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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 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Revenue (<i>RMB'000</i>)	909,282	911,737
Gross profit (<i>RMB'000</i>)	113,869	67,436
Gross profit margin (%)	12.5	7.4
Net profit/(loss) for the period (<i>RMB'000</i>)	7,782	(34,127)
Earnings/(loss) per share		
– Basic and diluted (<i>RMB cents</i>)	0.79	(3.39)

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 2022. 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 2022

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	909,282	911,737
Cost of sales		(795,413)	(844,301)
		<hr/>	<hr/>
Gross profit		113,869	67,436
Other gains and income	6	21,926	17,405
Selling expenses		(21,076)	(20,365)
Administrative and other expenses		(30,689)	(31,528)
Research and development expenses		(60,024)	(61,799)
Finance costs		(11,522)	(3,058)
		<hr/>	<hr/>
Profit/(loss) before tax		12,484	(31,909)
Income tax expenses	7	(4,702)	(2,218)
		<hr/>	<hr/>
Profit/(loss) for the period	8	7,782	(34,127)
Other comprehensive (expenses)/income for the period:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translating foreign operations		(936)	316
		<hr/>	<hr/>
Total comprehensive income/(expense) for the period		6,846	(33,811)
		<hr/> <hr/>	<hr/> <hr/>
Profit/(loss) attributable to:			
Owners of the Company		7,865	(33,922)
Non-controlling interests		(83)	(205)
		<hr/>	<hr/>
		7,782	(34,127)
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income/(expense) attributable to:			
Owners of the Company		6,929	(33,606)
Non-controlling interests		(83)	(205)
		<hr/>	<hr/>
		6,846	(33,811)
		<hr/> <hr/>	<hr/> <hr/>
Earnings/(loss) per share			
Basic and diluted (<i>RMB cents</i>)	10	0.79	(3.39)
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

		30 June	31 December
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current Assets			
Property, plant and equipment		115,021	121,866
Right-of-use assets		8,809	21,132
Intangible assets		8,043	9,183
Prepayments	12	17,616	–
Deferred tax asset		165	225
		149,654	152,406
Current Assets			
Inventories		242,446	280,485
Trade and bills receivables	11	230,357	226,014
Prepayments and other receivables	12	101,768	132,252
Amounts due from shareholders		6,460	9,475
Pledged bank deposits		660,956	219,165
Bank balances and cash		85,427	82,904
		1,327,414	950,295
Current Liabilities			
Trade and bills payables	13	902,101	524,131
Accruals and other payables		69,023	74,602
Contract liabilities		53,736	69,458
Borrowings		64,749	42,162
Lease liabilities		6,405	12,385
Deferred income		5,300	6,120
Income tax payable		6,024	2,783
		1,107,338	731,641
Net current assets		220,076	218,654
Total assets less current liabilities		369,730	371,060

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Capital and Reserves		
Share capital	8,945	8,945
Reserves	313,571	306,979
	<hr/>	<hr/>
Equity attributable to owners of the Company	322,516	315,924
Non-controlling interests	368	(87)
	<hr/>	<hr/>
Total Equity	322,884	315,837
	<hr/>	<hr/>
Non-current liabilities		
Deferred income	13,238	15,680
Deferred tax liability	14,666	15,634
Lease liabilities	2,625	7,903
Borrowings	16,317	16,006
	<hr/>	<hr/>
	46,846	55,223
	<hr/>	<hr/>
	369,730	371,060
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2022 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from the application of new amendments to Hong Kong Financial Reporting Standards and application of the accounting policies which become relevant to the Group, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021.

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 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	COVID-19 – Related Rent Concessions beyond 30 June 2021
Annual Improvements to HKFRS Standards 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41

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 at a point in time.

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

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Mobile phones	676,490	605,737
PCBAs	9,854	–
IoT related products	163,804	202,932
Others	59,134	103,068
	<u>909,282</u>	<u>911,737</u>

5. SEGMENT INFORMATION

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

Geographical information

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	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
India	511,480	481,537
Algeria	9,287	8,071
The PRC	286,704	304,374
Pakistan	7,366	1,069
People's Republic of Bangladesh	79,250	107,585
Other regions	15,195	9,101
	909,282	911,737

6. OTHER GAINS AND INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	3,436	2,746
Net exchange gain	7,037	–
Gain on reversal of credit loss for trade and bills receivables	174	2,587
Government subsidies (<i>Note</i>)	8,014	8,611
Amortisation of government grants	3,262	3,438
Sundry income	3	23
	21,926	17,405

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	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Current Tax:		
Hong Kong profits tax	316	1,621
PRC enterprise income tax (“EIT”)	3,097	523
Under provision in prior years:		
EIT	2,197	9
	5,610	2,153
Deferred tax:		
Charge to current period	152	65
Over provision in prior years	(1,060)	–
Income tax expenses	4,702	2,218

8. PROFIT/(LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Profit/(loss) for the period has been arrived at after charging (crediting):		
Directors’ emoluments	1,274	1,321
Salaries, allowances and other benefits (excluding directors’ emoluments)	64,069	70,043
Contributions to retirement benefits scheme (excluding directors’ emoluments)	7,374	11,604
Total staff costs	72,717	82,968
Auditors’ remuneration	–	264
Amortisation of intangible assets	1,140	472
Amount of inventories recognised as an expense	795,413	844,301
Net foreign exchange (gains)/losses	(7,037)	2,001
Depreciation of property, plant and equipment	11,106	10,600
Depreciation of right-of-use assets	7,092	6,443
Reversal of impairment loss recognised in respect of trade and bills receivables	(174)	(2,587)
Provision for litigation	–	3,459

9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Earnings/(loss)		
Earnings/(loss) for the period attributable to owners of the Company for the purpose of calculating basic earnings/(loss) per share	<u>7,865</u>	<u>(33,922)</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>1,000,000</u>	<u>1,000,000</u>

(a) Basic earnings/(loss) per share

The number of shares used for the purpose of calculating basic earnings/(loss) per share for the six months ended 30 June 2022 and 2021 is calculated on the basis of the number of ordinary shares of the Company.

(b) Diluted earnings/(loss) per share

As at 30 June 2022 and 30 June 2021, 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/(loss) per share. As a result, diluted earnings/(loss) per share is the same as basic earnings/(loss) per share for the periods ended 30 June 2022 and 30 June 2021.

11. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	221,210	218,420
Bills receivables	11,554	10,175
Less: Loss allowance for trade and bills receivables	<u>(2,407)</u>	<u>(2,581)</u>
Trade and bills receivables	<u>230,357</u>	<u>226,014</u>

The gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB232,764,000 as at 30 June 2022 (31 December 2021: RMB228,595,000).

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. The following is an aged analysis of trade and bills receivables, presented based on invoice dates, which approximates the respective revenue recognition dates, at the end of the reporting period.

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 30 days	132,836	179,366
31 to 60 days	83,633	29,159
61 to 90 days	6,649	15,136
Over 90 days	7,239	2,353
Total	<u>230,357</u>	<u>226,014</u>

No interest is charged on the trade and bills receivables.

12. PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Current portion		
Prepayments	25,115	65,132
Deposit	20,187	1,995
Other tax recoverable	52,101	62,572
Others	4,365	2,553
Total	<u>101,768</u>	<u>132,252</u>
Non-current portion		
Prepayment for acquisition of land use rights	17,100	–
Prepayment for construction works	516	–
	<u>17,616</u>	<u>–</u>

Note: Included in prepayments and other receivables are other receivables and refundable deposits of approximately RMB24,552,000 as at 30 June 2022 (31 December 2021: RMB4,548,000). These balances have low risk of default or have not been a significant increase in credit risk since initial recognition and no impairment loss is recognised.

13. TRADE AND BILLS PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	208,537	291,125
Bills payables	<u>693,564</u>	<u>233,006</u>
Trade and bills payables	<u>902,101</u>	<u>524,131</u>

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 30 days	163,237	244,683
31 to 60 days	526,442	100,482
61 to 90 days	39,813	64,746
Over 90 days	<u>172,609</u>	<u>114,220</u>
Total	<u>902,101</u>	<u>524,131</u>

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.

14. LITIGATIONS

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

In December 2020, Shenzhen Sprocomm has received the judgement of the first trial from the District Court ruling it to repay the factored loan amount at approximately RMB26,805,000 and the relevant interest at approximately RMB3,303,000.

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

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

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

In addition, pursuant to a deed of indemnity with the Controlling shareholders signed on 18 October 2019, which entitled the Group to all claims including legal costs and expenses incurred in relation to the relevant litigation, the Group recognised indemnification for litigation loss of approximately RMB9,475,000 by mutual consent from the controlling shareholders in other gains and income in the consolidated statements of profit or loss and other comprehensive income, upon the settlement of the aforesaid litigation during the year ended 31 December 2021. During the six months ended 30 June 2022, approximately RMB3,015,000 were settled and the outstanding amount due from shareholders as at 30 June 2022 was approximately RMB6,460,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the six months ended 30 June 2022, the Group, as one of the leading ODM mobile phone suppliers based in China, continued to focus on the research and development, designing, manufacturing and sale of mobile phones, PCBAs for mobile phones and IoT related products, targeting emerging markets.

The PRC was hit by a new wave of COVID-19 outbreak in March 2022. The PRC Government swiftly implemented various emergency public health measures to mitigate the impact of the COVID-19 pandemic. These public health measures interrupted the business activities of the PRC and adversely affected its economy. The new wave of COVID-19 outbreak did not have significant impact on the Group's business operations and financial performance as the Group had experience from the previous COVID-19 outbreaks and had implemented effective strategies to minimise the impact.

On the other hand, the Group's gross profit margin significantly improved from 7.4% for the six months ended 30 June 2021 to approximately 12.5% for the six months ended 30 June 2022. The improvement in the gross profit margin was primarily due to (i) the ease of the global shortage of electronic components leading to the decrease in costs of the Group's major raw materials; and (ii) the appreciation of USD against RMB during the six months ended 30 June 2022.

Overall, the Group had a remarkable improvement in its financial performance for the six months ended 30 June 2022. While its total revenue for the six months ended 30 June 2022 remained relatively stable at RMB909.3 million, it achieved a net profit of RMB7.8 million as opposed to a net loss of RMB34.1 million for the six months ended 30 June 2021.

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 2022, 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 2022 and 2021:

	Six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Mobile phones				
– Smartphones	549,562	60.4	511,145	56.1
– Feature phones	126,928	14.0	94,592	10.3
Sub-total:	676,490	74.4	605,737	66.4
PCBAs	9,854	1.1	–	–
IoT related products	163,804	18.0	202,932	22.3
Others (<i>Note</i>)	59,134	6.5	103,068	11.3
Total	909,282	100.0	911,737	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 remained relatively stable at RMB909.3 million for the six months ended 30 June 2022 as compared to RMB911.7 million for the six months ended 30 June 2021.

Revenue from mobile phones increased by 11.7% to RMB676.5 million for the six months ended 30 June 2022 from RMB605.7 million for the six months ended 30 June 2021, primarily attributed to the increase in sales of smartphones to India and Korea.

Revenue from PCBAs increased to RMB9.9 million for the six months ended 30 June 2022 from nil for the six months ended 30 June 2021. The Group did not have revenue from PCBAs during the six months ended 30 June 2021 as customers placed orders for mobile phones instead of PCBAs to suit their own needs.

Revenue from IoT related products decreased by 19.3% to RMB163.8 million for the six months ended 30 June 2022 from RMB202.9 million for the six months ended 30 June 2021, primarily attributed to decrease in sales orders from a major customer 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 2022 and 2021:

	Six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Emerging Asia				
India	511,480	56.3	481,537	52.8
Pakistan	7,366	0.8	1,069	0.1
People's Republic of Bangladesh	79,250	8.7	107,585	11.8
The PRC	286,704	31.5	304,374	33.4
Sub-total:	884,800	97.3	894,565	98.1
Other regions				
Algeria	9,287	1.0	8,071	0.9
Others	15,195	1.7	9,101	1.0
Sub-total:	24,482	2.7	17,172	1.9
Total	909,282	100.0	911,737	100.0

Revenue from India increased by 6.2% to RMB511.5 million for the six months ended 30 June 2022 from RMB481.5 million for the six months ended 30 June 2021, primarily attributed to the increase in demand for smartphones.

Revenue from Pakistan increased by 572.7% to RMB7.4 million for the six months ended 30 June 2022 from RMB1.1 million for the six months ended 30 June 2021, primarily attributed to the increase in demand for feature phones.

Revenue from People's Republic of Bangladesh decreased by 26.3% to RMB79.3 million for the six months ended 30 June 2022 as compared with 107.6 million for the six months ended 30 June 2021, primarily attributed to the decrease in sales orders for smartphones from a major customer.

Revenue from the PRC decreased by 5.8% to RMB286.7 million for the six months ended 30 June 2022 from RMB304.4 million for the six months ended 30 June 2021, primarily attributed to decrease in sales orders for IoT related products from a major customer in the PRC.

Revenue from Algeria increased by 14.8% to RMB9.3 million for the six months ended 30 June 2022 from RMB8.1 million for the six months ended 30 June 2021, primarily attributed to the increase in demand for smartphones.

Gross profit and gross profit margin

Gross profit increased by 69.0% to RMB113.9 million for the six months ended 30 June 2022 from RMB67.4 million for the six months ended 30 June 2021. Gross profit margin increased to 12.5% for the six months ended 30 June 2022 from 7.4% for the six months ended 30 June 2021. The increase in gross profit and gross profit margin was primarily attributed to (i) the ease of the global shortage of electronic components leading to the decrease in costs of the Group's major raw materials; and (ii) the appreciation of USD against RMB during the six months ended 30 June 2022.

Other gains and income

Other gains and income mainly include comprises government subsidies and amortisation of government subsidies, net exchange gain, gain on reversal of credit loss for trade and bills receivables, bank interest income and sundry income. The Group's other gains and income increased by 25.9% to RMB21.9 million for the six months ended 30 June 2022 as compared with RMB17.4 million for the six months ended 30 June 2021, primarily attributed to the recognition of net exchange gain of RMB7.0 million but partially offset by the decrease in gain on reversal of credit loss for trade and bills receivables.

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 remained relatively stable at RMB21.1 million for the six months ended 30 June 2022 as compared with RMB20.4 million for the six months ended 30 June 2021.

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 and other miscellaneous administrative expenses. Administrative and other expenses remained relatively stable at RMB30.7 million for the six months ended 30 June 2022 as compared with RMB31.5 million for six months ended 30 June 2021.

Research and development expenses

Research and development expenses remained relatively stable at RMB60.0 million for the six months ended 30 June 2022 as compared with RMB61.8 million for the six months ended 30 June 2021.

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 increased by 271.0% to RMB11.5 million for the six months ended 30 June 2022 from RMB3.1 million for the six months ended 30 June 2021, primarily attributed to increase in interest on discounted bills financing and factoring loans.

Income tax expenses

The Group's income tax expenses increased by 113.6% to RMB4.7 million for the six months ended 30 June 2022 from RMB2.2 million for the six months ended 30 June 2021, primarily attributed to the increase in tax assessable profits.

Profit/(loss) for the period

As a result of the above factors, the Group recorded a net profit of RMB7.8 million for the six months ended 30 June 2022 (six months ended 30 June 2021: net loss of RMB34.1 million).

Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2022 (2021: nil).

Trade and bills receivables

As at 30 June 2022, the Group's trade and bills receivables amounted to RMB230.4 million (31 December 2021: RMB226.0 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 six months.

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

The decrease in the Group's trade and bills receivables as at 30 June 2022 was primarily attributed to the settlement from customers. Based on the dates of the relevant sales invoices, 96.9% of the Group's trade and bills receivables as at 30 June 2022 aged within 90 days and the Group did not notice any substantial long outstanding balances.

Trade and bills payables

As at 30 June 2022, the Group's trade and bills payables amounted to RMB902.1 million (31 December 2021: RMB524.1 million). Suppliers generally grant the Group credit period ranging from 30 to 60 days, with certain suppliers require the Group to make advance payment before product delivery. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. Certain suppliers allow the Group to settle its purchases by way of bank acceptance bills and the Group may also endorse certain bills receivables to its suppliers in order to settle the trade payable due to them.

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 2022, the Group had net current assets of RMB220.1 million (31 December 2021: RMB218.7 million), cash and cash equivalents amounted to RMB85.4 million (31 December 2021: RMB82.9 million), pledged bank deposits of RMB661.0 million (31 December 2021: RMB219.2 million) and borrowings amounted to RMB81.1 million (31 December 2021: RMB58.2 million). The Group's cash and cash equivalents and borrowings as at 30 June 2022 were mainly denominated in RMB. As at 30 June 2022, the Group had borrowings of RMB18.8 million (31 December 2021: RMB38.4 million) subject to fixed interest rates and borrowings of RMB62.2 million (31 December 2021: RMB19.8 million) subject to variable interest rates. As at 30 June 2022, the Group had a current ratio of 1.2 times (31 December 2021: 1.3 times) and gearing ratio of 0.3 (calculated by dividing total debt by total equity) (31 December 2021: 0.2).

As at 30 June 2022, the Group's unutilised borrowing facilities amounted to RMB80.9 million (31 December 2021: RMB120.9 million).

CAPITAL COMMITMENTS

As at 30 June 2022, the Group did not have capital commitments (31 December 2021: nil).

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities or guarantees (31 December 2021: nil).

PLEDGE OF ASSETS

As at 30 June 2022, the Group pledged trade and bills receivables with carrying amount of RMB53.0 million (31 December 2021: RMB38.9 million), bank deposits with carrying amount of RMB661.0 million (31 December 2021: RMB219.2 million) and land and building with carrying amount of RMB52.3 million (31 December 2021: RMB53.7 million) to secure its borrowings and banking facilities.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2022 and 2021, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

Saved as disclosed herein, the Group did not make any other significant investments during the six months ended 30 June 2022.

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. Due to the lockdown measures implemented to mitigate the COVID-19 pandemic during the six months ended 30 June 2022, it is expected that the Group will receive the land use right permit for this land parcel in the second half of 2022 and the construction of the research and development headquarters on this land parcel will commence in 2023.

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 2022.

FOREIGN EXCHANGE RISKS

For the six months ended 30 June 2022, the Group derived 68.5% (2021: 66.6%) of its total revenue from export sales and these export sales were principally denominated in USD. As at 30 June 2022, the Group had USD-denominated monetary assets with carrying amount of RMB202.2 million (31 December 2021: RMB141.2 million) and USD-denominated monetary liabilities of RMB77.9 million (31 December 2021: RMB49 million). The Group is exposed to foreign exchange risk arising from its export sales, monetary assets and liabilities denominated in foreign currencies. The Group did not enter into any foreign exchange hedging instruments during the six months ended 30 June 2022. 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 2022, the Group had approximately 1,019 employees (31 December 2021: 1,022 employees), whose remunerations and benefits are determined based on market rates, government policies and individual performance. For the six months ended 30 June 2022, the Group's total staff costs amounted to RMB72.7 million (2021: RMB83.0 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 2022, 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 2022, 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 2022 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 2022, 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:

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

5. Ms. Chu Wing Yee, Vaneese is the spouse of Mr. Ko Hin Ting, James. By virtue of the SFO, she is deemed to be interested in the same number of shares held by Mr. Ko Hin Ting, James.

Save as disclosed above, as at 30 June 2022, 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 2022.

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 2022 and up to the date of this announcement.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "**Share Option Scheme**") on 18 October 2019 ("**Adoption Date**"), which 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 2022, the number of shares of the Company available for issue under the Share Option Scheme upon the exercise of all above outstanding share options was 24,900,000, representing 2.49% of the total issued shares of the Company.

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 2022, the remaining life of the Share Option Scheme is approximately seven 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 2022, the Company did not grant share options and no share options were exercised and 2,500,000 share options lapsed. Details of the Company's share options from 1 January 2022 to 30 June 2022 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 2022				as at 30 June 2022
Category: Employees									
Tranche 1	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2021	1 July 2021 to 13 April 2025	8,220,000	-	-	(750,000)	7,470,000
Tranche 2	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2022	1 July 2022 to 13 April 2025	8,220,000	-	-	(750,000)	7,470,000
Tranche 3	14 April 2020	HK\$0.51	14 April 2020 to 30 June 2023	1 July 2023 to 13 April 2025	10,960,000	-	-	(1,000,000)	9,960,000
Total					<u>27,400,000</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>	<u>24,900,000</u>

(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 2022 (six months ended 30 June 2021: nil) in relation to share options granted by the Company.

AUDIT COMMITTEE

The Company's interim results for the six months ended 30 June 2022 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 2022 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company has adopted a set of corporate governance practices which aligns with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the 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 2022.

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

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

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 2022 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 2022 will be dispatched to shareholders of the Company and published on the aforementioned websites in due course.

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

Hong Kong, 29 August 2022

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*