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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 2022

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2022	2021
Revenue (<i>RMB'000</i>)	1,450,377	2,000,104
Gross profit (<i>RMB'000</i>)	203,630	172,237
Gross profit margin (%)	14.0	8.6
Net profit/(loss) for the year (<i>RMB'000</i>)	6,361	(18,059)
Earnings/(loss) per share		
– Basic and diluted (<i>RMB cents</i>)	0.65	(1.78)

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 2022. 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 2022

	<i>Notes</i>	2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	1,450,377	2,000,104
Cost of sales		<u>(1,246,747)</u>	<u>(1,827,867)</u>
Gross profit		203,630	172,237
Other gains and income	5	52,170	44,444
Selling and distribution expenses		(38,754)	(41,188)
Administrative expenses		(64,885)	(65,928)
Research and development expenses		(124,075)	(118,956)
Finance costs		<u>(18,261)</u>	<u>(6,468)</u>
Profit/(loss) before tax		9,825	(15,859)
Income tax expense	6	<u>(3,464)</u>	<u>(2,200)</u>
Profit/(loss) for the year	7	6,361	(18,059)
Other comprehensive (expense)/income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translating foreign operations		<u>(2,186)</u>	<u>671</u>
Total comprehensive income/(expense) for the year		<u>4,175</u>	<u>(17,388)</u>
Profit/(loss) attributable to:			
Owners of the Company		6,506	(17,754)
Non-controlling interests		<u>(145)</u>	<u>(305)</u>
		<u>6,361</u>	<u>(18,059)</u>
Total comprehensive income/(expense) attributable to:			
Owners of the Company		4,298	(17,083)
Non-controlling interests		<u>(123)</u>	<u>(305)</u>
		<u>4,175</u>	<u>(17,388)</u>
Earnings/(loss) per share	9		
Basic and diluted (<i>RMB cents</i>)		<u>0.65</u>	<u>(1.78)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*AS AT 31 DECEMBER 2022*

		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		103,614	121,866
Right-of-use assets	10	5,649	21,132
Intangible assets		7,659	9,183
Long-term prepayment	13	18,280	–
Deferred tax assets		248	225
		<hr/> 135,450	<hr/> 152,406
		<hr/> 135,450	<hr/> 152,406
Current assets			
Inventories	11	187,428	280,485
Trade and bills receivables	12	191,704	226,014
Prepayments and other receivables	13	139,048	132,252
Amounts due from shareholders		6,341	9,475
Pledged bank deposits		764,383	219,165
Bank balances and cash		36,635	82,904
		<hr/> 1,325,539	<hr/> 950,295
		<hr/> 1,325,539	<hr/> 950,295
Current liabilities			
Trade and bills payables	14	940,627	524,131
Accruals and other payables	15	76,702	74,602
Contract liabilities	15	30,251	69,458
Borrowings		37,006	42,162
Lease liabilities	10	5,855	12,385
Deferred income		3,490	6,120
Income tax payable		5,952	2,783
		<hr/> 1,099,883	<hr/> 731,641
		<hr/> 1,099,883	<hr/> 731,641
Net current assets		<hr/> 225,656	<hr/> 218,654
		<hr/> 225,656	<hr/> 218,654
Total assets less current liabilities		<hr/> 361,106	<hr/> 371,060
		<hr/> 361,106	<hr/> 371,060

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Non-current liabilities			
Deferred income		12,096	15,680
Deferred tax liability		13,484	15,634
Lease liabilities	10	–	7,903
Borrowings		14,817	16,006
		<u>40,397</u>	<u>55,223</u>
Net assets		<u>320,709</u>	<u>315,837</u>
Capital and reserves			
Share capital		8,945	8,945
Reserves		311,277	306,979
		<u>320,222</u>	<u>315,924</u>
Equity attributable to owners of the Company		320,222	315,924
Non-controlling interests		487	(87)
		<u>320,709</u>	<u>315,837</u>
Total equity		<u>320,709</u>	<u>315,837</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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**”), who are also executive directors of the Company.

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 of the Company is located in 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 Company and its subsidiaries are collectively referred to as the “**Group**”.

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 disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

Adoption of new and amendments to HKFRSs

In the current year, the Group has applied the amendments to HKFRSs issued by HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

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

New and amendments to HKFRSs not yet adopted

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

HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts and related Amendments ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between in Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and 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 ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

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

² Effective for annual periods beginning on or after 1 January 2024

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Group anticipate that the application of the new and amendments to HKFRSs will have no material impact on the financial statements in the foreseeable future.

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 on a point in time basis.

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mobile phones	1,029,754	1,229,169
PCBAs	28,758	19,728
IoT related products	296,514	591,308
Others	95,351	159,899
	<u>1,450,377</u>	<u>2,000,104</u>

Transaction price allocated to the remaining performance obligations

The sales contracts are with an original expected duration of less than one year. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price for the performance obligation that is unsatisfied as of the end of respective reporting period.

4. SEGMENT INFORMATION

Information is reported on a regular basis to the executive directors of the Company, being the chief operating decision makers, for their review of the Group's internal reporting in order to assess performance and allocate resources. 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 Group 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	
	2022	2021
	RMB'000	RMB'000
India	757,814	962,219
The PRC	509,101	791,076
People's Republic of Bangladesh	95,368	199,241
Algeria	27,917	25,132
Republic of Korea	26,802	–
United States of America	20,377	–
Other regions	12,998	22,436
	<u>1,450,377</u>	<u>2,000,104</u>

The Group's non-current assets, excluding deferred tax assets, amounted to RMB135,202,000 (2021: RMB152,181,000), and are all located in the PRC.

Information about major customers

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

	2022	2021
	RMB'000	RMB'000
Customer A	302,167	471,032
Customer B	N/A*	200,792
	<u>302,167</u>	<u>200,792</u>

* The customer did not contribute over 10% of the total revenue of the Group in 2022.

5. OTHER GAINS AND INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Gain on disposal of subsidiary	–	281
Bank interest income	12,227	5,859
Exchange gain, net	15,892	–
Reversal of impairment loss on trade and bills receivables recognised	76	2,417
Government subsidies (<i>Note</i>)	16,234	17,754
Amortisation of government grant	6,488	7,600
Indemnification for litigation loss from the controlling shareholders (<i>Note 16</i>)	–	9,475
Sundry income	1,253	1,058
	<u>52,170</u>	<u>44,444</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.

6. INCOME TAX EXPENSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax:		
– Hong Kong profit tax	416	–
– PRC Enterprise Income Tax	4,300	912
– United States income tax	749	–
– Under/(over)-provision in prior year	172	(320)
	<u>5,637</u>	<u>592</u>
Deferred tax:		
– (Credit)/charge to current year	(2,173)	1,608
Income tax expense	<u>3,464</u>	<u>2,200</u>

7. PROFIT/(LOSS) FOR THE YEAR

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit/(loss) for the year has been arrived at after charging/(crediting):		
Directors' emoluments	2,294	2,368
Salaries, allowances and other benefits (excluding directors' emoluments)	121,406	123,022
Contributions to retirement benefits scheme (excluding directors' emoluments)	17,843	12,322
Total staff costs	<u>141,543</u>	<u>137,712</u>
Auditors' remuneration	816	920
Amortisation of intangible assets	2,307	1,056
Amount of inventories recognised as an expense	1,246,747	1,827,867
Net foreign exchange (gain)/losses	(15,892)	4,859
Depreciation of property, plant and equipment	24,612	20,805
Depreciation of right-of-use assets	10,194	13,264
Reversal of impairment loss recognised in respect of trade and bills receivables	(76)	(2,417)
Written off of property, plant and equipment	–	15
Loss on litigation	–	7,382
Loss on disposal of property, plant and equipment	2,135	–
Loss on early termination of leases	3	–
	<u><u>3</u></u>	<u><u>–</u></u>

8. DIVIDEND

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

9. EARNINGS/(LOSS) PER SHARE

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Earnings/(loss) for the purpose of basic earnings/(loss) per share profit/(loss) for the year attributable to owners of the Company	<u>6,506</u>	<u>(17,754)</u>
	Number of share '000	Number of share '000
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>1,000,000</u>	<u>1,000,000</u>

Diluted earnings/(loss) per share

No adjustment has been made in calculating diluted earnings (loss) per share in respect of the Company's potential ordinary shares comprising share options as these options did not have dilutive effect in both years.

10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(i) Right-of-use assets

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Machines	–	588
Leasehold properties	<u>5,649</u>	<u>20,544</u>
	<u>5,649</u>	<u>21,132</u>

The Group has lease arrangements for buildings and machines. The lease terms range from one to three years (2021: one to six years) with fixed lease payment and no renewal/termination option.

During the year, additions to right-of-use assets were RMB304,000 (2021: RMB27,389,000). This amount primarily related to the capitalised lease payments payable under new tenancy agreements. The Group also terminated a contract, resulting in a derecognition of right-of-use assets and lease liabilities of approximately RMB5,593,000 and RMB5,590,000 (2021: nil) respectively.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-current portion	–	7,903
Current portion	<u>5,855</u>	<u>12,385</u>
	<u>5,855</u>	<u>20,288</u>

The weighted average incremental borrowing rates applied to lease liabilities range from 4.2% to 9.0% (2021: from 7.0% to 9.0%).

11. INVENTORIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Raw materials	78,693	248,949
Work in progress	59,657	11,029
Finished goods	<u>49,078</u>	<u>20,507</u>
	<u>187,428</u>	<u>280,485</u>

12. TRADE AND BILLS RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	190,849	218,420
Bills receivables	3,360	10,175
Less: Loss allowance	<u>(2,505)</u>	<u>(2,581)</u>
Trade and bills receivables	<u>191,704</u>	<u>226,014</u>

The gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB194,209,000 as at 31 December 2022 (2021: RMB228,595,000).

An ageing analysis of trade and bills receivables (after loss allowance) based on invoice date is as follow:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 30 days	128,352	179,366
31 to 60 days	23,240	29,159
61 to 90 days	31,722	15,136
Over 90 days	<u>8,390</u>	<u>2,353</u>
Total	<u>191,704</u>	<u>226,014</u>

No interest is charged on the trade and bills receivables.

13. PREPAYMENTS AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-current portion		
Prepayments for property, plant and equipment and land use right	<u>18,280</u>	<u>–</u>
Current portion		
Prepayment to suppliers	56,320	65,132
Lease deposits and other deposits	21,093	1,995
VAT recoverable (<i>Note</i>)	51,384	62,572
Interest receivables	7,865	–
Others	<u>2,386</u>	<u>2,553</u>
	<u>139,048</u>	<u>132,252</u>

Note: VAT recoverable includes the input VAT and prepaid VAT that is expected to be deducted within one year.

As at 31 December 2022 and 2021, there was no significant impairment for the prepayments and other receivables.

14. TRADE AND BILLS PAYABLES

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	132,735	291,125
Bills payables	807,892	233,006
	<hr/>	<hr/>
Trade and bills payables	940,627	524,131
	<hr/> <hr/>	<hr/> <hr/>

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	68,049	185,819
31 to 60 days	49,145	69,400
61 to 90 days	8,435	16,341
Over 90 days	7,106	19,565
	<hr/>	<hr/>
Total	132,735	291,125
	<hr/> <hr/>	<hr/> <hr/>

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.

The following is an ageing analysis of bills payables at the end of the reporting period.

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	34,415	58,863
31–60 days	30,910	31,082
61–90 days	39,307	48,405
Over 90 days	703,260	94,656
	<hr/>	<hr/>
Total	807,892	233,006
	<hr/> <hr/>	<hr/> <hr/>

All the bills payables of the Group are not yet due at the end of each reporting period. Bills payables as at 31 December 2022 were secured by pledged bank deposit amounts of approximately RMB758,989,000 (2021: RMB216,092,000).

15. ACCRUALS AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Salaries payable	54,769	47,762
Other payables	6,612	10,268
Government subsidies in advance (<i>Note (i)</i>)	12,357	12,357
Other tax payables	2,964	4,215
	<u>76,702</u>	<u>74,602</u>
Contract liabilities (<i>Note (ii)</i>)	<u><u>30,251</u></u>	<u><u>69,458</u></u>

Notes:

- (i) 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 operating 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.
- (ii) Contract liabilities as at 31 December 2022 amounted to approximately RMB30,251,000 (2021: RMB69,458,000), which represented receipts in advance from customers.

Significant changes in contract liabilities

The significant decrease in contract liabilities as at 31 December 2022 was mainly due to the advances from customers as at 31 December 2021 had been recognised as revenue upon transfer of goods during the year ended 31 December 2022.

Revenue recognised in relation to contract liabilities

Revenue recognised during the year ended 31 December 2022 that was included in the contract liabilities at the beginning of the year is approximately RMB57,706,000 (2021: RMB71,654,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in prior year.

16. LITIGATIONS

During the year ended 31 December 2019, an independent factoring company (the “**Plaintiff**”) filed a lawsuit at Beijing Haidian District People’s Court (the “**District Court**”) against 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. Provision for litigation loss of approximately RMB1,766,000 was made during the year ended 31 December 2019 with reference to legal opinion obtained and the then available information.

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.

The directors of the Company, with reference to the updated legal opinion and the then available information, had made further provision for loss on litigation of approximately RMB327,000 during the year ended 31 December 2020. Accumulated provision for loss on litigation of RMB2,093,000 (being the sum of the provision for litigation loss in 2019 and 2020) was included in other payables in the consolidated statement of financial position as at 31 December 2020.

During the year ended 31 December 2021, Shenzhen Sprocomm filed an appeal (the “**Appeal**”) to the First Intermediate People’s Court of Beijing Municipality (the “**First Intermediate Court**”) and received the judgement of the second trial from the First Intermediate Court which dismissed the Appeal and ruled that the District Court’s decision remains effective. The judgement was executed by the District Court on 30 August 2021 and subsequently, Shenzhen Sprocomm paid an aggregate amounts of RMB31,138,000 (which comprised of the principal, interest and legal cost of approximately RMB26,805,000, RMB4,019,000 and RMB314,000 respectively) to settle the litigation claim.

The aforesaid litigation settlement of RMB31,138,000, net of the prior receipt in advance from the First Defendant of approximately RMB21,663,000 which Shenzhen Sprocomm was legally entitled to offset against the litigation claim. Accumulated provision for loss on litigation in prior years was approximately RMB2,093,000, additional amounted to RMB7,382,000 was recognised as loss on litigation included in administrative and other expenses in consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2021.

In addition, pursuant to a deed of indemnity with the Controlling shareholders signed on 18 October 2019, which entitled the Group to all claims including legal costs and expenses incurred in relation to the relevant litigation, the Group recognised indemnification for litigation loss of approximately RMB9,475,000 by mutual consent from the controlling shareholders in other gains and income in the consolidated statements of profit or loss and other comprehensive income, upon the settlement of the aforesaid litigation during the year ended 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the year ended 31 December 2022, the Group, as one of the leading ODM mobile phone suppliers based in China, continued 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.

In March 2022, the PRC experienced another outbreak of novel coronavirus (“**COVID-19**”) and the PRC Government swiftly responded by implementing various emergency public health measures. These public health measures caused disruptions to the business activities and economy of the PRC. Leveraging on the experience from previous COVID-19 outbreaks, the Group had implemented effective strategies to reduce the impact from the public health measures on its business operations and financial performance.

During the year ended 31 December 2022, the Group recorded revenue of approximately RMB1,450.4 million, representing a decrease of approximately 27.5% as compared to last year. On the other hand, the Group’s gross profit margin significantly improved from approximately 8.6% for the year ended 31 December 2021 to approximately 14.0% for the year ended 31 December 2022, mainly resulted from the decrease in the costs of major raw materials. The significant improvement in the gross profit margin fully offset the adverse impact from the decrease in revenue and the Group recorded a profit after tax of approximately RMB6.4 million for the year ended 31 December 2022 as compared to a loss of approximately RMB18.1 million for the year ended 31 December 2021.

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.

In order to capture the potential market opportunities and maximise the interests of the Company and its shareholders, the Group will adopt a prudent approach to develop its business, 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 2022 and 2021:

	Year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Mobile phones				
– Smartphones	701,408	48.4	949,276	47.5
– Feature phones	328,346	22.6	279,893	14.0
Sub-total:	1,029,754	71.0	1,229,169	61.5
PCBAs	28,758	2.0	19,728	1.0
IoT related products	296,514	20.4	591,308	29.6
Others (<i>Note</i>)	95,351	6.6	159,899	7.9
Total	1,450,377	100.0	2,000,104	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 27.5% to RMB1,450.4 million for the year ended 31 December 2022 from RMB2,000.1 million for the year ended 31 December 2021, primarily attributed to the decrease in sales of smartphones to India and sales of IoT related products to the PRC, but partially offset by increase in sales to customers from the Republic of Korea and the United States of America.

Revenue from mobile phones decreased by 16.2% to RMB1,029.8 million for the year ended 31 December 2022 from RMB1,229.1 million for the year ended 31 December 2021, primarily attributed to the decrease in sales of smartphones to India and the People's Republic of Bangladesh.

Revenue from PCBAs increased by 45.8% to RMB28.8 million for the year ended 31 December 2022 from RMB19.7 million for the year ended 31 December 2021, as customers placed more orders for PCBAs to suit their own needs.

Revenue from IoT related products decreased by 49.9% to RMB296.5 million for the year ended 31 December 2022 from RMB591.3 million for the year ended 31 December 2021, primarily attributed to the decrease in sales orders from a major customer in the PRC.

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 2022 and 2021:

	Year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Emerging Asia				
India	757,814	52.2	962,219	48.1
The PRC	509,101	35.1	791,076	39.5
People's Republic of Bangladesh	95,368	6.6	199,241	10.0
Republic of Korea	26,802	1.9	–	–
Sub-total:	1,389,085	95.8	1,952,536	97.6
Other regions				
Algeria	27,917	1.9	25,132	1.3
United States of America	20,377	1.4	–	–
Others	12,998	0.9	22,436	1.1
Sub-total:	61,292	4.2	47,568	2.4
Total	1,450,377	100.0	2,000,104	100.0

Revenue from India decreased by 21.2% to RMB757.8 million for the year ended 31 December 2022 from RMB962.2 million for the year ended 31 December 2021, primarily attributed to the decrease in demand for smartphones.

Revenue from the PRC decreased by 35.6% to RMB509.1 million for the year ended 31 December 2022 from RMB791.1 million for the year ended 31 December 2021, primarily attributed to decrease in sales orders for IoT related products from a major customer in the PRC.

Revenue from People's Republic of Bangladesh decreased by 52.1% to RMB95.4 million for the year ended 31 December 2022 from RMB199.2 million for the year ended 31 December 2021, primarily attributed to decrease in sales orders for smartphones from a major customer.

Revenue from the Republic of Korea increased to RMB26.8 million for the year ended 31 December 2022 from nil for the year ended 31 December 2021, primarily attributed to the increase in the Group's marketing effort to expand its sales geographical locations.

Revenue from the United States of America increased to RMB20.4 million for the year ended 31 December 2022 from nil for the year ended 31 December 2021, primarily attributed to the increase in the Group's marketing effort to expand its sales geographical locations.

Revenue from Algeria increased by 11.1% to RMB27.9 million for the year ended 31 December 2022 from RMB25.1 million for the year ended 31 December 2021, primarily attributed to the increase in demand for smartphones.

Gross profit and gross profit margin

Gross profit increased by 18.2% to RMB203.6 million for the year ended 31 December 2022 from RMB172.2 million for the year ended 31 December 2021. Gross profit margin increased to 14.0% for the year ended 31 December 2022 from 8.6% for the year ended 31 December 2021. The increase in gross profit and gross profit margin was primarily attributed to the decrease in the costs of major raw materials.

Other gains and income

Other gains and income mainly include comprises government subsidies and amortisation of government subsidies, bank interest income, exchange gain and sundry income. The Group's other gains and income increased by 17.4% to RMB52.2 million for the year ended 31 December 2022 from RMB44.4 million for the year ended 31 December 2021, primarily attributed to the increase in bank interest income by RMB6.4 million and exchange gain by RMB15.9 million.

Selling and distribution expenses

Selling and distribution 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 and distribution expenses for the year ended 31 December 2022 decreased by 5.9% to RMB38.8 million from RMB41.2 million for the year ended 31 December 2021, primarily attributed to the decrease in transportation and custom declaration expenses resulting from the drop in sales.

Administrative expenses

Administrative 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 and other miscellaneous administrative expenses. Administrative expenses for the year ended 31 December 2022 remained relatively stable at RMB64.9 million as compared with RMB65.9 million for the year ended 31 December 2021.

Research and development expenses

Research and development expenses for the year ended 31 December 2022 increased by 4.3% to RMB124.1 million from RMB119.0 million for the year ended 31 December 2021, primarily attributed to the salary increment of the Group's research and development staff.

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 2022 increased by 182.3% to RMB18.3 million from RMB6.5 million for the year ended 31 December 2021, primarily attributed to increase in interest on discounted bills financing and factoring loans.

Income tax expenses

For the year ended 31 December 2022, the Group's income tax expenses amounted to RMB3.5 million as compared with RMB2.2 million for the year ended 31 December 2021. The increase in income tax expenses was primarily attributed to the increase in assessable profits for the year ended 31 December 2022.

Net profit/(loss) for the year

As a result of the above factors, the Group recorded a net profit of RMB6.4 million for the year ended 31 December 2022 (2021: a net loss of RMB18.1 million).

Dividend

The Board does not recommend the payment of dividend for the year ended 31 December 2022 (2021: nil).

Trade and bills receivables

As at 31 December 2022, the Group's trade and bills receivables amounted to RMB191.7 million (31 December 2021: RMB226.0 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 2022 were 52.6 days (2021: 51.6 days), which were within the range of credit periods normally offered by the Group to its customers. The shortened average trade and bills receivables turnover days were primarily attributed to the decrease in trade and bills receivables. Based on the dates of the relevant sales invoices, 95.6% 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 2022, the Group's trade and bills payables amounted to RMB940.6 million (31 December 2021: RMB524.1 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 2022 were 214.4 days (2021: 111.4 days). The lengthened average trade and bills payables turnover days were primarily attributed to the increase in trade and bills payables.

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. For the year ended 31 December 2022, the Group recorded a positive cash flow from operating activities of RMB555.9 million (Year ended 31 December 2021: positive cash flow of RMB21.4 million).

As at 31 December 2022, the Group had net current assets of RMB225.7 million (31 December 2021: RMB218.7 million), cash and cash equivalents amounted to RMB36.6 million (31 December 2021: RMB82.9 million), pledged bank deposits of RMB764.4 million (31 December 2021: RMB219.2 million) and borrowings amounted to RMB51.8 million (31 December 2021: RMB58.2 million). The Group's cash and cash equivalents and bank borrowings as at 31 December 2022 were mainly denominated in RMB.

As at 31 December 2022, the Group had borrowings of RMB10.0 million (31 December 2021: RMB19.8 million) subject to fixed interest rates and borrowings of RMB41.8 million (31 December 2021: RMB38.4 million) subject to variable interest rates. As at 31 December 2022, the Group had a current ratio of 1.2 times (31 December 2021: 1.3 times) and gearing ratio of 0.2 (calculated by dividing total debt by total equity) (31 December 2021: 0.2).

As at 31 December 2022, the Group's unutilised borrowing facilities amounted to RMB110.4 million (31 December 2021: RMB120.9 million).

CAPITAL EXPENDITURE

For the year ended 31 December 2022, the Group incurred cash flows on capital expenditures for the purchase of properties, plant and equipment in the amount of RMB8.5 million (2021: RMB3.1 million); and intangible assets in the amount of RMB0.8 million (2021: RMB4.0 million), respectively.

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had capital commitments of RMB1.7 million in relation to the purchase of property, plant and equipment (31 December 2021: nil).

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any material contingent liabilities or guarantees (31 December 2021: nil).

PLEDGE OF ASSETS AND RESTRICTED DEPOSIT

As at 31 December 2022, the Group pledged trade and bills receivables with carrying amount of RMB24.0 million (31 December 2021: RMB38.9 million), bank deposits with carrying amount of RMB764.4 million (31 December 2021: RMB219.2 million) and land and building with carrying amount of RMB50.6 million (31 December 2021: RMB53.7 million) to secure its borrowings and banking facilities.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the year ended 31 December 2022 and 2021, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

Saved as disclosed herein, the Group did not make any other significant investments during the year ended 31 December 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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 2021, the aforesaid investment was still in a preliminary planning stage. For the details of this investment agreement, please refer to the Company’s announcement dated 26 November 2020.

In the first quarter of 2022, the public bidding for the relevant land parcel took place. The Group and the Lingang Committee entered into a land use right transfer agreement, pursuant to which the Lingang Committee agreed to transfer the land use right for the land parcel situated at Nanhui New Town, Pudong New Area (a site area of 6,373.3 square metres) to the Group at a consideration of approximately RMB14.3 million. It is expected that the land use right permit for this land parcel will be received in 2023.

Saved as disclosed herein, the Group did not have any future plans for material investments and capital assets during the year ended 31 December 2022.

FOREIGN EXCHANGE RISKS

For the year ended 31 December 2022, the Group derived 64.9% (2021: 60.5%) of its total revenue from export sales and these export sales were principally denominated in USD. As at 31 December 2022, the Group had USD-denominated monetary assets with carrying amount of RMB128.7 million (31 December 2021: RMB141.2 million) and USD-denominated monetary liabilities of RMB33.9 million (31 December 2021: RMB49 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, REMUNERATION POLICY AND TRAINING

As at 31 December 2022, the Group had 890 employees (31 December 2021: 1,022 employees), whose remunerations and benefits are determined based on market rates, government policies and individual performance. For the year ended 31 December 2022, the Group's total staff costs (including directors' emoluments, salaries, allowances and other benefits and contributions to retirement benefits scheme) amounted to RMB141.5 million (2021: RMB137.7 million). To provide incentives or rewards to its employees, the Company adopted a share option scheme, particulars of which are set out in the section headed "Share option scheme" in this announcement. 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.

PENSION SCHEME

The employees of the Group's subsidiaries established in the PRC are required to participate in a state-managed retirement benefit scheme (the "**Defined Contribution Scheme**") operated by the PRC government. The Group is required to contribute a certain percentage of basic payroll costs to the Defined Contribution Scheme.

The Group's contributions to the Defined Contribution Scheme vest fully and immediately with the employees. Accordingly, (i) for the year ended 31 December 2022, there was no forfeiture of contributions under the Defined Contribution Scheme; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Defined Contribution Scheme as at 31 December 2022. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Defined Contribution Scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2022, 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 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, or has any other conflict of interest with the Group during the year ended 31 December 2022 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 became effective on 13 November 2019. 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 13 November 2019 (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 2022, the Company did not grant any share options and no share options were exercised and 2,500,000 share options were lapsed. Details of the Company's share options from 1 January 2022 to 31 December 2022 are as follows:

	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding as at 1 January 2022	Number of share options granted	Number of share options exercised	Number of share options lapsed	Outstanding as at 31 December 2022
Category: Employees									
Tranche 1	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2021	1 July 2021 to 13 April 2025	8,220,000	-	-	(750,000)	7,470,000
Tranche 2	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2022	1 July 2022 to 13 April 2025	8,220,000	-	-	(750,000)	7,470,000
Tranche 3	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2023	1 July 2023 to 13 April 2025	10,960,000	-	-	(1,000,000)	9,960,000
Total					<u>27,400,000</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>	<u>24,900,000</u>

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 24,900,000, representing 2.49% 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 2022, the remaining life of the Share Option Scheme is approximately six 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:

	Tranche 1	Tranche 2	Tranche 3
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%	0.58%
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 2022 (2021: 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 2022 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 13 November 2019. Except for code provision C.2.1, the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2022.

Code provision C.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 30 May 2023 (Tuesday), the register of members of the Company will be closed from 24 May 2023 (Wednesday) to 30 May 2023 (Tuesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 23 May 2023 (Tuesday). 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on 23 May 2023 (Tuesday).

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 2022. 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 2022 have been agreed by the Company's external auditor, Moore Stephens CPA Limited ("**Moore Stephens**"), to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2022. The work performed by Moore Stephens 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 Moore Stephens 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 2022 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) and the Company (www.sprocomm.com). The annual report of the Company for the year ended 31 December 2022 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, 29 March 2023

As at the date of this announcement, the executive Directors are Mr. LI Chengjun, Mr. XIONG Bin, Mr. Wen Chuanchuan 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*