SPROCOMM INTELLIGENCE LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1401)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2019	2018
Revenue *(RMB'000)*	**3,117,648**	2,943,724
Gross profit *(RMB'000)*	**227,153**	263,197
Gross profit margin *(%)*	**7.3%**	8.9%
Net profit for the year *(RMB'000)*	**37,763**	43,951
Earnings per share		
– Basic *(RMB cents)*	**4.98**	6.67
– Diluted *(RMB cents)*	**4.98**	6.67

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 2019. 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 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	4	**3,117,648**	2,943,724
Cost of sales		**(2,890,495)**	(2,680,527)
Gross profit		**227,153**	263,197
Other gains and income	6	**59,103**	27,792
Selling expenses		**(41,756)**	(50,351)
Administrative and other expenses		**(76,203)**	(64,700)
Research and development expenses		**(111,923)**	(105,396)
Finance costs		**(11,960)**	(15,884)
Profit before tax		**44,414**	54,658
Income tax expenses	7	**(6,651)**	(10,707)
Profit for the year	8	**37,763**	43,951
Other comprehensive income (expense) for the year:			
Item that may be reclassified subsequently to profit or loss			
Exchange difference arising on translating foreign operations		**3,614**	(1,032)
Total comprehensive income for the year		**41,377**	42,919
Profit (loss) attributable to:			
Owners of the Company		**38,998**	45,393
Non-controlling interests		**(1,235)**	(1,442)
		37,763	43,951
Total comprehensive income (expenses) attributable to:			
Owners of the Company		**42,610**	44,358
Non-controlling interests		**(1,233)**	(1,439)
		41,377	42,919
Earnings per share			
Basic and diluted (RMB cents)	10	**4.98**	6.67

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current Assets			
Property, plant and equipment		**127,913**	131,351
Right-of-use assets	11	**17,345**	–
Intangible assets		**6,391**	5,186
Deferred tax asset		**707**	439
		152,356	136,976
Current Assets			
Inventories	12	**283,956**	184,292
Trade and bills receivables	13	**622,161**	417,066
Financial assets at fair value through profit or loss	15	**285,650**	295,480
Prepayments and other receivables	14	**73,995**	74,770
Amount due from a shareholder		**–**	1,076
Pledged bank deposits		**81,165**	24,639
Bank balances and cash		**126,682**	56,118
		1,473,609	1,053,441
Current Liabilities			
Trade and bills payables	16	**876,707**	646,529
Accruals and other payables	17	**115,641**	106,817
Contract liabilities	17	**63,331**	109,138
Borrowings		**184,153**	95,509
Lease liabilities	11	**11,962**	–
Deferred income		**5,228**	6,609
Income tax payable		**5,151**	2,310
		1,262,173	966,912
Net current assets		**211,436**	86,529
Total assets less current liabilities		**363,792**	223,505

	Note	**2019**	2018
		RMB'000	*RMB'000*
Capital and Reserves			
Share capital		**8,945**	5
Reserves		**292,042**	160,300
Equity attributable to owners of the Company		**300,987**	160,305
Non-controlling interests		**2,006**	3,557
Total Equity		**302,993**	163,862
Non-current liabilities			
Deferred income		**22,167**	26,706
Deferred tax liability		**10,846**	7,785
Lease liabilities	11	**5,682**	–
Borrowings		**22,104**	25,152
		60,799	59,643
		363,792	223,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

The consolidated financial statements 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 OF CONSOLIDATED FINANCIAL STATEMENTS

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

Pursuant to the reorganisation as detailed in the section headed "History, Development and Reorganisation" of the prospectus of the Company dated 30 October 2019 (the "**Reorganisation**"), the Company became the holding company of the companies now comprising the Group on 10 September 2018.

The Group has been under the control of the Controlling Shareholders prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout the year ended 31 December 2018, using the principles of merger accounting with reference to Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the year ended 31 December 2018. The consolidated statement of financial position of the Group as at 31 December 2018 have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence as at that date.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has adopted the following new and revised HKFRSs, which include HKFRSs, HKASs, amendments and Interpretations ("Int(s)") issued by the HKICPA.

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation Plan
Amendments to HKAS 19	Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

The adoption of HKFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarises below.

3.1 Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The Group has applied HKFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard accordingly. Comparative information has not been restated and continues to be reported under HKAS 17 Leases ("HKAS 17").

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Interpretation 4 (Determining whether an Arrangement contains a Lease) ("HK(IFRIC) – Int 4") were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The major impacts of the adoption of HKFRS 16 are described below:

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

The Group recognised right-of-use assets and measures them an amount equal to the lease liability.

(i) *Impact of transition to HKFRS 16 at 1 January 2019*

On transition to HKFRS 16 on 1 January 2019, right-of-use assets were recognised and measured at an amount equal to the lease liability of approximately RMB16,664,000.

Differences between operating lease commitment as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	**19,322**
Less: Short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**(1,721)**
	17,601
Discounted using the incremental borrowing rate at 1 January 2019 and lease liabilities recognised as at 1 January 2019	**16,664**
Current portion	**7,299**
Non-current portion	**9,365**
	16,664

(ii) *Practical expedients applied*

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)–Int 4 Determining whether an Arrangement contains a lease;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between in Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 And HKFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

[1] Effective for annual periods beginning on or after 1 January 2020

[2] Effective for annual periods beginning on or after 1 January 2021

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

[4] Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

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:

	2019	2018
	RMB'000	*RMB'000*
Mobile phones	**2,410,583**	2,657,776
PCBAs	**471,862**	148,895
IOT related products	**127,697**	66,045
Others	**107,506**	71,008
	3,117,648	2,943,724

5. SEGMENT INFORMATION

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

Geographical information

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

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

	Revenue from external customers	
	2019	2018
	RMB'000	*RMB'000*
India	**1,392,492**	1,744,915
Algeria	**275,305**	210,280
Thailand	**–**	62,796
The PRC	**1,167,572**	388,606
Pakistan	**67,889**	188,752
People's Republic of Bangladesh	**111,789**	192,900
Russia and Ukraine	**–**	86,102
Other regions	**102,601**	69,373
	3,117,648	2,943,724

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

Information about major customers

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

	2019	2018
	RMB'000	*RMB'000*
Customer A	**581,357**	393,867
Customer B	**395,416**	N/A*
Customer C	**N/A***	714,202

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

6. OTHER GAINS AND INCOME

	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**853**	520
Exchange gain, net	**8,532**	–
Gain arising from change in fair value of financial assets at FVTPL	**10,099**	5,342
Government subsidies *(Note)*	**30,945**	16,778
Amortisation of government grant	**5,920**	4,866
Sundry income	**2,754**	286
	59,103	27,792

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

	2019 *RMB'000*	2018 *RMB'000*
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**3,114**	1,839
– Underprovision in prior year	**744**	–
Deferred tax:		
charge to current year	**2,793**	8,868
Income tax expenses	**6,651**	10,707

8. PROFIT FOR THE YEAR

	2019 *RMB'000*	2018 *RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	**1,731**	1,207
Salaries, allowances and other benefits (excluding directors' emoluments)	**122,372**	109,034
Contributions to retirement benefits scheme (excluding directors' emoluments)	**21,077**	16,278
Total staff costs	**145,180**	126,519
Auditors' remuneration	**920**	627
Listing expenses	**18,073**	5,899
Amortisation of intangible assets	**728**	655
Amount of inventories recognised as an expense	**2,890,495**	2,680,527
Net foreign exchange (gains) losses	**(8,532)**	4,820
Depreciation of property, plant and equipment	**16,745**	14,770
Depreciation of right-of-use assets	**8,498**	–
(Gains) losses on disposal of property, plant and equipment	**(59)**	181
Impairment loss recognised in respect of trade and bills receivables	**1,733**	821
Loss on written off of property, plant and equipment	**–**	77
Provision for litigation	**742**	1,783
Operating lease payments in respect of premises *(note)*	**–**	11,546

Note: Operating lease payments in respect of premises for the years ended 31 December 2018 represent payments made and accounted for under HKAS 17. Details of the lease payments made for the year ended 31 December 2019 are set out in Note 11.

9. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the year ended 31 December 2019.

10. EARNINGS PER SHARE

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

	2019	2018
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**38,998**	45,393
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**783,562**	680,813

The weighted average number of ordinary shares for the purpose of basic earnings per share has been determined based on the number of shares in issue and deemed to be in issue (assuming the paid-in capital of the subsidiaries had been fully represented as share capital of the Company), adjusted by the capital injection or share capital issued during the respective year, multiplied by a time-weighting factor, on the assumption that the Reorganisation as detailed in note 2 and capitalisation issue have been effective on 1 January 2018.

Diluted earnings per share

Diluted earnings per share is same as basic earnings per share for each of the years ended 31 December 2018 and 2019 as there were no dilutive potential ordinary shares outstanding during both years.

11. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(i) Right-of-use assets

	Machines	**Buildings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2019	–	16,664	16,664
Contracts signed during the year	4,232	4,947	9,179
Amortisation during the year	(919)	(7,579)	(8,498)
As at 31 December 2019	3,313	14,032	17,345

(ii) **Lease liabilities**

	31 December 2019 *RMB'000*	1 January 2019 *RMB'000*
Non-current portion	**5,682**	7,299
Current portion	**11,962**	9,365
	17,644	16,664

12. INVENTORIES

	2019 *RMB'000*	2018 *RMB'000*
Raw materials	**131,373**	114,063
Work in progress	**15,380**	16,011
Finished goods	**137,203**	54,218
	283,956	184,292

13. TRADE AND BILLS RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables	**604,316**	418,024
Bills receivables	**20,674**	138
Less: Loss allowance	**(2,829)**	(1,096)
Trade and bills receivables	**622,161**	417,066

The gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB624,990,000 as at 31 December 2019 (2018: RMB418,162,000).

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

	2019 *RMB'000*	2018 *RMB'000*
Within 30 days	**459,100**	319,947
31 to 60 days	**91,441**	71,559
61 to 90 days	**25,784**	15,250
Over 90 days	**45,836**	10,310
Total	**622,161**	417,066

14. PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Prepayments	**38,221**	9,735
Deposit	**1,255**	1,393
Other tax recoverable	**29,417**	56,147
Others	**5,102**	7,495
	73,995	74,770

Note: Included in prepayments and other receivables are other receivables and refundable deposits of approximately RMB6,357,000 as at 31 December 2019 (2018: RMB8,888,000). 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.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	RMB'000	*RMB'000*
Structured deposits stated at fair value	**285,650**	295,480

The financial assets at FVTPL as at 31 December 2019 represented contracts of principal guaranteed structured deposits 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 31 December 2019, 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.

16. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**446,297**	339,551
Bills payables	**430,410**	306,978
Trade and bills payables	**876,707**	646,529

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

	2019 *RMB'000*	2018 *RMB'000*
Within 30 days	**496,730**	317,573
31 to 60 days	**78,763**	131,903
61 to 90 days	**58,727**	56,713
Over 90 days	**242,487**	140,340
Total	**876,707**	646,529

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.

17. ACCRUALS AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2019 *RMB'000*	2018 *RMB'000*
Salary payable	**44,950**	62,593
Other payables *(Note (i))*	**41,692**	13,075
Consideration payable for acquisition of non-controlling interest	**625**	–
Accrued listing expenses	**231**	439
Government subsidies in advance *(Note (ii))*	**11,813**	12,358
Other tax payables	**16,330**	18,352
	115,641	106,817
Contract liabilities *(Note (iii))*	**63,331**	109,138

Notes:

(i) As at 31 December 2019, included in other payables was provision for litigations of approximately RMB1,767,000 (2018: RMB1,783,000).

(ii) Government subsidies in advance by a subsidiary included in accruals and other payables are mainly related to the capital expenditure incurred for property and equipment, leasehold improvement and subsidies for recruitment of certain number of workers for factory operation, before fulfilling certain conditions under the terms of the government subsidies. The government subsidies received may need to be refunded if the subsidiary failed to fulfill the attached conditions within the stipulated time. Upon fulfillment of those conditions, government subsidies related to compensation of expenses are credited to the profit or loss in the year the Group complied with the conditions attached to the subsidies, whereas assets-related subsidies are reclassified to deferred income and credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

(iii) Contract liabilities as at 31 December 2019 amounted to approximately RMB63,331,000 (2018: RMB109,138,000), which represented receipts in advance from customers.

18. 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 30 November 2018, Shenzhen Sprocomm received a civil judgement (the "**Judgement**") from Shenzhen Futian People's Court in relation to a claim for approximately RMB1,600,000 of outstanding payment for goods delivered and the interest against Shenzhen Sprocomm filed by an independent third party supplier in 2016. Pursuant to the Judgement, Shenzhen Sprocomm shall pay (1) approximately RMB747,000 of outstanding payment for its purchases and the interest to the plaintiff, and (2) approximately RMB11,000 of case acceptance fee to the court. Shenzhen Sprocomm has filed an appeal at Shenzhen Intermediate People's Court (深圳市中級人民法院) (the "**Intermediate Court**") on 17 December 2018 and the hearing was held on 30 May 2019. A provision for claim of approximately RMB758,000 was made during the year ended 31 December 2018 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. On 11 June 2019, the Intermediate Court ruled to dismiss the appeal and maintained the decision made by the Futian Court. The Group fulfilled the decision on 9 August 2019 with a final settlement of approximately RMB879,000 and the case was closed.

(ii) 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 RMB40,000,000. 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.

During the year ended 31 December 2018, the legal proceeding is still in progress and the directors of the Company, with reference to legal opinion obtained and available information, considered that the maximum exposure including of total claims and legal cost of approximately RMB1,025,000, the provision was made during the year ended 31 December 2018 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.

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 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 plus the relevant interest, legal costs and court fees, additional provision of RMB0.7 million has been provided in relation to this litigation during the year ended 31 December 2019. As at 31 December 2019, the Group had provision for litigation of approximately RMB1.8 million.

As at the date of this announcement, 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

The Group is an ODM mobile phone supplier based in the PRC, primarily engaged in research and development, designing, manufacturing and sale of mobile phones, PCBAs for mobile phones and IoT related products, targeting emerging markets.

The Group's products are sold to more than 15 countries worldwide with strategic focus on emerging markets which have high population and growing demands on mobile phones. Revenue generated from PRC and other emerging markets accounted for 87.9% of the Group's total revenue for the year ended 31 December 2019. The Group's customers include various top local branded mobile phone suppliers, telecommunication operators and trading companies in the PRC, India, other Asian countries and other parts of the world.

For the year ended 31 December 2019, the Group continued to focus on the development and sales of smartphones and IoT related products. 70% of its total revenue was derived from the sales of smartphones and IoT related products. In 2019, 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).

Driven by the business cooperation with Ant Financial and the increased sales of IoT related products and PCBAs for smartphones, the Group's total revenue for the year ended 31 December 2019 increased by 5.9% to RMB3,117.6 million as compared with RMB2,943.7 million for the year ended 31 December 2018. On the other hand, the increased sales proportion of PCBAs also reduced the Group's gross profit margin from 8.9% for the year ended 31 December 2018 to 7.3% for the year ended 31 December 2019, as PCBAs had a lower gross profit margin than smartphones and IoT related products. The impact of the decline in gross profit margin was partially offset by the increase in other gains and income, resulting in a decrease in net profit for the year ended 31 December 2019 by 14.1% to RMB37.8 million as compared with RMB44.0 million for the year ended 31 December 2018.

OUTLOOK AND BUSINESS STRATEGY

2020 will be a challenging year for the world. An outbreak of novel coronavirus ("**Coronavirus**") erupted and spread rapidly across the globe. While China and other countries put their primary focus to control the spread of the Coronavirus, global business activities and global economy were materially and adversely affected. The Directors believe that the Coronavirus will also impact the global mobile phone market and the Group's financial performance for the first half of 2020.

In the long run, the Group's business growth is expected to be driven by (i) the huge population and the increasing disposable income of the Group's target sales locations; (ii) increasing demand for IoT products; and (iii) the roll-out of 5G telecommunication network. In order to capture the potential market opportunities, the Group will continue to 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. The Group has implemented appropriate business strategies for its future development.

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 2019 and 2018:

	Year ended 31 December			
	2019		**2018**	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
Mobile phones				
– Smartphones	**2,053,460**	**65.9**	2,073,294	70.4
– Feature phones	**357,123**	**11.4**	584,482	19.9
Sub-total:	**2,410,583**	**77.3**	2,657,776	90.3
PCBAs	**471,862**	**15.1**	148,895	5.1
IoT related products	**127,697**	**4.1**	66,045	2.2
Others *(Note)*	**107,506**	**3.5**	71,008	2.4
Total	**3,117,648**	**100.0**	2,943,724	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 increased by 5.9% to RMB3,117.6 million for the year ended 31 December 2019 from RMB2,943.7 million for the year ended 31 December 2018, primarily attributed to the increased sales of PCBAs for smartphones and IoT related products, but partially offset by the decreased sales of feature phones.

Revenue from mobiles phones decreased by 9.3% to RMB2,410.6 million for the year ended 31 December 2019 from RMB2,657.8 million for the year ended 31 December 2018 as the consumers in emerging markets are gradually switching from feature phones to smartphones and accordingly, revenue from feature phones decreased by 38.9% to RMB357.1 million for the year ended 31 December 2019 from RMB584.5 million for the year ended 31 December 2018.

Revenue from PCBAs increased by 216.9% to RMB471.9 million for the year ended 31 December 2019 from RMB148.9 million for the year ended 31 December 2018 due to the increased sales of PCBAs for smartphones to suit customer preference.

Revenue from IoT related products increased by 93.5% to RMB127.7 million for the year ended 31 December 2019 from RMB66.0 million for the year ended 31 December 2018 primarily because the Group had successfully entered into framework sales agreement with Ant Financial for product validation and supply of Ali-POS (point of sales) devices supported with facial recognition feature (face ID) during the year ended 31 December 2019.

Revenue by geographical regions

The Group's products are sold to more than 15 countries 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 2019 and 2018:

	Year ended 31 December			
	2019		**2018**	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
Emerging Asia				
India	**1,392,492**	**44.7**	1,744,915	59.3
Thailand	**–**	**–**	62,796	2.1
Pakistan	**67,889**	**2.2**	188,752	6.4
Bangladesh	**111,789**	**3.6**	192,900	6.6
The PRC	**1,167,572**	**37.4**	388,606	13.2
Sub-total:	**2,739,742**	**87.9**	2,577,969	87.6
Other regions				
Algeria	**275,305**	**8.8**	210,280	7.1
Russia and Ukraine	**–**	**–**	86,102	2.9
Others *(Note)*	**102,601**	**3.3**	69,373	2.4
Sub-total:	**377,906**	**12.1**	365,755	12.4
Total	**3,117,648**	**100.0**	2,943,724	100.0

Note: Others include the Republic of Panama, Hong Kong, Japan, Sweden, Spain, the United States, South Africa and Brazil.

During the year ended 31 December 2019, the Group recorded significant revenue increment from the PRC and Algeria. The increase in revenue from the PRC was primarily attributed to (i) the increased sales of smartphones to the PRC customers; and (ii) the increased sales of IoT related products resulting from the business cooperation with Ant Financial. The increase in revenue from Algeria was primarily attributed to the increased sales orders for smartphones from a major customer in Algeria.

Gross profit and gross profit margin

During the year ended 31 December 2019, the increased sales proportion of PCBAs reduced the Group's gross profit margin from 8.9% for the year ended 31 December 2018 to 7.3% for the year ended 31 December 2019, as PCBAs had a lower gross profit margin than smartphones and IoT related products. The Group's gross profit also decreased by 13.7% to RMB227.2 million for the year ended 31 December 2019 from RMB263.2 million for the year ended 31 December 2018.

Other gains and income

Other gains and income mainly comprises government subsidies and amortisation of government subsidies, net exchange gain, gain arising from change in fair value of financial assets at FVTPL, bank interest income and sundry income. The Group's other gains and income increased by 112.6% to RMB59.1 million for the year ended 31 December 2019 from RMB27.8 million for the year ended 31 December 2018, primarily attributed to the significant increase in exchange gain, gain arising from the change in fair value of financial assets at FVTPL and government subsidies.

Selling expenses

Selling expenses mainly represent transportation and custom declaration expenses, salaries and employee benefits of our sales and marketing staff, business-related travelling and entertainment expenses. Selling expenses for the year ended 31 December 2019 decreased by 17.1% to RMB41.8 million from RMB50.4 million for the year ended 31 December 2018 because the increased proportion of sales to the PRC reduced transportation and custom declaration expenses.

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 the year ended 31 December 2019 increased by 17.8% to RMB76.2 million from RMB64.7 million for the year ended 31 December 2018. The increase in administrative expenses for the year ended 31 December 2019 was primarily attributed to the recognition of listing expenses of approximately RMB18.1 million (2018: RMB5.9 million).

Research and development expenses

Along with the Group's business development and sales growth, the Group devoted more resources into the development of new products. Research and development expenses for the year ended 31 December 2019 increased by 6.2% to RMB111.9 million from RMB105.4 million for the year ended 31 December 2018.

Finance costs

Finance costs mainly represent interests on discounted bills, interest portion of lease liabilities, bank borrowings and factoring loans. For the year ended 31 December 2019, the Group's finance costs decreased by 24.5% to RMB12.0 million from RMB15.9 million for the year ended 31 December 2018, primarily attributed to the decrease in use of discounted receivable financing and factoring loans.

Income tax expenses

For the year ended 31 December 2019, the Group's income tax expenses amounted to RMB6.7 million as compared with RMB10.7 million for the year ended 31 December 2018. The decrease in income tax expenses was primarily attributed to the decrease in assessable profits for the year ended 31 December 2019.

Profit for the year

As a result of the above factors, the Group's profit for the year ended 31 December 2019 was RMB37.8 million, representing a decrease of 14.1% as compared with RMB44.0 million for the year ended 31 December 2018. Net profit margin for the year ended 31 December 2019 slightly decreased to 1.2% from 1.5% for the year ended 31 December 2018.

Dividend

The Board does not recommend the payment of dividend for the year ended 31 December 2019 (2018: nil).

Trade and bills receivables

As at 31 December 2019, the Group's trade and bills receivables amounted to RMB622.2 million (31 December 2018: RMB417.1 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 2019 were 60.8 days (2018: 41.0 days), which were within the range of credit periods normally offered by the Group to its customers. The increase in the Group's trade and bills receivables as at 31 December 2019 and the lengthened average trade and bills receivables turnover days for the respective year were primarily attributed to the increased sales in December 2019. Based on the dates of the relevant sales invoices, 92.6% 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 2019, the Group's trade and bills payables amounted to RMB876.7 million (31 December 2018: RMB646.5 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 2019 were 96.2 days (2018: 77.2 days). The increase in the Group's trade and bills payables as at 31 December 2019 and the lengthened average trade and bills payables turnover days for the respective year were primarily because certain suppliers allowed the Group to settle the purchase of raw materials by way of bills with maturity period ranging from three to six months.

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 2019, the Group recorded a positive operating cash flow before working capital changes of RMB36.2 million (Year ended 31 December 2018: RMB59.5 million).

As at 31 December 2019, the Group had net current assets of approximately RMB211.4 million (31 December 2018: RMB86.5 million), cash and cash equivalents amounted to approximately RMB126.7 million (31 December 2018: RMB56.1 million) and borrowings amounted to approximately RMB206.3 million (31 December 2018: RMB120.7 million). The Group's cash and cash equivalents and bank borrowings as at 31 December 2019 were mainly denominated in RMB and USD. As at 31 December 2019, the Group had borrowings of RMB181.1 million (31 December 2018: RMB92.5 million) subject to fixed interest rates and borrowings of RMB25.2 million (31 December 2018: RMB28.2 million) subject to variable interest rates.

As at 31 December 2019, the Group had a current ratio of 1.2 times (31 December 2018: 1.1 times) and gearing ratio of 0.7 (calculated by dividing total debt by total equity) (31 December 2018: 0.7).

As at 31 December 2018 and 2019, the Group's borrowing facilities were fully utilised.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group did not have any capital commitments in relation to the purchase of property, plant and equipment (31 December 2018: nil).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities or guarantees (31 December 2018: nil).

PLEDGE OF ASSETS

As at 31 December 2019, the Group pledged trade and bills receivables with carrying amount of RMB140.0 million, bank deposits with carrying amount of RMB81.2 million and land and building with carrying amount of RMB59.9 million to secure its borrowings and banking facilities. As at 31 December 2018, the Group pledged trade and bills receivables with carrying amount of RMB87.2 million, bank deposits with carrying amount of RMB24.6 million and land and building with carrying amount of RMB63.0 million to secure its borrowings and banking facilities.

As at 31 December 2019, the Group's financial assets at fair value through profit or loss ("**financial assets at FVTPL**") amounted to RMB285.7 million (31 December 2018: RMB295.5 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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

During the year ended 31 December 2019, the Group invested some of its funds in the structured deposits of PRC licensed commercial banks, which were principal guaranteed and carried interest at a variable rate per annum with reference to the performance of foreign currency or interest rate during the investment period. These structured deposits were classified as financial assets at FVTPL in the Group's consolidated financial statements. As at 31 December 2019, the Group's financial assets at FVTPL amounted to RMB285.7 million (31 December 2018: RMB295.5 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. During the year ended 31 December 2019, the gain arising from change in fair value of financial assets at FVTPL amounted to RMB10.1 million (2018: RMB5.3 million).

Saved as disclosed herein, the Group did not make any other significant investments during the year ended 31 December 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

FOREIGN EXCHANGE RISKS

For the year ended 31 December 2019, the Group derived 62.6% (2018: 86.8%) of its total revenue from export sales and these export sales were principally denominated in USD. As at 31 December 2019, the Group had USD-denominated monetary assets with carrying amount of RMB269.4 million (31 December 2018: RMB231.2 million) and USD-denominated monetary liabilities of RMB188.0 million (31 December 2018: RMB138.5 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 year ended 31 December 2019. 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 2019, the Group had approximately 1,400 employees (31 December 2018: approximately 1,300 employees), whose remunerations and benefits are determined based on market rates, government policies and individual performance. For the year ended 31 December 2019, the Group's total staff costs amounted to RMB145.2 million (2018: RMB126.5 million). The Group provides comprehensive training and development opportunities to its employees on a regular basis. The trainings are arranged according to needs of employees, which are identified annually by individual departments.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

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

The use of the net proceeds from the Listing Date up to the date of this announcement had been applied as follows:

	Planned use of net proceeds (approximately)	Utilised net proceeds from IPO as at 31 December 2019 (approximately)	Unutilised net proceeds from IPO as at 31 December 2019 (approximately)	Expected timeline for unutilised net proceeds from IPO
Enhance SMT production capacity	HK$38.8 million	–	HK$38.8 million	HK$12.0 million to be utilised during the six months ending 30 June 2020, HK$12.0 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$14.2 million	HK$3.2 million to be utilised during the six months ending 30 June 2020, 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$8.6 million	HK$2.5 million to be utilised during the six months ending 30 June 2020, 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

	Planned use of net proceeds (approximately)	Utilised net proceeds from IPO as at 31 December 2019 (approximately)	Unutilised net proceeds from IPO as at 31 December 2019 (approximately)	Expected timeline for unutilised net proceeds from IPO
Upgrade enterprise planning resource system	HK$5.7 million	–	HK$5.7 million	HK$1.1 million to be utilised during the six months ending 30 June 2020, 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$2.2 million	HK$6.6 million	HK$2.2 million to be utilised during the six months ending 30 June 2020, 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
Total	**HK$84.4 million**	**HK$10.5 million**	**HK$73.9 million**	

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

From the Listing Date to 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

Apart from the Group's business, none of the Directors, the Controlling Shareholders (including Mr. Li, Leap Elite, Mr. Xiong and Beyond Innovation) or any of their respective close associates was engaged in or had any interest in any business that competes or may compete with the principal business of the Group, or has any other conflict of interest with the Group during the year ended 31 December 2019 and up to the date of this announcement.

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 from 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") since the Listing Date. Except for code provision A.2.1, the Company has complied with the code provisions set out in the CG Code from the Listing Date up to 31 December 2019.

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

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

CLOSURE OF THE REGISTER OF MEMBERS

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 28 May 2020 (Thursday), the register of members of the Company will be closed from 25 May 2020 (Monday) to 28 May 2020 (Thursday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 22 May 2020 (Friday). 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 and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 22 May, 2020 (Friday).

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 CG 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 2019. 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 2019 have been agreed by the Company's external auditor, SHINEWING (HK) CPA Limited ("**SHINEWING**"), to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019. The work performed by SHINEWING in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by SHINEWING on this announcement.

EVENT AFTER THE REPORTING PERIOD

Subsequent to the financial year ended 31 December 2019, an outbreak of novel coronavirus ("**Coronavirus**") erupted and spread rapidly across the globe. Since the outbreak of the Coronavirus, China has taken emergency public health measures and various actions to prevent the spread of the Coronavirus, including imposing restrictions on resumption date of production after the Chinese New Year Holidays. On 17 February 2020, the Group's headquarter was actively preparing for business resumption under the guidance of the district administrative authority, whereas the Group's production plants were either gradually resuming production or still waiting for the government approval to resume production. Further, due to the suspension or limited service of transportation facilities in certain areas, certain workers in the affected provinces and municipalities are unable to return to the Group's production plants as planned and the Group also experienced delay in the supply of raw materials from its suppliers, which led to (i) a significant drop in the Group's production capacity; (ii) delay in resuming to original production schedule; and (iii) late delivery of products in the first half of 2020. India is one of the Group's major sales locations. On 25 March 2020, the Indian government imposed a three-week nationwide lockdown to control the spread of the Coronavirus. The business activities of the Group's customers in India and the Group's sales transactions with these customers would be interrupted due to the implementation of the virus control measures by the Indian government. The Directors believe that the outbreak of the Coronavirus would impact the global mobile phone market and customer demand for the first half of 2020 may decline due to the aforesaid reasons.

As at the date of this announcement, the Group's headquarter and production plants have resumed full operations and is working closely with its employees, suppliers and customers to mitigate the adverse impact arising from the outbreak of the Coronavirus. The board of directors of the Company is currently estimating the impact of the Coronavirus on the Group's business operations and financial performance and will closely monitor the Group's exposure to the risks and uncertainties in connection with the Coronavirus. The Company will make further announcements as and when appropriate pursuant to the requirements under the Listing Rules.

Saved as disclosed herein, the Group does not have any important events after the year ended 31 December 2019 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 2019 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, 27 March 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.

* *For identification purpose only*