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## **SPROCOMM INTELLIGENCE LIMITED**

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

**(Stock Code: 1401)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020**

#### **FINANCIAL HIGHLIGHTS**

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue ( <i>RMB'000</i> )	<b>857,580</b>	1,125,896
Gross profit ( <i>RMB'000</i> )	<b>86,840</b>	97,547
Gross profit margin (%)	<b>10.1</b>	8.7
Net profit for the period ( <i>RMB'000</i> )	<b>12,596</b>	12,668
Earnings per share		
– Basic and diluted ( <i>RMB cents</i> )	<b>1.27</b>	1.80

#### **INTERIM RESULTS**

The board (the “**Board**”) of directors (the “**Directors**”) of Sprocomm Intelligence Limited (the “**Company**”) announces the unaudited interim consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020. These results have been reviewed by SHINEWING (HK) CPA Limited, the external auditor of the Group, and the Company’s audit committee (the “**Audit Committee**”).

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2020*

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	857,580	1,125,896
Cost of sales		<u>(770,740)</u>	<u>(1,028,349)</u>
Gross profit		86,840	97,547
Other gains and income	6	29,110	29,041
Selling expenses		(14,396)	(16,149)
Administrative and other expenses		(35,110)	(34,743)
Research and development expenses		(50,804)	(54,231)
Finance costs		<u>(2,740)</u>	<u>(6,610)</u>
<b>Profit before tax</b>		<b>12,900</b>	14,855
Income tax expenses	7	<u>(304)</u>	<u>(2,187)</u>
<b>Profit for the period</b>	8	<b>12,596</b>	12,668
Other comprehensive expense for the period: <i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translating foreign operations		<u>(1,278)</u>	<u>(1,262)</u>
Total comprehensive income for the period		<u><b>11,318</b></u>	<u>11,406</u>
Profit (loss) attributable to:			
Owners of the Company		12,655	13,511
Non-controlling interests		<u>(59)</u>	<u>(843)</u>
		<u><b>12,596</b></u>	<u>12,668</u>
Total comprehensive income (expenses) attributable to:			
Owners of the Company		11,377	12,249
Non-controlling interests		<u>(59)</u>	<u>(843)</u>
		<u><b>11,318</b></u>	<u>11,406</u>
Earnings per share			
Basic and diluted ( <i>RMB cents</i> )	10	<u><b>1.27</b></u>	<u>1.80</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*AS AT 30 JUNE 2020*

		<b>30 June</b>	31 December
		<b>2020</b>	2019
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current Assets</b>			
Property, plant and equipment		<b>122,387</b>	127,913
Right-of-use assets		<b>11,651</b>	17,345
Intangible assets		<b>6,706</b>	6,391
Deferred tax asset		<b>708</b>	707
		<u><b>141,452</b></u>	<u>152,356</u>
<b>Current Assets</b>			
Inventories		<b>280,782</b>	283,956
Trade and bills receivables	11	<b>407,842</b>	622,161
Financial assets at fair value through profit or loss	13	<b>20,910</b>	285,650
Prepayments and other receivables	12	<b>103,531</b>	73,995
Pledged bank deposits		<b>114,387</b>	81,165
Restricted deposits		<b>1,723</b>	–
Time deposits		<b>49,278</b>	–
Bank balances and cash		<b>123,718</b>	126,682
		<u><b>1,102,171</b></u>	<u>1,473,609</u>
<b>Current Liabilities</b>			
Trade and bills payables	14	<b>614,650</b>	876,707
Accruals and other payables		<b>96,455</b>	115,641
Contract liabilities		<b>96,125</b>	63,331
Borrowings		<b>48,266</b>	184,153
Lease liabilities		<b>9,861</b>	11,962
Deferred income		<b>5,534</b>	5,228
Income tax payable		<b>2,262</b>	5,151
		<u><b>873,153</b></u>	<u>1,262,173</u>
<b>Net current assets</b>		<u><b>229,018</b></u>	<u>211,436</u>
<b>Total assets less current liabilities</b>		<u><b>370,470</b></u>	<u>363,792</u>

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
<b>Capital and Reserves</b>		
Share capital	<b>8,945</b>	8,945
Reserves	<b>304,119</b>	292,042
	<hr/>	<hr/>
Equity attributable to owners of the Company	<b>313,064</b>	300,987
Non-controlling interests	<b>1,947</b>	2,006
	<hr/>	<hr/>
<b>Total Equity</b>	<b>315,011</b>	302,993
	<hr/>	<hr/>
<b>Non-current liabilities</b>		
Deferred income	<b>20,198</b>	22,167
Deferred tax liability	<b>12,702</b>	10,846
Lease liabilities	<b>1,980</b>	5,682
Borrowings	<b>20,579</b>	22,104
	<hr/>	<hr/>
	<b>55,459</b>	60,799
	<hr/>	<hr/>
	<b>370,470</b>	363,792
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# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE SIX MONTHS ENDED 30 JUNE 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 Date**”). The ultimate controlling parties are Mr. Li Chengjun and Mr. Xiong Bin (the “**Controlling Shareholders**”).

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 condensed 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. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from the application of new amendments to Hong Kong Financial Reporting Standards and application of the accounting policies which become relevant to the Group, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019.

#### **Share-based payment transactions**

##### *Equity-settled share-based payment transactions*

##### *Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

#### **Application of new and amendments to Hong Kong Financial Reporting Standards**

In the current interim period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in Hong Kong Financial Reporting Standards (“**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 HKFRS and the above amendments to HKFRSs in the current interim period has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

#### **4. 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>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB’000</b>	<b>RMB’000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Mobile phone	<b>538,569</b>	1,059,832
PCBAs	<b>58,401</b>	13,394
IoT related products	<b>236,975</b>	23,981
Others	<b>23,635</b>	28,689
	<b>857,580</b>	1,125,896

## 5. SEGMENT INFORMATION

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

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

	Revenue from external customers	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
India	280,104	436,401
Algeria	7,003	189,629
The PRC	449,006	397,902
Pakistan	13,819	29,544
People's Republic of Bangladesh	107,387	23,390
Other regions	261	49,030
	<u>857,580</u>	<u>1,125,896</u>

## 6. OTHER GAINS AND INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	2,907	607
Exchange gain, net	–	6,503
Gain arising from change in fair value of financial assets at fair value through profit or loss	5,542	5,416
Government subsidies ( <i>Note</i> )	14,613	12,891
Amortisation of government grant	3,067	2,787
Sundry income	2,981	837
	<u>29,110</u>	<u>29,041</u>

*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.

## 7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax (“EIT”):		
– Current income tax	79	1,973
– Over provision in prior year	(1,630)	–
Deferred tax:		
Charge to current period	1,855	214
Income tax expenses	<u>304</u>	<u>2,187</u>

## 8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors’ emoluments	1,025	890
Salaries, allowances and other benefits (excluding directors’ emoluments)	33,745	33,029
Share-based payment expenses granted to employees	573	–
Contributions to retirement benefits scheme (excluding directors’ emoluments) (note)	2,584	7,772
Total staff costs	<u>37,927</u>	<u>41,691</u>
Auditors’ remuneration	227	401
Listing expenses	–	8,569
Amortisation of intangible assets	459	440
Amount of inventories recognised as an expense	770,740	1,028,349
Net foreign exchange losses (gains)	3,619	(6,503)
Depreciation of property, plant and equipment	5,526	5,783
Depreciation of right-of-use assets	5,694	5,563
Impairment loss recognised in respect of trade and bills receivables	6,583	2,530
Provision for litigation	327	328

*Note:* According to the policy on reduction of social insurance fees announced by the Ministry of Human Resources and Social Security of Shenzhen (Shen Ren She Gui [2020] No.3), Shenzhen Sprocomm, an indirect wholly-owned subsidiary of the Company, was entitled to a 50% reduction of the social insurance fees during February to April 2020.

## 9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2020 and 2019, nor has any dividend been proposed since the end of the reporting period.

## 10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	<u>12,655</u>	<u>13,511</u>
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,000,000</u>	<u>750,000</u>

For the six months ended 30 June 2019, the weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the capitalisation issue on 13 November 2019.

### Diluted earnings per share

As at 30 June 2020, none of the performance conditions of the share options were met, and thus the dilutive potential ordinary shares are not included in the calculation of diluted earnings per share. As a result, diluted earnings per share is the same as basic earnings per share for the period ended 30 June 2020.

Diluted earnings per share is same as basic earnings per share for the period ended 30 June 2019 as there were no dilutive potential ordinary shares outstanding during the period.

## 11. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	389,041	604,316
Bills receivables	28,213	20,674
Less: Loss allowance for trade and bills receivables	<u>(9,412)</u>	<u>(2,829)</u>
Trade and bills receivables	<u>407,842</u>	<u>622,161</u>

The gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB417,254,000 as at 30 June 2020 (31 December 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 aged analysis 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>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Within 30 days	<b>270,056</b>	459,100
31 to 60 days	<b>34,832</b>	91,441
61 to 90 days	<b>14,236</b>	25,784
Over 90 days	<b>88,718</b>	45,836
Total	<b>407,842</b>	622,161

No interest is charged on the trade and bills receivables.

## 12. PREPAYMENTS AND OTHER RECEIVABLES

	<b>30 June 2020 RMB 000 (Unaudited)</b>	31 December 2019 RMB 000 (Audited)
Prepayments	<b>42,614</b>	38,221
Deposit	<b>1,237</b>	1,255
Other tax recoverable	<b>55,108</b>	29,417
Others	<b>4,572</b>	5,102
	<b>103,531</b>	73,995

*Note:* Included in prepayments and other receivables are other receivables and refundable deposits of approximately RMB5,809,000 as at 30 June 2020 (31 December 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.

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Structured deposits stated at fair value	<b>20,910</b>	285,650

The financial assets at FVTPL as at 30 June 2020 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 at 30 June 2020, approximate to their carrying values on the same day.

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

#### 14. TRADE AND BILLS PAYABLES

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Trade payables	<b>364,718</b>	446,297
Bills payables	<b>249,932</b>	430,410
Trade and bills payables	<b>614,650</b>	876,707

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

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Within 30 days	<b>299,629</b>	496,730
31 to 60 days	<b>97,235</b>	78,763
61 to 90 days	<b>107,472</b>	58,727
Over 90 days	<b>110,314</b>	242,487
Total	<b>614,650</b>	876,707

The average credit period on purchases of goods is ranging from 30 to 60 days.

#### 15. 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.

- (i) On 28 November 2018, an independent factoring company filed a joint lawsuit (the “**Joint Lawsuit**”) claim at Beijing First Intermediate People’s Court (北京市第一中級人民法院) for an aggregate sum of approximately RMB53,781,000 of outstanding factored loan principal with recourse, interest and related cost against Shenzhen Sprocomm, a customer of Shenzhen Sprocomm for which the factored accounts receivable was due from (the “**First Defendant**”) and a number of other independent third parties, being other suppliers of the First Defendant with factoring agreements signed with the plaintiff (the “**Other Defendants**”).

Pursuant to a factoring agreement signed between Shenzhen Sprocomm and the plaintiff on 22 December 2017, Shenzhen Sprocomm has assigned its then outstanding accounts receivables from the First Defendant, in the amount of approximately RMB53,200,000 (adjusted to RMB40,000,000 pursuant to a supplement agreement) to the plaintiff (as factor) and obtained a factored loan financing with recourse of RMB 40,000,000. After the transfer of the accounts receivables to the plaintiff, the plaintiff owned the right to receive the outstanding amount of the accounts receivables from the First Defendant. Other Defendants who are also suppliers to the First Defendant also factored certain of their respective accounts receivables from the First Defendant with the plaintiff. The First Defendant failed to settle its then outstanding accounts payable due to the plaintiff (which were attributable by the accounts receivables factored by Shenzhen Sprocomm and Other Defendants) in an aggregate sum of RMB53.8 million when they fell due.

On 8 April 2019, Beijing First Intermediate People's Court dismissed the Joint Lawsuit and no appeal on the ruling has been filed by the plaintiff within the statutory time limitation and the case was closed. On 7 May 2019, the plaintiff separately filed another lawsuit at Beijing Haidian District People's Court against Shenzhen Sprocomm Technology Limited ("**Shenzhen Sprocomm**") and the First Defendant for the repayment of the outstanding accounts receivable under the factoring agreement in the amount of RMB29.2 million (the "**Relevant Sum**") and the relevant interests.

After considering the Relevant Sum and previous payments from First Defendant to the Plaintiff, the outstanding liability of Shenzhen Sprocomm amounted to RMB17.1 million (which is included in borrowings in the condensed consolidated statement of financial position) plus the relevant interest, legal costs and court fees of an aggregate of approximately RMB 2.1 million (31 December 2019: RMB1.8 million).

During the six months ended 30 June 2020, the legal proceeding is still in progress and the directors of the Company, with reference to legal opinion obtained and available information, additional provision of RMB327,000 was made and recognised in the administrative expenses in the consolidated statements of profit or loss and other comprehensive income and the other payable in the consolidated statements of financial position.

As at 30 June 2020, the Group had provision for litigation of approximately RMB2.1 million (31 December 2019: 1.8 million) included in other payables in the condensed consolidated statement of financial position.

As at 30 June 2020, aggregate bank balances of approximately RMB1,723,000 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 condensed consolidated statement financial position.

Subsequent to the end of the reporting period on 16 July 2020, another bank account of Shenzhen Sprocomm with bank balance of approximately RMB134,000 was also frozen by bank for the litigation claim.

As at the date of this report, the legal proceeding is still in progress. The Directors 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW AND OUTLOOK

During the six months ended 30 June 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 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 six months ended 30 June 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 six months ended 30 June 2020 decreased by 23.8% to RMB857.6 million from RMB1,125.9 million for the six months ended 30 June 2019, primarily attributed to the decrease in sales of mobile phones. The Group’s net profit for the six months ended 30 June 2020 also decreased by 40.6% to RMB12.6 million from RMB21.3 million (excluding one-off listing expenses of RMB8.6 million) for the six months ended 30 June 2019.

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 six months ended 30 June 2020, which significantly increased by 8.9 times to RMB237.0 million from RMB24.0 million for the six months ended 30 June 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. During the six months ended 30 June 2020, 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 six months ended 30 June 2020 and 2019:

	Six months ended 30 June		2019	
	2020	% of total	2019	% of total
	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>
Mobile phones				
– Smartphones	<b>407,425</b>	<b>47.5</b>	960,162	85.3
– Feature phones	<b>131,144</b>	<b>15.3</b>	99,670	8.8
Sub-total:	<b>538,569</b>	<b>62.8</b>	1,059,832	94.1
PCBAs	<b>58,401</b>	<b>6.8</b>	13,394	1.2
IoT related products	<b>236,975</b>	<b>27.6</b>	23,981	2.1
Others ( <i>Note</i> )	<b>23,635</b>	<b>2.8</b>	28,689	2.6
Total	<b>857,580</b>	<b>100.0</b>	1,125,896	100.0

*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 23.8% to RMB857.6 million for the six months ended 30 June 2020 from RMB1,125.9 million for the six months ended 30 June 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 49.2% to RMB538.6 million for the six months ended 30 June 2020 from RMB1,059.8 million for the six months ended 30 June 2019, primarily attributed to the decrease in sales of smartphones to India, Algeria and the PRC amid the outbreak of the COVID-19.

Revenue from PCBAs increased by 3.4 times to RMB58.4 million for the six months ended 30 June 2020 from RMB13.4 million for the six months ended 30 June 2019, primarily attributed to the increase in demand on PCBAs for mobile phones from the PRC customers.

Revenue from IoT related products increased by 8.9 times to RMB237.0 million for the six months ended 30 June 2020 from RMB24.0 million for the six months ended 30 June 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 mainly sold to 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 six months ended 30 June 2020 and 2019:

	<b>Six months ended 30 June</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>280,104</b>	<b>32.7</b>	436,401	38.8
Pakistan	<b>13,819</b>	<b>1.6</b>	29,544	2.6
Bangladesh	<b>107,387</b>	<b>12.5</b>	23,390	2.1
The PRC	<b>449,006</b>	<b>52.4</b>	397,902	35.3
Sub-total:	<b>850,316</b>	<b>99.2</b>	887,237	78.8
<b>Other regions</b>				
Algeria	<b>7,003</b>	<b>0.8</b>	189,629	16.8
Others	<b>261</b>	–	49,030	4.4
Sub-total:	<b>7,264</b>	<b>0.8</b>	238,659	21.2
<b>Total</b>	<b>857,580</b>	<b>100.0</b>	1,125,896	100.0

Revenue from India decreased by 35.8% to RMB280.1 million for the six months ended 30 June 2020 from RMB436.4 million for the six months ended 30 June 2019 as the outbreak of COVID-19 caused delays in the Group's production schedules and delivery of products to customers.

Revenue from Bangladesh increased by 3.6 times to RMB107.4 million for the six months ended 30 June 2020 from RMB23.4 million for the six months ended 30 June 2019, primarily attributed to increase in demand for smartphones.

Revenue from the PRC increased by 12.8% to RMB449.0 million for the six months ended 30 June 2020 from RMB397.9 million for the six months ended 30 June 2019, primarily attributed to increase in sales of PCBAs and IoT-related products, but partially offset by the decrease in sales of smartphones.

Revenue from Algeria decreased by 96.3% to RMB7.0 million for the six months ended 30 June 2020 from RMB189.6 million for the six months ended 30 June 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 11.0% to RMB86.8 million for the six months ended 30 June 2020 from RMB97.5 million for the six months ended 30 June 2019, primarily due to the decreased sales of mobile phones. Gross profit margin improved to 10.1% for the six months ended 30 June 2020 from 8.7% for the six months ended 30 June 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, 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 remained relatively stable at RMB29.1 million for the six months ended 30 June 2020 as compared with RMB29.0 million for the six months ended 30 June 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 six months ended 30 June 2020 decreased by 10.6% to RMB14.4 million from RMB16.1 million for the six months ended 30 June 2019 because the higher proportion of sales to the PRC for the six months ended 30 June 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 and other expenses for six months ended 30 June 2020 increased by 34.0% to RMB35.1 million from RMB26.1 million for the six months ended 30 June 2019 (excluding one-off listing expenses of RMB8.6 million). The increase in administrative and other expenses was primarily attributed to the increase in impairment loss on trade and bills receivables and net exchange losses.

## **Research and development expenses**

Research and development expenses for the six months ended 30 June 2020 decreased by 6.3% to RMB50.8 million from RMB54.2 million for the six months ended 30 June 2019, along with the Group's decreased sales.

## **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 decreased by 59.1% to RMB2.7 million for the six months ended 30 June 2020 from RMB6.6 million for the six months ended 30 June 2019, primarily attributed to the repayment of borrowings.

## **Income tax expenses**

For the six months ended 30 June 2020, the Group's income tax expenses decreased by 86.4% to RMB0.3 million from RMB2.2 million for the six months ended 30 June 2019, primarily attributed to over provision of income tax expenses in prior years.

## **Profit for the period**

As a result of the above factors, the Group's net profit for six months ended 30 June 2020 was RMB12.6 million, representing a decrease of 40.6% as compared with RMB21.2 million (excluding one-off listing expenses of RMB8.6 million) for the six months ended 30 June 2019. Net profit margin for the six months ended 30 June 2020 also decreased to 1.5% from 1.9% (excluding listing expenses) for the six months ended 30 June 2019.

## **Dividend**

The Board does not recommend the payment of dividend for the six months ended 30 June 2020 (2019: nil).

### **Trade and bills receivables**

As at 30 June 2020, the Group's trade and bills receivables amounted to RMB407.8 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 decrease in the Group's trade and bills receivables as at 30 June 2020 was primarily attributed to (i) the decrease in sales during the six months ended 30 June 2020; and (ii) the settlement from customers. Based on the dates of the relevant sales invoices, 78.2% of the Group's trade and bills receivables as at 30 June 2020 aged within 90 days and the Group did not notice any substantial long outstanding balances.

### **Trade and bills payables**

As at 30 June 2020, the Group's trade and bills payables amounted to RMB614.7 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.

## **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. 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. As at 30 June 2020, the Group had net current assets of RMB229.0 million (31 December 2019: RMB211.4 million), bank balances and cash amounted to RMB123.7 million (31 December 2019: RMB126.7 million) and borrowings amounted to RMB68.8 million (31 December 2019: RMB206.3 million). The Group's bank balances and cash and borrowings as at 30 June 2020 were mainly denominated in RMB and USD. The weighted average effective interest rate of the Group's borrowings for the six months ended 30 June 2020 was 4% per annum (six months ended 30 June 2019: 4% per annum) and the borrowings are repayable installments over a period of three months to 10 years. As at 30 June 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 30 June 2020 and 31 December 2019, the Group's borrowing facilities were fully utilised.

### **CAPITAL COMMITMENTS**

As at 30 June 2020, the Group had capital commitments of RMB2.5 million in relation to capital contribution to an associate (31 December 2019: nil).

### **CONTINGENT LIABILITIES**

As at 30 June 2020, the Group did not have any material contingent liabilities or guarantees (31 December 2019: nil).

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

As at 30 June 2020, the Group pledged trade and bills receivables with carrying amount of RMB45.2 million (31 December 2019: RMB30.0 million), bank deposits with carrying amount of RMB114.4 million (31 December 2019: RMB81.2 million) and land and building with carrying amount of RMB58.3 million (31 December 2019: RMB59.9 million) to secure its borrowings and banking facilities.

As at 30 June 2020, the Group's financial assets at fair value through profit or loss ("**financial assets at FVTPL**") amounted to RMB20.9 million (31 December 2019: RMB285.7 million) 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.

As at 30 June 2020, the Group had restricted deposit of RMB1.7 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 15 of this announcement.

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

During the six months ended 30 June 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 six months ended 30 June 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 30 June 2020, the Group's financial assets at FVTPL amounted to RMB20.9 million (31 December 2019: RMB285.7 million), representing 1.7% (31 December 2019: 17.5%) 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 six months ended 30 June 2020, the realised gain arising from change in fair value of financial assets at FVTPL amounted to RMB5.5 million (2019: RMB5.4 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 30 June 2020 and 31 December 2019:

<b>Issuing Bank</b>	<b>30 June 2020 RMB'000</b>	31 December 2019 RMB'000
The Bank of East Asia (China) Limited	–	245,460
Bank of Ningbo	<b>13,890</b>	24,790
China Merchants Bank	<b>7,020</b>	15,400
	<b>20,910</b>	285,650

The principal terms of the Group's financial assets at FVTPL as at 30 June 2020 are set out below:

<b>Term and/or early termination:</b>	Bank of Ningbo:	three months (can only be withdrawn at maturity)
	China Merchants Bank:	six months (can only be withdrawn at maturity)
<b>Expected or actual rate of return:</b>	Bank of Ningbo:	3.4% per annum
	China Merchants Bank:	2.53% per annum

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 six months ended 30 June 2020.

## **FUTURE PLAN 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.

## **FOREIGN EXCHANGE RISKS**

For the six months ended 30 June 2020, the Group derived 47.6% (2019: 64.7%) of its total revenue from export sales and these export sales were principally denominated in USD. As at 30 June 2020, the Group had USD-denominated monetary assets with carrying amount of RMB199.0 million (31 December 2019: RMB269.4 million) and USD-denominated monetary liabilities of RMB212.6 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. The Group did not enter into any foreign exchange hedging instruments during the six months ended 30 June 2020. 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, REMUNERATION POLICY AND TRAINING**

As at 30 June 2020, the Group had approximately 1,250 employees (31 December 2019: approximately 1,400 employees), whose remunerations and benefits are determined based on market rates, government policies and individual performance. For the six months ended 30 June 2020, the Group's total staff costs amounted to RMB37.9 million (2019: RMB41.7 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 IPO**

Shares of the Company were listed on the Main Board of the Stock Exchange on 13 November 2019. The net proceeds from 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 the date of this announcement had been applied as follows:

	<b>Planned use of net proceeds (approximately)</b>	<b>Utilised net proceeds from IPO as at the date of this announcement (approximately)</b>	<b>Unutilised net proceeds from IPO as at the date of this announcement (approximately)</b>	<b>Expected timeline for unutilised net proceeds from IPO</b>
Enhance SMT production capacity	HK\$38.8 million	HK\$19.9 million	HK\$18.9 million	HK\$4.1 million to be utilised during the six months ending 31 December 2020, HK\$13.4 million to be utilised during the six months ending 30 June 2021 and HK\$1.4 million to be utilised during the six months ending 31 December 2021
Enhance research and development capabilities	HK\$14.2 million	HK\$3.2 million	HK\$11.0 million	HK\$3.6 million to be utilised during the six months ending 31 December 2020, HK\$4.1 million to be utilised during the six months ending 30 June 2021 and HK\$3.3 million to be utilised during the six months ending 31 December 2021
Enhance sales and marketing force to diversify customer base	HK\$8.6 million	HK\$2.5 million	HK\$6.1 million	HK\$2.5 million to be utilised during the six months ending 31 December 2020, HK\$2.5 million to be utilised during the six months ending 30 June 2021 and HK\$1.1 million to be utilised during the six months ending 31 December 2021

	<b>Planned use of net proceeds (approximately)</b>	<b>Utilised net proceeds from IPO as at the date of this announcement (approximately)</b>	<b>Unutilised net proceeds from IPO as at the date of this announcement (approximately)</b>	<b>Expected timeline for unutilised net proceeds from IPO</b>
Upgrade enterprise planning resource system	HK\$5.7 million	HK\$1.1 million	HK\$4.6 million	HK\$2.3 million to be utilised during the six months ending 31 December 2020, and HK\$2.3 million to be utilised during the six months ending 30 June 2021
Repayment of bank loans	HK\$8.8 million	HK\$4.4 million	HK\$4.4 million	HK\$2.2 million to be utilised during the six months ending 31 December 2020, and HK\$2.2 million to be utilised during the six months ending 30 June 2021
General working capital	HK\$8.3 million	HK\$8.3 million	–	N/A
<b>Total</b>	<b>HK\$84.4 million</b>	<b>HK\$39.4 million</b>	<b>HK\$45.0 million</b>	

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2020, interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction By Directors of Listed Issuers (the “**Model Code**”) are as follows:

#### Interest in the Company

Name of Director	Capacity/nature of interest	Number of shares/ underlying shares held (Note 1)	Percentage of shareholding in the Company (Approximate)
Mr. Li Chengjun (Note 2)	Founder of a discretionary trust	369,967,204 (L)	37.0%
Mr. Xiong Bin (Note 3)	Founder of a discretionary trust	305,032,256 (L)	30.5%
Mr. Li Hongxing (Note 4)	Share option	9,000,000 (L)	0.90%
Mr. Guo Qinglin (Note 5)	Share option	3,500,000 (L)	0.35%

#### Notes:

1. The letter “L” denotes long position of the shares.
2. Leap Elite Limited is legally owned as to 100% by Mr. Li Chengjun for the benefit of the beneficiaries of the family trust found by himself. Accordingly, Mr. Li Chengjun is deemed to be interested in the shares held by Leap Elite Limited pursuant to the SFO.
3. Beyond Innovation Limited is legally owned as to 100% by Mr. Xiong Bin for the benefit of the beneficiaries of the family trust found by himself. Accordingly, Mr. Xiong Bin is deemed to be interested in the shares held by Beyond Innovation Limited pursuant to the SFO.
4. The personal interest of Mr. Li Hongxing represents the interest in 9,000,000 underlying shares in respect of the share options granted by the Company, the details of which are stated in the section headed “Share option scheme” below.
5. The personal interest of Mr. Guo Qinglin represents the interest in 3,500,000 underlying shares in respect of the share options granted by the Company, the details of which are stated in the section headed “Share option scheme” below.

Save as disclosed above, none of the Directors or chief executive of the Company had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 30 June 2020, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

#### **ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES**

Saved as disclosed in this announcement, at no time during the six months ended 30 June 2020 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

#### **SUBSTANTIAL SHAREHOLDERS' AND OTHERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY**

So far as is known to the Directors, as at 30 June 2020, the following corporation/persons (other than the interests of the Directors or chief executives of the Company as disclosed above) had interests of 5% or more in the issued shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

<b>Name</b>	<b>Capacity/nature of interest</b>	<b>Number of shares held (Note 1)</b>	<b>Percentage of shareholding in the Company (Approximate)</b>
Leap Elite Limited	Beneficial owner	369,967,204 (L)	37.0%
Beyond Innovation Limited	Beneficial owner	305,032,256 (L)	30.5%
Ms. Sui Rongmei (Note 2)	Interest of spouse	369,967,204 (L)	37.0%
Ms. Yan Xue (Note 3)	Interest of spouse	305,032,256 (L)	30.5%
JZ Capital Limited (Note 4)	Beneficial owner	75,000,540 (L)	7.5%
Mr. Ko Hin Ting, James (Note 4)	Interest in a controlled corporation	75,000,540 (L)	7.5%
Ms. Chu Wing Yee, Vaneese (Note 5)	Interest of spouse	75,000,540 (L)	7.5%

*Notes:*

1. The letter “L” denotes long position of the shares.
2. Ms. Sui Rongmei is the spouse of Mr. Li Chengjun. By virtue of the SFO, she is deemed to be interested in the same number of shares held by Mr. Li Chengjun.
3. Ms. Yan Xue is the spouse of Mr. Xiong Bin. By virtue of the SFO, she is deemed to be interested in the same number of shares held by Mr. Xiong Bin.
4. JZ Capital Limited is owned as to 99% by Mr. Ko Hin Ting, James. As such, Mr. Ko Hin Ting, James is deemed to be interested in the shares held by JZ Capital Limited pursuant to the SFO.
5. Ms. Chu Wing Yee, Vaneese is the spouse of Mr. Ko Hin Ting, James. By virtue of the SFO, she is deemed to be interested in the same number of shares held by Mr. Ko Hin Ting, James.

Save as disclosed above, as at 30 June 2020, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2020.

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

Apart from the Group’s business, none of the Directors, the Controlling Shareholders (including Mr. Li Chengjun, Leap Elite Limited, Mr. Xiong Bin and Beyond Innovation Limited) 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, which would require disclosure under Rule 8.10 of the Listing Rules. or has any other conflict of interest with the Group during the six months ended 30 June 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.

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.

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.

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.

(i) **Outstanding options**

During the six months ended 30 June 2020, the Company granted 69,100,000 share options and no share options were exercised or lapsed. Details of the Company's share options from 1 January 2020 to 30 June 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 30 June 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
<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	-	-	16,980,000
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	-	-	16,980,000
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	-	-	22,640,000
Subtotal					-	56,600,000	-	-	56,600,000
<b>Total</b>					<b>-</b>	<b>69,100,000</b>	<b>-</b>	<b>-</b>	<b>69,100,000</b>

## (ii) Valuation of share options

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

	<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	0.58%	0.58%	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) The Group recognised the share-based payment expenses of RMB0.7 million for the six months ended 30 June 2020 (2019: nil) in relation to share options granted by the Company.

## REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited interim results for the six months ended 30 June 2020 have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, by the Company’s auditor, SHINEWING (HK) CPA Limited. The Company’s interim results for the six months ended 30 June 2020 have also been reviewed by the Audit Committee and the Audit Committee have also discussed the related financial matters with the Board.

## MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

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 of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code for the Listing Date 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 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 for the six months ended 30 June 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.

## **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained a public float of no less than 25% of the issued shares from the Listing Date up to the date of this announcement.

## **EVENT AFTER THE REPORTING PERIOD**

No significant events affecting the Group have occurred after the reporting period.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This interim 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 interim report of the Company for the six months ended 30 June 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*

Hong Kong, 25 August 2020

*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.*