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SPROCOMM INTELLIGENCE LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1401)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Revenue (<i>RMB'000</i>)	806,946	909,282
Gross profit (<i>RMB'000</i>)	104,504	113,869
Gross profit margin (%)	13.0	12.5
Net profit for the period (<i>RMB'000</i>)	8,710	7,782
Earnings per share		
– Basic and diluted (<i>RMB cents</i>)	0.95	0.79

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Sprocomm Intelligence Limited (the “**Company**”) announces the unaudited interim consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2023. These results have been reviewed by the Company’s audit committee (the “**Audit Committee**”).

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	806,946	909,282
Cost of sales		(702,442)	(795,413)
Gross profit		104,504	113,869
Other gains and income	6	31,383	21,926
Selling expenses		(23,926)	(21,076)
Administrative and other expenses		(23,377)	(30,689)
Research and development expenses		(65,555)	(60,024)
Finance costs		(7,598)	(11,522)
Profit before tax		15,431	12,484
Income tax expenses	7	(6,721)	(4,702)
Profit for the period	8	8,710	7,782
Other comprehensive income/(expenses) for the period:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translating foreign operations		(885)	(936)
Total comprehensive income for the period		7,825	6,846
Profit/(loss) attributable to:			
Owners of the Company		9,511	7,865
Non-controlling interests		(801)	(83)
		8,710	7,782
Total comprehensive income/(expense) attributable to:			
Owners of the Company		8,610	6,929
Non-controlling interests		(785)	(83)
		7,825	6,846
Earnings per share			
Basic and diluted (<i>RMB cents</i>)	10	0.95	0.79

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

		30 June	31 December
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current Assets			
Property, plant and equipment		100,788	103,614
Right-of-use assets		2,541	5,649
Intangible assets		6,479	7,659
Long-term prepayment	12	18,280	18,280
Deferred tax asset		208	248
		128,296	135,450
Current Assets			
Inventories		226,170	187,428
Trade and bills receivables	11	571,614	191,704
Prepayments and other receivables	12	81,774	139,048
Amounts due from shareholders		6,341	6,341
Pledged bank deposits		317,263	764,383
Bank balances and cash		61,596	36,635
		1,264,758	1,325,539
Current Liabilities			
Trade and bills payables	13	827,302	940,627
Accruals and other payables		78,555	76,702
Contract liabilities		22,144	30,251
Borrowings		103,119	37,006
Lease liabilities		2,626	5,855
Deferred income		–	3,490
Income tax payable		3,901	5,952
		1,037,647	1,099,883
Net current assets		227,111	225,656
Total assets less current liabilities		355,407	361,106

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Non-current liabilities		
Deferred income	–	12,096
Deferred tax liability	13,556	13,484
Borrowings	13,317	14,817
	<u>26,873</u>	<u>40,397</u>
Net assets	<u>328,534</u>	<u>320,709</u>
Capital and Reserves		
Share capital	8,945	8,945
Reserves	319,887	311,277
	<u>328,832</u>	<u>320,222</u>
Equity attributable to owners of the Company	328,832	320,222
Non-controlling interests	(298)	487
	<u>328,534</u>	<u>320,709</u>
Total Equity	<u>328,534</u>	<u>320,709</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2023 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

3. PRINCIPAL ACCOUNTING POLICIES

Other than changes in accounting policies resulting from the application of new amendments to Hong Kong Financial Reporting Standards and application of the accounting policies which become relevant to the Group, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022.

Application of new and amendments to Hong Kong Financial Reporting Standards

In the current interim period, the Group has applied the amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts and related Amendments
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current related amendments to Hong Kong Interpretation 5(2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The amendments to HKFRSs in the current interim period did not have material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

The Group has not applied any new standards or interpretation that is not yet effective for the current period.

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 period is recognised on a point in time basis.

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

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Mobile phones	567,730	676,490
PCBAs	55,588	9,854
IoT related products	153,034	163,804
Others	30,594	59,134
	<u>806,946</u>	<u>909,282</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.

5. 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 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	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
India	381,143	511,480
Algeria	7,865	9,287
The PRC	354,891	286,704
Pakistan	33,688	7,366
People's Republic of Bangladesh	29,333	79,250
Other regions	26	15,195
	806,946	909,282

The Group's non-current assets, excluding deferred tax assets, amounted to RMB128,088,000 (31 December 2022: RMB135,202,000), and are all located in the PRC.

6. OTHER GAINS AND INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	8,586	3,436
Net exchange gain	343	7,037
Gain on reversal of credit loss for trade and bills receivables	–	174
Government subsidies (<i>Note</i>)	5,501	8,014
Amortisation of government grants	16,831	3,262
Sundry income	122	3
	31,383	21,926

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

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Current Tax:		
Hong Kong profits tax	397	316
PRC enterprise income tax (“EIT”)	4,305	3,097
(Over)/under provision in prior years:		
Hong Kong profits tax	(14)	–
EIT	1,921	2,197
	<u>6,609</u>	<u>5,610</u>
Deferred tax:		
Charge to current period	112	152
Over provision in prior years	–	(1,060)
Income tax expenses	<u><u>6,721</u></u>	<u><u>4,702</u></u>

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors’ emoluments	1,554	1,274
Salaries, allowances and other benefits (excluding directors’ emoluments)	61,446	64,069
Contributions to retirement benefits scheme (excluding directors’ emoluments)	8,008	7,374
Total staff costs	<u>71,008</u>	<u>72,717</u>
Amortisation of intangible assets	1,181	1,140
Amount of inventories recognised as an expense	702,442	795,413
Net foreign exchange gains	(343)	(7,037)
Depreciation of property, plant and equipment	7,542	11,106
Depreciation of right-of-use assets	3,108	7,092
Impairment loss/(reversal of impairment loss) recognised in respect of trade and bills receivables	722	(174)
	<u><u>722</u></u>	<u><u>(174)</u></u>

9. DIVIDENDS

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

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Earnings		
Earnings for the period attributable to owners of the Company for the purpose of calculating basic earnings per share	<u>9,511</u>	<u>7,865</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,000,000</u>	<u>1,000,000</u>

(a) Basic earnings per share

The number of shares used for the purpose of calculating basic earnings per share for the six months ended 30 June 2023 and 2022 is calculated on the basis of the number of ordinary shares of the Company.

(b) Diluted earnings per share

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

As at 30 June 2023 and 30 June 2022, none of the performance conditions of the share options were met, and thus the dilutive potential ordinary shares are not included in the calculation of diluted earnings per share. As a result, diluted earnings per share is the same as basic earnings per share for the periods ended 30 June 2023 and 30 June 2022.

11. TRADE AND BILLS RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables	542,007	190,849
Bills receivables	32,834	3,360
Less: Loss allowance for trade and bills receivables	<u>(3,227)</u>	<u>(2,505)</u>
Trade and bills receivables	<u>571,614</u>	<u>191,704</u>

The gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB574,841,000 as at 30 June 2023 (31 December 2022: RMB194,209,000).

The Group allows credit period of 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. An ageing analysis of trade and bills receivables (after loss allowance) based on invoice dates is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 30 days	265,285	128,352
31 to 60 days	246,005	23,240
61 to 90 days	41,818	31,722
Over 90 days	18,506	8,390
Total	571,614	191,704

No interest is charged on the trade and bills receivables.

12. PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Non-current portion		
Prepayment for property, plant and equipment and land use right	18,280	18,280
Current portion		
Prepayments to supplies	19,293	56,320
Lease deposits and other deposits	21,915	21,093
VAT recoverable (<i>Note</i>)	30,007	51,384
Interest receivables	3,930	7,865
Others	6,629	2,386
Total	81,774	139,048

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

As at 30 June 2023 and 31 December 2022, there was no significant impairment for the prepayments and other receivables.

13. TRADE AND BILLS PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables	503,745	132,735
Bills payables	323,557	807,892
	<hr/>	<hr/>
Trade and bills payables	827,302	940,627
	<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.

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 30 days	345,705	68,049
31 to 60 days	97,553	49,145
61 to 90 days	40,536	8,435
Over 90 days	19,951	7,106
	<hr/>	<hr/>
Total	503,745	132,735
	<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.

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 30 days	49,982	34,415
31 to 60 days	22,960	30,910
61 to 90 days	30,132	39,307
Over 90 days	220,483	703,260
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Total	323,557	807,892
	<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 30 June 2023 were secured by pledged bank deposit amounts of approximately RMB311,292,000 (31 December 2022: RMB758,989,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the six months ended 30 June 2023, 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.

2023 is a challenging year for many enterprises amid economic volatility, high inflation, rising interest rates and weakening consumer confidence. It takes time for the global economy to gradually recover, and the Group has strived its best to improve its financial performance by developing new products, acquiring new customers and implementing effective cost controls. Revenue decreased by approximately 11.3% to RMB806.9 million for the six months ended 30 June 2023 from RMB909.3 million for the six months ended 30 June 2022. The decrease in revenue was fully offset by the increase in the amortisation of government subsidies. Overall, the Group achieved satisfactory results for the six months ended 30 June 2023. Net profit increased by approximately 11.5% to RMB8.7 million for the six months ended 30 June 2023 from RMB7.8 million for the six months ended 30 June 2022.

OUTLOOK AND BUSINESS STRATEGY

Going forward, China's ODM mobile phone market will be filled with challenges and opportunities. 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 related 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 and gradually expand its production capacity, enhance its research and development capability, enrich its product portfolio and increase its sales and marketing effort to diversify its geographical locations.

FINANCIAL REVIEW

Revenue

Revenue by product categories

The Group's product portfolio includes smartphones, feature phones, PCBAs for mobile phones and IoT related products. During the six months ended 30 June 2023, the Group mainly derives its revenue from the sales of smartphones and IoT products. Set out below is a breakdown of the Group's total revenue by product categories and the revenue generated from each product category as a percentage of total revenue for the six months ended 30 June 2023 and 2022:

	Six months ended 30 June			
	2023		2022	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Mobile phones				
– Smartphones	452,520	56.1	549,562	60.4
– Feature phones	115,210	14.3	126,928	14.0
Sub-total:	567,730	70.4	676,490	74.4
PCBAs	55,588	6.9	9,854	1.1
IoT related products	153,034	19.0	163,804	18.0
Others (<i>Note</i>)	30,594	3.7	59,134	6.5
Total	806,946	100.0	909,282	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 approximately 11.3% to RMB806.9 million for the six months ended 30 June 2023 from RMB909.3 million for the six months ended 30 June 2022.

Revenue from mobiles phones decreased by 16.1% to RMB567.7 million for the six months ended 30 June 2023 from RMB676.5 million for the six months ended 30 June 2022, primarily attributed to the decrease in sales of smartphones to India and People's Republic of Bangladesh, but partially offset by the increase in sales of smartphones to China..

Revenue from PCBAs increased to RMB55.6 million for the six months ended 30 June 2023 from RMB9.9 million for the six months ended 30 June 2022, primarily attributable to the increase in demand for PCBAs from China.

Revenue from IoT related products decreased by 6.6% to RMB153.0 million for the six months ended 30 June 2023 from RMB163.8 million for the six months ended 30 June 2022, primarily attributed to decrease in sales orders from major customers in the PRC.

Revenue by geographical regions

The Group's products are mainly sold to emerging markets which have high population and growing demands on mobile phones. Set out below is a breakdown of the Group's total revenue by geographical region and the revenue generated from each region as a percentage of total revenue for the six months ended 30 June 2023 and 2022:

	Six months ended 30 June			
	2023		2022	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Emerging Asia				
India	381,143	47.2	511,480	56.3
Pakistan	33,688	4.2	7,366	0.8
People's Republic of Bangladesh	29,333	3.6	79,250	8.7
The PRC	354,891	44.0	286,704	31.5
Sub-total:	799,055	99.0	884,800	97.3
Other regions				
Algeria	7,865	1.0	9,287	1.0
Others	26	–	15,195	1.7
Sub-total:	7,891	1.0	24,482	2.7
Total	806,946	100.0	909,282	100.0

Revenue from India decreased by 25.5% to RMB381.1 million for the six months ended 30 June 2023 from RMB511.5 million for the six months ended 30 June 2022, primarily attributed to the decrease in demand for smartphones from major customers.

Revenue from Pakistan increased by 3.6 times to RMB33.7 million for the six months ended 30 June 2023 from RMB7.4 million for the six months ended 30 June 2022, primarily attributed to the increase in demand for smartphones.

Revenue from People's Republic of Bangladesh decreased by 63.1% to RMB29.3 million for the six months ended 30 June 2023 as compared with RMB79.3 million for the six months ended 30 June 2022, primarily attributed to the decrease in sales orders for smartphones from a major customer.

Revenue from the PRC increased by 23.8% to RMB354.9 million for the six months ended 30 June 2023 from RMB286.7 million for the six months ended 30 June 2022, primarily attributed to increase in sales orders for smartphones and PCBAs from major customers in the PRC.

Revenue from Algeria decreased by 15.1% to RMB7.9 million for the six months ended 30 June 2023 from RMB9.3 million for the six months ended 30 June 2022, primarily attributed to the decrease in demand for smartphones.

Gross profit and gross profit margin

Gross profit decreased by 8.3% to RMB104.5 million for the six months ended 30 June 2023 from RMB113.9 million for the six months ended 30 June 2022, primarily attributed to the decrease in revenue. Gross profit margin increased to 13.0% for the six months ended 30 June 2023 from 12.5% for the six months ended 30 June 2022, primarily attributed to increase in the sales of products with higher gross profit margin.

Other gains and income

Other gains and income mainly include government subsidies, amortisation of government subsidies, net exchange gain, bank interest income and sundry income. The Group's other gains and income increased by 43.4% to RMB31.4 million for the six months ended 30 June 2023 from RMB21.9 million for the six months ended 30 June 2022, primarily attributed to the increase in amortisation of government subsidies and bank interest income, but partially offset by the decrease in net exchange gain.

Selling expenses

Selling expenses mainly represent transportation and custom declaration expenses, salaries and employee benefits of our sales and marketing staff, marketing expenses, business-related travelling and entertainment expenses. Selling expenses increased by 13.3% to RMB23.9 million for the six months ended 30 June 2023 from RMB21.1 million for the six months ended 30 June 2022, primarily attributed to the increase in marketing expenses to enhance the customer base.

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 and other miscellaneous administrative expenses. Administrative and other expenses decreased by 23.8% to RMB23.4 million for the six months ended 30 June 2023 from RMB30.7 million for six months ended 30 June 2022, primarily attributed to the decrease in office rent and staff redundancy costs.

Research and development expenses

Research and development expenses increased by 9.3% to RMB65.6 million for the six months ended 30 June 2023 from RMB60.0 million for the six months ended 30 June 2022, primarily attributed to the increase in staff costs and material costs for research and development.

Finance costs

Finance costs mainly represent interests on discounted bills, interest portion of lease liabilities, bank borrowings and factoring loans. The Group's finance costs decreased by 33.9% to RMB7.6 million for the six months ended 30 June 2023 from RMB11.5 million for the six months ended 30 June 2022, primarily attributed to decrease in interest on discounted bills financing and factoring loans.

Income tax expenses

The Group's income tax expenses increased by 42.6% to RMB6.7 million for the six months ended 30 June 2023 from RMB4.7 million for the six months ended 30 June 2022, primarily attributed to the increase in tax assessable profits and under provision of income tax expenses in prior years. The effective income tax rate for the six months ended 30 June 2023 was 43.6% (six months ended 30 June 2022: 37.7%).

Profit for the period

As a result of the above factors, the Group recorded a net profit of RMB8.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB7.8 million).

Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

Trade and bills receivables

As at 30 June 2023, the Group's trade and bills receivables amounted to RMB571.6 million (31 December 2022: RMB191.7 million). The Group generally grants credit period of 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 seven 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 increase in the Group's trade and bills receivables as at 30 June 2023 was primarily attributed to a majority of sales were made in the second quarter of 2023, which were still within the credit period granted by the Group. Based on the dates of the relevant sales invoices, 96.8% of the Group's trade and bills receivables as at 30 June 2023 aged within 90 days and the Group did not notice any substantial long outstanding balances.

Trade and bills payables

As at 30 June 2023, the Group's trade and bills payables amounted to RMB827.3 million (31 December 2022: RMB940.6 million). Suppliers generally grant the Group credit period ranging from 30 to 60 days, with certain suppliers require the Group to make advance payment before product delivery. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. Certain suppliers allow the Group to settle its purchases by way of bank acceptance bills and the Group may also endorse certain bills receivables to its suppliers in order to settle the trade payable due to them.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING

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

The funding mix will be adjusted depending on the costs of funding and the actual needs of the Group. As at 30 June 2023, the Group had net current assets of RMB227.1 million (31 December 2022: RMB225.7 million), cash and cash equivalents amounted to RMB61.6 million (31 December 2022: RMB36.6 million), pledged bank deposits of RMB317.3 million (31 December 2022: RMB764.4 million) and borrowings amounted to RMB116.4 million (31 December 2022: RMB51.8 million). The Group's cash and cash equivalents and borrowings as at 30 June 2023 were mainly denominated in RMB. As at 30 June 2023, the Group had no borrowings (31 December 2022: RMB10.0 million) subject to fixed interest rates and

borrowings of RMB116.4 million (31 December 2022: RMB41.8 million) subject to variable interest rates. As at 30 June 2023, the Group had a current ratio of 1.2 times (31 December 2022: 1.2 times) and gearing ratio of 0.4 (calculated by dividing total debt by total equity) (31 December 2022: 0.2).

As at 30 June 2023, the Group's unutilised borrowing facilities amounted to RMB11.3 million (31 December 2022: RMB110.4 million).

CAPITAL EXPENDITURE

For the six months ended 30 June 2023, the Group incurred cash flows on capital expenditures for the purchase of properties, plant and equipment in the amount of RMB4.7 million (six months ended 30 June 2022: RMB4.3 million).

CAPITAL COMMITMENTS

As at 30 June 2023, the Group did not have capital commitments (31 December 2022: RMB1.7 million).

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities or guarantees (31 December 2022: nil).

PLEDGE OF ASSETS

As at 30 June 2023, the Group pledged trade and bills receivables with carrying amount of RMB32.1 million (31 December 2022: RMB24.0 million), bank deposits with carrying amount of RMB317.3 million (31 December 2022: RMB764.4 million) and land and building with carrying amount of RMB49.1 million (31 December 2022: RMB50.6 million) to secure its borrowings and banking facilities.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2023 and 2022, 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 six months ended 30 June 2023.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As part of its future plans, 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 and borrowings. To further enhance the value the Group and its shareholders, the Group will also consider potential investment opportunities when they arise.

On 26 November 2020, Shanghai Hemiao Chuangxian Intelligent Technology Co., Ltd. (formerly known as Sprocomm Intelligence Limited) (“**Sprocomm Hemiao**”), 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 Hemiao 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 Hemiao. For the investment amount and schedule and other 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. The Group has submitted the application for the land use right permit for this land parcel.

Saved as disclosed herein, the Group did not have any future plans for material investments and capital assets during the six months ended 30 June 2023.

FOREIGN EXCHANGE RISKS

For the six months ended 30 June 2023, the Group derived 56.0% (2022: 68.5%) of its total revenue from export sales and these export sales were principally denominated in USD. As at 30 June 2023, the Group had USD-denominated monetary assets with carrying amount of RMB185.8 million (31 December 2022: RMB128.7 million) and USD-denominated monetary liabilities of RMB87.9 million (31 December 2022: RMB33.9 million). The Group is exposed to foreign exchange risk arising from its export sales, monetary assets and liabilities denominated in foreign currencies. The Group did not enter into any foreign exchange hedging instruments during the six months ended 30 June 2023. Management of the Group regularly reviews the impact of exchange risk exposure on the Group’s financial performance and may use foreign exchange hedging instruments to reduce the Group’s exchange risk exposure if appropriate.

EMPLOYEES, REMUNERATION POLICY AND TRAINING

As at 30 June 2023, the Group had approximately 1,019 employees (31 December 2022: 890 employees), whose remunerations and benefits are determined based on market rates, government policies and individual performance. For the six months ended 30 June 2023, the Group's total staff costs amounted to RMB71.0 million (2022: RMB72.7 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.

OTHER INFORMATION

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

As at 30 June 2023, interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction By Directors of Listed Issuers (the "Model Code") are as follows:

Interest in the Company

Name of Director	Capacity/nature of interest	Number of shares/underlying shares held (Note 1)	Percentage of shareholding in the Company (Approximate)
Mr. Li Chengjun (Note 2)	Founder of a discretionary trust	369,967,204 (L)	37.0%
Mr. Xiong Bin (Note 3)	Founder of a discretionary trust	305,032,256 (L)	30.5%

Notes:

1. The letter “L” denotes long position of the shares.
2. Leap Elite Limited is legally owned as to 100% by Mr. Li Chengjun for the benefit of the beneficiaries of the family trust found by himself. Accordingly, Mr. Li Chengjun is deemed to be interested in the shares held by Leap Elite Limited pursuant to the SFO.
3. Beyond Innovation Limited is legally owned as to 100% by Mr. Xiong Bin for the benefit of the beneficiaries of the family trust found by himself. Accordingly, Mr. Xiong Bin is deemed to be interested in the shares held by Beyond Innovation Limited pursuant to the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 30 June 2023, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Saved as disclosed in this announcement, at no time during the six months ended 30 June 2023 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

So far as is known to the Directors, as at 30 June 2023, the following corporation/persons (other than the interests of the Directors or chief executives of the Company as disclosed above) had interests of 5% or more in the issued shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

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

Notes:

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

Save as disclosed above, as at 30 June 2023, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2023.

DIRECTORS’ AND CONTROLLING SHAREHOLDERS’ INTEREST IN COMPETING BUSINESS

Apart from the Group’s business, none of the Directors, the Controlling Shareholders (including Mr. Li Chengjun, Leap Elite Limited, Mr. Xiong Bin and Beyond Innovation Limited) or any of their respective close associates was engaged in or had any interest in any business that competes or may compete with the principal business of the Group, which would require disclosure under Rule 8.10 of the Listing Rules. or has any other conflict of interest with the Group during the six months ended 30 June 2023 and up to the date of this announcement.

SHARE OPTION SCHEME

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

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

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

As at 30 June 2023, 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 23,800,000, representing 2.38% of the total issued shares of the Company.

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

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

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

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

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from the Adoption Date. As at 30 June 2023, the remaining life of the Share Option Scheme is approximately six years and 3.5 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.

(i) **Outstanding options**

During the six months ended 30 June 2023, the Company did not grant share options and no share options were exercised and 1,100,000 share options lapsed. Details of the Company's share options from 1 January 2023 to 30 June 2023 are as follows:

	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding	Number of share options granted	Number of share options exercised	Number of share options lapsed	Outstanding
					as at 1 January 2023				as at 30 June 2023
Category: Employees									
Tranche 1	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2021	1 July 2021 to 13 April 2025	7,470,000	-	-	(330,000)	7,140,000
Tranche 2	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2022	1 July 2022 to 13 April 2025	7,470,000	-	-	(330,000)	7,140,000
Tranche 3	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2023	1 July 2023 to 13 April 2025	9,960,000	-	-	(440,000)	9,520,000
Total					24,900,000	-	-	(1,100,000)	23,800,000

(ii) **Valuation of share options**

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

	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%	0.60%
Expected dividend yield	-	-	-

(2) Expected volatility was determined by calculating the historical volatility of the price of listed companies with businesses similar to the Group. The expected dividend yield is determined by the directors based on the expected future performance and dividend policy of the Group.

- (3) The Group did not recognise share-based payment expenses for the six months ended 30 June 2023 (six months ended 30 June 2022: nil) in relation to share options granted by the Company.

AUDIT COMMITTEE

The Company's interim results for the six months ended 30 June 2023 have been reviewed by the Audit Committee and the Audit Committee have also discussed the related financial matters with the Board.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the six months ended 30 June 2023 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 Listing Rules since the Listing Date. Except for code provision C.2.1, the Company has complied with the code provisions set out in the CG Code for the six months ended 30 June 2023.

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.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained a public float of no less than 25% of the issued shares during the six months ended 30 June 2023 and up to the date of this announcement.

EVENT AFTER THE REPORTING PERIOD

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

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.sprocomm.com). The interim report of the Company for the six months ended 30 June 2023 will be dispatched to shareholders of the Company and published on the aforementioned websites in due course.

By order of the Board
Sprocomm Intelligence Limited
Mr. Li Chengjun
Chairman

Hong Kong, 28 August 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 purpose only*