun performs both the roles of chairman of the board and chief executive officer, the division of responsibilities between the chairman of the board and chief executive officer is clearly established. In general, the chairman of the board is responsible for supervising the functions and performance of the Board, while the chief executive officer is responsible for the management of the Group’s businesses. The two roles are performed by Mr. Li Chengjun distinctly. Further, the current structure does not impair the balance of power and authority between the Board and management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors.

## **CLOSURE OF THE REGISTER OF MEMBERS**

For the purposes of determining the shareholders’ eligibility to attend and vote at the forthcoming annual general meeting to be held on 28 May 2021 (Friday), the register of members of the Company will be closed from 25 May 2021 (Tuesday) to 28 May 2021 (Friday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 24 May 2021 (Monday). During the above closure period, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong before 4:30 p.m. on 24 May 2021 (Monday).

## **AUDIT COMMITTEE**

The Company has established the Audit Committee on 18 October 2019 with written terms of reference in compliance with Rule 3.21 and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee consists of three independent non-executive Directors, namely Mr. Wong Kwan Kit, Mr. Lu Brian Yong Chen and Mr. Hung Wan Man. Mr. Wong Kwan Kit is the chairman of the Audit Committee.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, financial reporting system, risk management and internal control systems, and has reviewed the Group's annual results for the year ended 31 December 2020. The Audit Committee is of the view that the consolidated financial statements have been prepared in accordance with the applicable standards, the Listing Rules and the statutory provisions and sufficient disclosures have been made.

## **SCOPE OF WORK OF AUDITORS**

The figures in respect of this announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Company's external auditor, SHINEWING (HK) CPA Limited ("SHINEWING"), to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2020. The work performed by SHINEWING in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, 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 SHINEWING on this announcement.

## **EVENT AFTER THE REPORTING PERIOD**

Saved as disclosed herein, the Group does not have any important events after the year ended 31 December 2020 and up to the date of this announcement.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.sprocomm.com](http://www.sprocomm.com)). The annual report of the Company for the year ended 31 December 2020 will be dispatched to shareholders of the Company and published on the aforementioned websites in due course.

By order of the Board  
**Sprocomm Intelligence Limited**  
**Mr. Li Chengjun**  
*Chairman and Executive Director*

Hong Kong, 26 March 2021

*As at the date of this announcement, the executive Directors are Mr. LI Chengjun, Mr. XIONG Bin, Mr. LI Hongxing and Mr. GUO Qinglin, and the independent non-executive Directors are Mr. HUNG Wai Man, Mr. WONG Kwan Kit, Mr. LU Brian Yong Chen and Ms. TSENG Chin I.*

\* *For identification purposes only*